

CMG HOLDINGS GROUP, INC.
Form 10-Q
May 15, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarter ended March 31, 2014

Commission file number 000-51770

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

Nevada
(State or other jurisdiction of
incorporation or organization)

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

875 North Michigan Avenue, Suite 2929
Chicago, IL
(Address of principal executive offices)

60611
(Zip Code)

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

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 o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No 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 o Accelerated filer o Non-accelerated filer o 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 o No x

As of May 15, 2014, there were 290,679,190 shares of common stock of the registrant issued and outstanding.



CMG HOLDINGS GROUP, INC.
FORM 10-Q

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PART I FINANCIAL INFORMATION

ITEM 1- CONSOLIDATED FINANCIAL STATEMENTS

CMG HOLDINGS GROUP, INC.
UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE QUARTER ENDED MARCH 31, 2014 AND 2013

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CMG Holdings Group, Inc.
Consolidated Balance Sheet

	March 31, 2014 (Unaudited)	December 31, 2013
ASSETS		
CURRENT ASSETS:		
Cash	\$ 2,616,737	\$ 476,588
Marketable securities	710,031	764,088
Accounts receivable, net of allowance of \$0 and \$0, respectively	538,188	287,094
Prepaid expenses and other current assets	1,239,808	8,400
Total Current Assets	5,104,764	1,536,170
Other noncurrent assets	174,941	60,078
TOTAL ASSETS	\$ 5,279,705	\$ 1,596,248
LIABILITIES AND STOCKHOLDERS' DEFICIT		
CURRENT LIABILITIES:		
Accounts payable	\$ 895,179	\$ 627,695
Deferred compensation	486,875	486,875
Accrued liabilities	443,709	593,710
Deferred income	3,506,124	13,370
Derivative liabilities	2,814	11,121
Short term debt, net of unamortized discount of \$0 and \$0, respectively	9,943	9,943
Total Current Liabilities	5,344,644	1,742,714
COMMITMENTS AND CONTINGENCIES		
Notes Payable, net of debt discount of \$_ and \$0, respectively	-	-
TOTAL LIABILITIES	5,344,644	1,742,714
STOCKHOLDERS' DEFICIT		
Preferred stock:		
Series A Convertible Preferred Stock; 5,000,000 shares authorized; par value \$0.001 per share; no shares issued and outstanding as of March 31, 2014 and December 31, 2013	-	-
Series B Convertible Preferred Stock; 5,000,000 shares authorized; par value \$0.001 per share; 0 shares issued and outstanding as of March 31, 2014 and December 31, 2013	-	-
Common Stock:		
450,000,000 shares authorized, par value \$.001 per share; 290,157,190 and 283,657,190 shares issued and outstanding as of March 31, 2014 and December 31, 2013	290,157	283,657
Additional paid in capital	14,625,751	14,529,751
	-	-

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Treasury Stock, 37,174 and 37,174 shares held, respectively, at cost of -0-, as of March 31, 2014 and December 31, 2013.

Accumulated deficit	\$ (14,980,847)	(14,959,874)
TOTAL STOCKHOLDERS' DEFICIT	(64,939)	(146,466)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	\$ 5,279,705	\$ 1,596,248

The accompanying notes are an integral part of these financial statements.

CMG Holdings, Inc.
Statement of Operations
(Unaudited)

	For the Three Months Ended March 31,	
	2014	2013
Revenues	\$ 1,554,748	\$ 1,023,169
Operating Expenses:		
Cost of revenues	880,992	542,034
Depreciation and amortization expense	-	-
General and administrative expenses	894,288	624,938
Total Operating Expenses	1,775,280	1,166,972
Operating Income (Loss)	(220,532)	(143,803)
Other Income (Expense):		
Gain (loss) on derivative liability	8,307	(56,929)
Realized gain on marketable securities	193,487	-
Unrealized gain on marketable securities	2,456	-
Other income (expense)	(4,558)	(5,400)
Interest Income (expense)	(133)	(82,614)
Total Other Income (Expense)	199,559	(144,943)
Net Income (Loss)	\$ (20,973)	\$ (288,746)
Basic loss per common shares	\$ -	\$ -
Total basic loss per common share	\$ -	\$ -
Basic weighted average common shares outstanding	285,323,857	294,650,743

The accompanying notes are an integral part of these financial statements.

CMG Holdings, Inc.
 Statements of Cash Flows
 (Unaudited)

	For the Three Months Ended March 31,	
	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	(20,973)	\$ (288,746)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Unrealized gain on marketable securities	(2,456)	-
Realized gain on marketable securities	(193,487)	
(Gain) loss on derivatives	(8,307)	56,929
Amortization of debt discount	-	72,519
Changes in:		
Accounts receivable	(251,096)	117,457
Prepaid expense and other current assets	(1,243,369)	(397,338)
Deferred income	3,492,754	1,563,301
Accrued liabilities	(150,001)	34,680
Accounts payable	267,484	(245,064)
Accounts payable, related party	-	37,650
Cash provided by (used in) operating activities	1,890,549	951,388
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES		
Proceeds from sales of marketable securities	250,000	
Cash paid for purchase of fixed assets	(15,400)	-
Net cash used in investing activities	234,600	-
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from sales of common stock	15,000	
Net cash provided by financing activities	15,000	-
Net increase in cash	2,140,149	951,388
Cash, beginning of period	476,588	238,124
Cash, end of period	2,616,737	1,189,512
Supplemental cash flow information:		
Interest paid	\$ 201	\$ -
Income taxes paid	\$ -	\$ -
Non-cash investing and financing activity:		
Reclassification of accounts payable to short term debt	\$ -	\$ -
Discount on notes payable from derivative liability	\$ -	\$ 65,597
Reclassification of derivative liabilities to additional paid-in capital	\$ -	\$ -
Common stock issued for settlement of notes payable	\$ -	\$ -
Reclassification of debt from short term to long term	\$ -	\$ 525,000

The accompanying notes are an integral part of these financial statements.

CMG HOLDINGS GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2014
(Unaudited)

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 providing event management implementation, sponsorships, licensing and broadcast, production and syndication.

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 shares 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 XA, 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 March 28, 2014, CMG Holdings, Inc. (the “Company” or “CMG”), completed its acquisition of 100% of the shares of Good Gaming, Inc. (“GGI”) by entering into a Share Exchange Agreement (the “SEA”) with BMB Financial, Inc. and Jackie Beckford, the then shareholders of GGI. The sole owner of BMB Financial, Inc. is also the sole owner of Infinite Alpha, Inc. which provides consulting services to CMG. Pursuant to the SEA, the Company received 100% of

the shares of GGI in exchange for 5,000,000 shares of the Company's common stock, \$33,000 in equipment and consultant compensation and a commitment to pay \$200,000 in development costs, of which \$50,000 of the development costs had been advanced by the Company. In addition, pursuant to the SEA, CMG shall adopt an incentive plan for GGI which shall entitle the GGI officers, directors and employees to receive up to 30% of the net profits of GGI and up to 30% of the proceeds, in the event of a sale of GGI or its assets.

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CMG HOLDINGS GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2014
(Unaudited)

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. ("XA"), CMGO Logistics, Inc., USaveCT, USaveNJ and GGI 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.

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 March 31, 2014 and December 31, 2013, 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 March 31, 2014 and December 31, 2013, the account had no balance in excess of the limit. For the quarter ended March 31, 2014 and the year ended December 31, 2013, one customer exceeds 10% of the Company's total revenue, representing 58% and 72% of the Company's total revenues, respectively.

Revenue and Cost Recognition

The Company earns revenues by providing event management services under individually negotiated contracts with varying terms, recognizing revenue in accordance with ASC 605, Revenue Recognition, only when the price is fixed or determinable, persuasive evidence of an arrangement exists, the services have been provided and collectability is assured. In arrangements where 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 cost of revenues as the services are provided.

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are amounts due from event management services, are unsecured and are carried at their estimated collectible amounts. Credit is generally extended on a short-term basis and do not bear interest, although a finance charge may be applied to amounts outstanding more than thirty days. 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. There were no allowances for doubtful accounts as of March 31, 2014 or December 31, 2013.

Share-Based Compensation

The Company accounts for share-based compensation to employees in accordance with Accounting Standards Codification subtopic 718-10, Stock Compensation (“ASC 718-10”) and share-based compensation 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. ASC 718-10 and 505-50 require the measurement and recognition of compensation expense for all share-based payment awards, including stock options based on the estimated fair values.

CMG HOLDINGS GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2014
(Unaudited)

Derivative Instruments

The Company accounts for derivative instruments in accordance with ASC Topic 815, Derivatives and Hedging, and all derivative instruments are reflected as either assets or liabilities at fair value in the balance sheet.

The Company uses estimates of fair value to value its derivative instruments. Fair value is defined as the price to sell an asset or transfer a liability in an orderly transaction between willing and able market participants. In general, the Company's policy in estimating fair values is to first look at observable market prices for identical assets and liabilities in active markets, where available. When these are not available, other inputs are used to model fair value such as prices of similar instruments, yield curves, volatilities, prepayment speeds, default rates and credit spreads (including for the Company's liabilities), relying first on observable data from active markets. Additional adjustments may be made for factors including liquidity, credit, bid/offer spreads, etc., depending on current market conditions. Transaction costs are not included in the determination of fair value. When possible, The Company seeks to validate the model's output to market transactions. Depending on the availability of observable inputs and prices, different valuation models could produce materially different fair value estimates. The values presented may not represent future fair values and may not be realizable. The Company categorizes its fair value estimates in accordance with ASC 820, Fair Value Measurements (ASC 820), based on the hierarchical framework associated with the three levels of price transparency utilized in measuring financial instruments.

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.

Property and Equipment

Property and equipment are stated at cost, net of accumulated depreciation and amortization. Depreciation and amortization is computed using the straight-line method over the estimated useful lives of the respective assets, which is generally between three and five years. Depreciation expense was \$0 and \$0 for the quarter ended March 31, 2014 and December 31, 2013, respectively.

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 \$0 and \$0 for the quarter ended March 31, 2014 and the year ended December 31, 2013, respectively.

Income Taxes

The Company accounts for income taxes using the asset and liability approach. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is

recognized in income in the period that includes the enactment date. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amounts expected to be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

Basic and Diluted Net Loss per Share

The Company computes net loss per share in accordance with ASC 260, Earnings Per Share, which requires presentation of both basic and diluted earnings per share (EPS) on the face of the income statement. Basic EPS is computed by dividing net loss available to common shareholders (numerator) by the weighted average number of shares outstanding (denominator) during the period. Diluted EPS gives effect to all dilutive potential common shares outstanding during the period using the treasury stock method and convertible preferred stock using the if-converted method. In computing diluted EPS, the average stock price for the period is used in determining the number of shares assumed to be purchased from the exercise of stock options or warrants. Diluted EPS excludes all dilutive potential shares if their effect is anti-dilutive.

CMG HOLDINGS GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2014
(Unaudited)

Recently Issued Accounting Pronouncements

The Company has implemented all new accounting pronouncements that are in effect and that may impact its financial statements and does not believe that there are any other new accounting pronouncements that have been issued that might have a material impact on its financial position or results of operations.

Fair Value Measurements

ASC 820 and ASC 825, Financial Instruments (ASC 825), requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. It establishes a fair value hierarchy based on the level of independent, objective evidence surrounding the inputs used to measure fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. It prioritizes the inputs into three levels that may be used to measure fair value:

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 Company's financial instruments consist principally of cash, accounts receivable, accounts payable and accrued liabilities. Pursuant to ASC 820 and 825, the fair value of cash is determined based on "Level 1" inputs, which consist of quoted prices in active markets for identical assets. The recorded values of all other financial instruments approximate their current fair values because of their nature and respective maturity dates or durations.

The following table sets forth by level with the fair value hierarchy the Company's financial assets and liabilities measured at fair value on March 31, 2014 and December 31, 2013:

March 31, 2014	Level 1	Level 2	Level 3	Total
Marketable trading securities	\$ 710,031	\$ -	\$ -	\$ 710,031
Derivative Liabilities	\$ -	\$ -	\$ 2,814	\$ 2,814

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December 31, 2013	Level 1	Level 2	Level 3	Total
Marketable trading securities	\$ 764,088	\$ -	\$ -	\$ 764,088
Derivative Liabilities	\$ -	\$ -	\$ 11,121	\$ 11,121

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CMG HOLDINGS GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2014
(Unaudited)

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 March 31, 2014 and December 31, 2013 are as follows:

	March 31, 2014	December 31, 2013
Aggregate fair value	\$ 710,031	\$ 764,088
Gross unrealized holding gains	625,225	622,769
Proceeds from sales (\$823,022 stocks plus \$85,000 options)	\$ 250,000	\$ 658,021
Gross realized gains (stocks and options)	193,487	524,668
Gross realized losses	-	-
Other than temporary impairment	-	-

NOTE 2 - EQUITY

Preferred Stock

Series B Preferred Stock and Inventory Purchase

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

During August 2013, the Company entered into a Termination Agreement and Release (the “Agreement”) with Continental Investments Group (Continental), the holder of a \$85,000 convertible note payable of the Company and the holder of 2,500,000 shares of restricted common stock. The Agreement calls for the termination and cancellation of a Sale and Purchase agreement, whereby the Company agreed to issue 50,000 shares of Series B Convertible Preferred Stock in exchange for 20,000 cartoon animated Cels. The Agreement also calls for the cancellation of the \$85,000 convertible note and related interest and for Continental to return the 2,500,000 shares of restricted common stock.

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 of March 31, 2014 or December 31, 2013.

Common Stock

On January 29, 2014, the Company sold 1,500,000 shares of its common stock for \$0.01 per share and net proceeds of \$15,000.

On March 28, 2014, the Company issued 5,000,000 shares of its common stock pursuant to the acquisition of its subsidiary. The shares were valued at a total of \$87,500 or \$0.0175 per share, the closing price of the company’s common stock on the OTCQB.

Common Stock Warrants

During 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.

CMG HOLDINGS GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2014
(Unaudited)

During March 31, 2010, 250,000 shares of warrants issued to AudioEye at an exercise price of \$0.07 per share and a term of 5 years. See Note 5 for additional information on the derivative liability.

A summary of warrant activity for the three months ended March 31, 2014 and the years ended December 31, 2013 and 2012 is as follows:

	Outstanding and Exercisable	Weighted average Exercise Price
December 31, 2011	1,798,000	\$ 0.28
Granted	-	-
Exercised	-	-
December 31, 2012	1,798,000	\$ 0.28
Granted	-	-
Exercised	-	-
December 31, 2013	1,798,000	\$ 0.28
Granted	-	-
Exercised	-	-
Expired	(298,000)	
March 31, 2014	1,500,000	\$ 0.28

As of March 31, 2014, the warrants have a weighted average remaining life of 0.28 years with \$0 aggregate intrinsic value.

CMG HOLDINGS GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2014
(Unaudited)

NOTE 3 - NOTES PAYABLE

Paul Sherman Agreement

On May 12, 2012, the Company modified its July 24, 2011 agreement with Paul Sherman into a \$9,943 convertible promissory note bearing interest at 2% and due on May 15, 2013. The convertible promissory note is convertible at a price equal to the close price on the day prior to Paul Sherman's request for conversion, but not to go below \$.001. The Company analyzed the conversion option for derivative accounting consideration under ASC 815-15 and determined that the instrument should be classified as a liability. The fair value of the embedded conversion option resulted in a discount of \$8,875 on the date of the note. The discount is being amortized over the term of the note to interest expense. The discount balance was \$0 and \$0 as of March 31, 2014 and December 31, 2013, respectively. Amortization of \$0 and \$3,376 was recognized as interest expense during the three months ended March 31, 2014 and the year ended December 31, 2013, respectively. The convertible promissory note has an outstanding balance of \$9,943 and \$9,943 as of March 31, 2014 and December 31, 2013, respectively.

NOTE 4 - DERIVATIVE LIABILITIES

The Company has a convertible instrument outstanding more fully described in Note 3. In accordance with ASC 815-15 "Derivatives and Hedging", the convertible share-settleable instruments are classified as liabilities.

CMG HOLDINGS GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2014
(Unaudited)

Embedded Derivative Liabilities in Convertible Notes

During the years ended December 31, 2013 and 2012, the Company recognized new derivative liabilities of \$98,097 and \$721,590, 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 \$0 and \$0 for the three months ended March 31, 2014 and the year ended December 31, 2013, respectively. As a result of conversion of notes payable described above, the Company reclassified \$0 and \$9,240,920 from equity and \$0 and \$0 of derivative liabilities to equity during the three months ended March 31, 2014 and the year ended December 31, 2013, respectively. The Company recognized a gain of \$11,121 and a gain of \$210,810 on derivatives due to change in fair value of the liability during the three months ended March 31, 2014 and the year ended December 31, 2013, respectively. The fair value of the Company's embedded derivative liabilities was \$0 and \$11,121 at March 31, 2014 and December 31, 2013, respectively.

Warrants

During 2011, 774,000 A Warrants and 774,000 B warrants were issued to individuals. The Company determined that the instruments embedded in the warrants should be classified as liabilities. During March 31, 2010, 250,000 shares of warrants issued to AudioEye at an exercise price of \$0.07 per share and a term of 5 years.

Under ASC 815-15, the liabilities were subsequently measured at fair value at the end of each reporting period with the change in fair value recorded to earnings. The fair value of all outstanding warrants as of March 31, 2014 and December 31, 2013 was \$2,814 and \$1,811, respectively. The Company recognized a gain of \$2,199 and \$10,196 related to the warrants for the three months ended March 31, 2014 and the year ended December 31, 2013, respectively.

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

Derivative Liabilities	
Balance at December 31, 2011	\$ 444,150
ASC 815-15 additions	721,590
Change in fair value	192,025
ASC 815-15 deletions	(1,211,795)
Balance at December 31, 2012	145,970
ASC 815-15 additions	98,097
Change in fair value	(210,180)
ASC 815-15 deletions	(22,766)
Balance at December 31, 2013	11,121
ASC 815-15 additions	5,013
Change in fair value	(2,199)
ASC 815-15 deletions	(11,121)
Balance at March 31, 2013	\$ 2,814

The Company values its warrant derivatives and all other share settable instrument using the Black-Scholes option pricing model. Assumption used include (1) 0.06% to 0.13% risk-free interest rate, (2) life is the remaining contractual life of the instrument (3) expected volatility 55% to 239%, (4) zero expected dividends, (5) exercise price as set forth

in the agreements, (6) common stock price of the underlying share on the valuation date, and (7) number of shares to be issued if the instrument is converted.

NOTE 5 - LEGAL PROCEEDINGS

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

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

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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 was settled on September 28, 2012 for \$30,000. The Company has accrued for this liability as of March 31, 2014 and December 31, 2013.

On March 28, 2014 we received a letter from a former Chief Executive Officer of our subsidiary, XA, claiming unpaid severance and paid- time-off. Total of the contingent claim amounted to \$250,661. We are currently in the process to settle the claim.

NOTE 6 - ACQUISITION OF GOOD GAMING, INC.

On March 28, 2014, CMG Holdings, Inc. (the “Company” or “CMG”), completed its acquisition of 100% of the shares of Good Gaming, Inc. (“GGI”) by entering into a Share Exchange Agreement (the “SEA”) with BMB Financial, Inc. and Jackie Beckford, the then shareholders of GGI. The sole owner of BMB Financial, Inc. is also the sole owner of Infinite Alpha, Inc. which provides consulting services to CMG. The transaction was completed under the purchase method of accounting. Pursuant to the SEA, the Company received 100% of the shares of GGI in exchange for 5,000,000 shares of the Company’s common stock, \$33,000 in equipment and consultant compensation and a commitment to pay \$200,000 in development costs, of which \$50,000 of the development costs had been advanced by the Company. In addition, pursuant to the SEA, CMG shall adopt an incentive plan for GGI which shall entitle the GGI officers, directors and employees to receive up to 30% of the net profits of GGI and up to 30% of the proceeds, in the event of a sale of GGI or its assets. In accordance with the purchase method of accounting, the Company recorded \$87,500 of Goodwill. A full valuation of the transaction is not yet completed as of March 31, 2014

NOTE 7 - RELATED PARTY TRANSACTIONS

The Company had outstanding accounts payable to a former officer and director who was a related party at December 31, 2012 of \$19,625. The payables represent legal and administrative fees paid on behalf of the Company. These payables were settled during the year ended December 31, 2013.

XA has made business reimbursements to a consulting firm which is controlled by its former CEO. The accounts payable in the amount of \$47,912 and \$47,912 is included in account payable as of March 31, 2014 and December 31, 2013, respectively. Total amount submitted to the Company for reimbursement from the consulting firm is \$0 and \$142,060 for the three months ended March 31, 2014 and the year ended 2013, respectively.

NOTE 8 - SEGMENTS

The Company had one reportable segment during the three months ended March 31, 2014 and the year ended December 31, 2013, event marketing.

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 to 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 was recorded on the sale of this subsidiary.

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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 and assumed all obligations related to a Smith Barney Credit Line that was secured by Mr. Morell’s security accounts and issued another convertible note to Morell for \$112,000. The notes bore interest at 2% and were due on April 26, 2014. The notes were convertible beginning on November 15, 2012 at a conversion price of \$0.06 per share. In June 2013, the Company issued 2,800,000 shares of common stock to settle the notes totaling \$637,000, resulting in a gain on settlement of debt of \$610,400.

NOTE 11 - COMMITMENTS AND CONTINGENCIES

The Company subsidiary rents office space for its office at Chicago and New York. The lease expires in March 31, 2021 for its Chicago office. During 2013, the Company renewed a five year lease expiring May 31, 2018 for its New York office. Future minimum lease payments under the two operating lease are as follows:

Year ending December 31, 2013	
2014	\$ 143,353
2015	196,805
2016	