

CMG HOLDINGS GROUP, INC.  
Form 10-K/A  
April 25, 2012

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

FORM 10-K/A

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

For the fiscal year ended December 31, 2011

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

Nevada  
(State or other  
jurisdiction of  
incorporation or  
organization)

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

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

33137  
(Zip Code)

Registrant's telephone number including area code (305) 751- 0588

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(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

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

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  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.

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  Accelerated filer  Non-accelerated  Smaller reporting  
filer  filer  company

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

As of April 24 , 2012, the aggregate market value of the Registrant's voting and none-voting common stock held by non-affiliates of the registrant was approximately: \$1,772,616 at \$0.01 price per share, based on the closing price on the OTC Pink Sheets. As of April 25 , 2012, there were 190,823,976 shares of common stock of the registrant issued and 190,786,802 outstanding.

Documents Incorporated by Reference: None

CMG HOLDINGS GROUP, INC.  
FORM 10-K

TABLE OF CONTENTS

Part I

ITEM 1.	Business	4
ITEM 1A.	Risk Factors	9
ITEM 1B.	Unresolved Staff Comments	17
ITEM 2.	Properties	17
ITEM 3.	Legal Proceedings	18
ITEM 4.	Submissions of Matters to a Vote of Security Holders	18

Part II

ITEM 5.	Market for Registrant’s Common Equity, Related Stockholder Matters	18
ITEM 6.	Selected Financial Data	23
ITEM 7.	Management’s Discussion and Analysis of Financial Condition	23
ITEM 8.	Financial Statements and Supplementary Data	F-1
ITEM 9.	Change in and Disagreements with Accountants on Accounting	30
ITEM 9A.	and Financial Disclosure	
ITEM 9A.	Controls and Procedures	30
ITEM 9B.	Other Information	30

Part III

ITEM 10.	Directors, Executive Officers, and Corporate Governance	31
ITEM 11.	Executive Compensation	31
ITEM 12.	Security Ownership of Certain Beneficial Owners and Management	32
	and Related Stockholder Matters	
ITEM 13.	Certain Relationships and Related Transactions, and Director Independence	32
ITEM 14.	Principal Accountant Fees and Services	33

Part IV

ITEM 15.	Exhibits and Financial Statement Schedules	33
	Signature	34



## 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.

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.



#### 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 March 31, 2010, The Company, acquired AudioEye, Inc. AudioEye has developed patented 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. On January 26, 2010, the USPTO issued U.S. patent number 7653544 for “Method and apparatus for website navigation by the visually impaired” filed by AudioEye, Inc. The patent application was initially filed on August 8, 2003 and this newly patented invention enables Internet navigation and breakthrough multi-format publishing capabilities. After receiving their patent, AudioEye management filed an application with newly added claims that further define embodiments of the invention and has obtained international filings now available for prosecution. The patented technology is the foundation of the AudioEye’s mission to become the standard for Internet accessibility, mobile audio Internet navigation, and multi-format publishing technology. As a result of this acquisition, the Company is working to position AudioEye to become a leading provider in the Internet content publication and distribution software as the market opportunity for such services is huge as most websites are developed with the assumption that users can see the sites, visually-impaired users have difficulty using such websites. As a result, providing accessibility services for these websites has become a huge market opportunity as there are approximately 33 million computer users<sup>1</sup> have some form of visual impairment. In October 2010, Congress passed and President Obama signed into law the 21st Century Communication and Video Accessibility Act which mandates that all government websites (city, state, and federal) to be compliant and have accessibility to Americans with disabilities. As a result, providing accessibility services for these websites has become a huge market opportunity as operating systems developed such as touchtone telephone, access audio files that have already been translated, translate text-to-speech user commands that provide an ideal solution for accessibility issues thus resulting in significant demand for AudioEye’s patented solution.

## AudioEye, Inc. Business Model

Founded in 2003, AudioEye, Inc. provides device 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. AE's focus is to create more comprehensive access to devices, Internet, print, broadcast and other media. AE's solutions and technology include comprehensive E-Learning and E-Commerce systems that enable interaction between brands and consumers. AudioEye has created a variety of Internet publishing products and Internet cloud based software services that enable customers to create and deliver highly scalable web-based applications leveraging the company's intellectual property. The first business objective is the creation of value through the monetization of AE's extensive patent portfolio and intellectual property ownership. A software licensing strategy is underway in which large infringers are being approached for license of the AudioEye technologies. A comprehensive licensing strategy is being constructed by AE's patent counsel, SNR Denton, along with an advisory council and third party consultants. The process of identifying and tracking infringement in the market verticals of device manufacturers, smart phones, Internet software service providers, Content Delivery Networks, and others is an ongoing task at AudioEye and several corporate resources have full time focus on this area of AE's development. The second focus of AE is licensing technology in exchange for equity ownership in technology areas AE agrees to let others develop the market for. The third and final area of focus and effort of AudioEye is the development of its Government and Mobile Media network of customers and rich media Internet broadcast applications. AudioEye is in its infancy and management believes Mobile as a major driver of growth for AE's audio based technology platforms as users connect and command the Internet browser and devices using sound and sound based navigation over the mobile Internet enabled by our technologies.

AE is in the business of the development and commercial exploitation of its intellectual property. The Company has two distinct business units; the first is the AE IP Group, focused on the development of additional intellectual property, development and implementation of a licensing strategy and the prosecution and enforcement of AE's existing Patent portfolio and the second is the AE Services Group, focused on the commercialization of the AE Intellectual Property, business development, and sales & marketing of its services & product offerings. The Company's business model is built on the commercialization of its intellectual property in three distinct areas; first is the revenue generation through the sale of services and products to the U.S. Government, second is revenue generation through the sale of services and products to consumer websites and third is revenue generation through licensing royalties/ and from settlement of patent infringement enforcement. The Company's strategy is to establish AE as the leading provider of audio technologies with revenues derived through technology license, platform Software as a Service (SaaS) product sales, technology support services, and comprehensive technology enforcement strategy. Key operational objectives currently including implementing a technology-licensing program to commercialize AE's intellectual property, including the AudioEye patented technology, taking equity in and develop revenues from licensing royalties within organizations that utilize AE's patented technology and systems and finally Leveraging AE's existing technology to develop a suite of products that can be sold directly to governments and corporate enterprises.

## Creative Management Group, Inc. (CMG Agency)

Creative Management Group, Inc. (CMG) provides custom marketing solutions that optimize profitability by concentrating in the sectors of talent management, commercial rights and event management. The Company leverages the 25 years of its management experience in strategic marketing, commercial rights, talent management and delivering media to its clients. The Company has a long-standing partnerships and consultants in place to generate new business.

## 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.

## Employees

As of April 16, 2012, the company and its subsidiaries have 22 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, CMG Acquisition, Inc., CMGO Capital, Inc., CMGO Logistics, Inc., and Creative Management Group, Inc. is located at 5601 Biscayne Boulevard, Miami Florida 33137 with our corporate telephone number (305) 751-1667. 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. The Company's subsidiary, AudioEye, Inc. has a sales and marketing office located at Rita Road Tucson, AZ 85747. The company also has satellite office presence for our digital media coupons expansion, USAveCT, located at 116 Court Street, New Haven, CT 06511 and UsaveNJ, located at 20 Harrison Avenue, Waldwick, New Jersey 07463. In September 10 2010, AudioEye, Inc., a wholly owned subsidiary of the Company formed Empire Technologies, LLC ("Empire") as part of a joint venture with LVS Health Innovations, Inc. ("LVS") whereby AudioEye owns 50% of Empire.

## 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](http://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

Current economic conditions and the global financial crisis may have an impact on our business and financial condition in ways that we currently cannot predict

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

Business could be adversely affected if it loses key clients and key management

The Company's loss of one or more significant clients could materially affect results of the Company on a consolidated basis. Our Management is critically important to ongoing results of the Company because, as in any service business, success of the Company is mainly dependent upon the leadership of key executives and management. If key executives were to leave any of our operating divisions, the relationships that the Company has with its clients could be adversely affected.

#### Competition for clients in highly competitive industries

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

#### Ability to generate new business from new and existing clients may be limited

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

#### Revenues are susceptible to declines as a result of general adverse economic developments

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

#### Benefits expected from current acquisition or prior acquisitions made in the future may not be realized

The Company's business strategy includes ongoing efforts to engage in material acquisitions of ownership interests in entities in the marketing communications services industry. The Company intends to finance these acquisitions by using any available cash from operations, through incurrence of debt or bridge financing or by issuing equity, which may have a dilutive impact on its existing shareholders. At any given time the Company may be engaged in a number of discussions that may result in one or more material acquisitions. These opportunities require confidentiality and may involve negotiations that require quick responses by the Company. Although there is uncertainty that any of these discussions will result in definitive agreements or the completion of any transactions, the announcement of any such transaction may lead to increased volatility in the trading price of its securities.

The success of acquisitions or strategic investments depends on the effective integration of newly acquired businesses into the Company's current operations. Such integration is subject to risks and uncertainties, including realization of anticipated synergies and cost savings, the ability to retain and attract personnel and clients, the diversion of management's attention from other business concerns, and undisclosed or potential legal liabilities of the acquired company. The Company may not realize the strategic and financial benefits that it expects from any of its past acquisitions, or any future acquisitions.



Business could be adversely affected if it loses or fails to attract key employees

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

Business exposed to the risk of client media account defaults

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

Subject to regulations that could restrict its activities or negatively impact its revenues

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

The results of operations are subject to currency fluctuation risks

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

Company directors and executive officers beneficially own a substantial percentage of the Company's outstanding common stock, which gives them control over certain major decisions on which stockholders may vote, which may discourage an acquisition of the Company

In the aggregate, the directors and executive officers as a group collectively own approximately 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.

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

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



On June 18, 2010, the Company entered into a Note Purchase Agreement with CMGO Investors, LLC, a Delaware limited liability company, providing for the sale and issuance of (i) \$50,000 of its 13% Senior Secured Convertible Extendible Notes due 2011 and (ii) warrants to purchase 250,000 shares of the Company's Common Stock. The Note bears interest at a rate of 13% per annum payable quarterly. The entire amount of the Note, together with all accrued but unpaid interest thereon, is due and payable in full on September 18, 2011; provided that, so long as there is no continuing Event of Default, the Company may in its sole discretion extend the Maturity Date for a period of three months by paying an extension fee equal to 5% of the principal amount of the outstanding Notes. In the event of Default on the Note, the Note shall bear interest at the rate per annum equal to 18%. The Notes rank senior in right of payment with all indebtedness of the Company, whether currently existing or issued in the future. The Notes are secured by a security interest in all of the assets of the Company and the Company's subsidiaries pursuant to a Security Agreement and Subsidiary Guarantee. The Notes are convertible into shares of Common Stock of the Company at any time after the Maturity Date at an initial conversion price of \$0.10 per share. The warrants are exercisable for seven years at an exercise price of \$0.10 per share. The conversion price of the Notes and the exercise price of the warrants will be adjusted in connection with stock splits, dividends, mergers, reclassifications and similar transactions. In addition, if at any time the closing market price of the Common Stock is less than the conversion price or exercise price for a period of 90 consecutive trading days, then the conversion price or exercise price in effect shall be reduced to the closing market price of the Common Stock on such 90th trading day; provided that in no event shall the conversion price or exercise price be reduced to less than \$0.07 per share pursuant to this provision. The investors also received certain registration rights pursuant to a Registration Rights Agreement. In connection with this transaction, the Company paid the placement agent 10% of the gross proceeds and warrants to purchase 65,000 shares of Common Stock. The sale of securities discussed above was made solely to accredited investors and was exempt from registration under Section 4(2) and/or Rule 506 of Regulation D of the Securities Act of 1933, as amended.

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

On April 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. As of December 31, 2011, \$15,871 of the discount had been amortized 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. As a result of the conversion, the entire discount was amortized to interest expense during the year ended December 31, 2011.

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..



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. As of December 31, 2011, \$77,530 of the discount had been amortized to interest expense. See Note 6 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. As of December 31, 2011, \$15,625 of the discount had been amortized to interest expense. See Note 6 for additional information on the derivative liability.

#### Risks Related to the Separation

##### Inability to consummate and complete the Master Agreement dated June 22, 2011

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 ("Agreement") with AudioEye Acquisition Corp., a Nevada corporation ("AudioEye Acquisition") pursuant to the following: 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. AudioEye, Inc. will arrange the release of obligations of the Company under outstanding 13% Senior Secured Convertible Extendable Notes due in 2011 with a current balance of \$1,075,000 pursuant to a novation or other form of release of such obligation which shall include a termination of any security interest on any post Spin Off assets of the Company

AudioEye Acquisition Corp. and AudioEye's and inability to arrange for payment of the Senior Notes will result in AE's inability to consummate the Separation.

AudioEye, Inc. will arrange the release of obligations of the Company under outstanding 13% Senior Secured Convertible Extendable Notes due in 2011 with a current balance of \$1,075,000 pursuant to a novation or other form of release of such obligation which shall include a termination of any security interest on any post Spin Off assets of the Company. There are certain conditions of closing that must be met in order to consummate the restructuring of The Company's business in connection with the Separation. A key condition is satisfactory payment arrangements for the Senior Notes are required as a condition of closing, thereby releasing the Company from its obligations thereunder.

The Separation will give rise to possibly significant tax liabilities to The Company on its exchange of AE common stock for AudioEye Stock and other consideration as well as a tax liability to The Company and to the Company shareholders on the distribution of 5% of the AE common stock to them.

The Company may recognize gain in an amount equal to the excess of (i) the fair market value of the AE common stock and other consideration received (ii) over the tax basis of the AE common stock that it transfers in exchange therefor plus gain equal to the excess of the (iii) the fair market value, if any, of the AE common stock over its (iv) tax basis that the Company distributes to the Company stockholders. In addition, each The Company's shareholder who will receive AE common stock in such distribution generally would be treated as having received a taxable distribution equal to the fair market value of the AE stock received and any cash for fractional shares of which all or a portion will be treated as a dividend to the extent of the stockholder's ratable share of The Company's current and accumulated earnings and profits (as increased to reflect any current income, including any gain, recognized by The Company on the Separation). The balance, if any, of the distribution would be treated as a nontaxable return of capital to the extent of the Company shareholder's tax basis in it's the Company's stock, with any remaining amount being taxed as capital gain. For more information, see "The Spin-Off Transaction - Material U.S. Federal Income Tax Consequences of the Spin-Off," included elsewhere in this prospectus.

The Separation was not the result of arm's length negotiations.

The Separation was established by The Company, in consultation with AE management, with the intention of maximizing the value to current The Company's shareholders. Accordingly, the terms for us may not be as favorable as would have resulted from negotiations among unrelated third parties.

The Separation will result in a reduced equity interest in AE for The Company.

As a result of the Separation, The Company's equity interest in AE will be reduced from 100% to approximately 15%, although The Company will have certain retained rights pursuant to the Royalty Agreement and the Services Agreement.

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

The Company's stock price may be volatile

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

Offers or availability for sale of a substantial number of shares of the Company's common stock may cause the price of the Company's common stock to decline or could affect the Company's ability to raise additional working capital

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

The Company's common stock is currently deemed to be "penny stock", which makes it more difficult for investors to sell their shares

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

The elimination of monetary liability against the Company's directors, officers and employees under Nevada law and the existence of indemnification rights to the Company's directors, officers and employees may result in substantial expenditures by the Company and may discourage lawsuits against the Company's directors, officers and employees

The Company's certificate of incorporation does not contain any specific provisions that eliminate the liability of directors for monetary damages to the Company and the Company's stockholders; however, the Company is prepared to give such indemnification to its directors and officers to the extent provided by Nevada law. The Company may also have contractual indemnification obligations under its employment agreements with its executive officers. The foregoing indemnification obligations could result in the Company incurring substantial expenditures to cover the cost of settlement or damage awards against directors and officers, which the Company may be unable to recoup. These

provisions and resultant costs may also discourage the Company from bringing a lawsuit against directors and officers for breaches of their fiduciary duties and may similarly discourage the filing of derivative litigation by the Company's stockholders against the Company's directors and officers even though such actions, if successful, might otherwise benefit the Company and its stockholders.

ITEM 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.

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 April 21, 2011, the Company was served with a lawsuit that was filed in Clark County, Nevada against the Company by A to Z Holdings, LLC and seven other individuals or entities. The complaint alleges, among other things, that the Company's Board of Directors did not have the power to designate series A and B preferred stock without amending the articles of incorporation. The complaint also alleges any such amendment would require shareholder approval and filing of a proxy statement. The company has retained counsel in Nevada to represent it in this matter and intends to vigorously defend same. The Company believes those most, if not all, of the allegations contained in the lawsuit are moot and/or not actionable and further believes that the Plaintiffs lack standing to pursue their claim against the company. The Company, through counsel, is in the process of conducting discovery to ascertain the validity of the Plaintiffs' claims and their standing to bring this lawsuit and, upon completion of discovery, will file appropriate pleadings with the Nevada court to attempt to have the complaint, as filed, dismissed.

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

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

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

None

## PART II

### ITEM 5 MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS, AND ISSUER PURCHASES OF EQUITY SECURITIES

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>.



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	0.15	0.08
Second Quarter	0.15	0.02
Third Quarter	0.07	0.02
Fourth Quarter	0.05	0.01
FISCAL YEAR ENDED DECEMBER 31, 2010		
First Quarter	0.15	0.03
Second Quarter	0.09	0.01
Third Quarter	0.09	0.01
Fourth Quarter	0.35	0.05

#### 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 25, 2012, the Company had 190,823,976 shares of common stock of the registrant issued and 190,786,802 outstanding. As of April 25, 2012, 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.

### 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, 2010. Information with respect to previously reported sales prior to January 1, 2010c may be found in the Company's prior filings. On January 25, 2010, 350,000 shares were issued for services provided by third parties valued at \$31,500. On March 31, 2010, 1,500,000 shares were issued for the acquisition of Audio Eye valued at \$60,000. On May 1, 2010, 685,200 shares were issued for services to be provided by a third party over a period of 1 year and were valued at \$19,871. On April 1, 2010, 970,000 shares were issued to Audio Eye executives and the Company recognized \$32,010 of stock based compensation. On July 1, 2010, 650,000 shares were issued for advisory services and the Company recognized \$29,250 of stock based compensation. On October 5, 2010, 2,302,073 common shares were issued for services to be provided by third parties. On November 8, 2010, 5,250,000 shares were issued for cash of \$175,000.

The following is information for all securities that the Company sold during the year ended December 31, 2011. Information with respect to previously reported sales prior to January 1, 2011 may be found in the Company's prior

filings. 49,704,943 shares were issued in 2011 for the conversion of \$1,710,718 of note payables into equity. 3,870,000 shares were issued in 2011 in exchange for cash of \$217,000. 3,953,333 shares were issued in 2011 as compensation for services and the Company recognized stock based compensation valued at \$195,452. 9,117,119 shares were issued in 2011 for the conversion of accrued liabilities into equity.

#### Outstanding Indebtedness; Security Interest and Unregistered Sales of Equity Securities

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

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

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

On June 18, 2010, the Company entered into a Note Purchase Agreement with CMGO Investors, LLC, a Delaware limited liability company, providing for the sale and issuance of (i) \$50,000 of its 13% Senior Secured Convertible

Extendible Notes due 2011 and (ii) warrants to purchase 250,000 shares of the Company's Common Stock. The Note bears interest at a rate of 13% per annum payable quarterly. The entire amount of the Note, together with all accrued but unpaid interest thereon, is due and payable in full on September 18, 2011; provided that, so long as there is no continuing Event of Default, the Company may in its sole discretion extend the Maturity Date for a period of three months by paying an extension fee equal to 5% of the principal amount of the outstanding Notes. In the event of Default on the Note, the Note shall bear interest at the rate per annum equal to 18%. The Notes rank senior in right of payment with all indebtedness of the Company, whether currently existing or issued in the future. The Notes are secured by a security interest in all of the assets of the Company and the Company's subsidiaries pursuant to a Security Agreement and Subsidiary Guarantee. The Notes are convertible into shares of Common Stock of the Company at any time after the Maturity Date at an initial conversion price of \$0.10 per share. The warrants are exercisable for seven years at an exercise price of \$0.10 per share. The conversion price of the Notes and the exercise price of the warrants will be adjusted in connection with stock splits, dividends, mergers, reclassifications and similar transactions. In addition, if at any time the closing market price of the Common Stock is less than the conversion price or exercise price for a period of 90 consecutive trading days, then the conversion price or exercise price in effect shall be reduced to the closing market price of the Common Stock on such 90th trading day; provided that in no event shall the conversion price or exercise price be reduced to less than \$0.07 per share pursuant to this provision. The investors also received certain registration rights pursuant to a Registration Rights Agreement. In connection with this transaction, the Company paid the placement agent 10% of the gross proceeds and warrants to purchase 65,000 shares of Common Stock. The sale of securities discussed above was made solely to accredited investors and was exempt from registration under Section 4(2) and/or Rule 506 of Regulation D of the Securities Act of 1933, as amended.

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

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. As of December 31, 2011, \$15,871 of the discount had been amortized 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. As a result of the conversion, the entire discount was amortized to interest expense during the year ended December 31, 2011.



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..

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. As of December 31, 2011, \$77,530 of the discount had been amortized to interest expense. See Note 6 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. As of December 31, 2011, \$15,625 of the discount had been amortized to interest expense. See Note 6 for additional information on the derivative liability.

#### 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, 2011 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, 2011. 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 5601 Biscayne Boulevard, Miami, Florida 33137, USA and its telephone number is 1 (305) 751-0588 which is the executive office of Creative Management Group.

## 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. 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" for 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

### 2011 Master Agreement of Share Exchange with former Stockholders of AudioEye, Inc.

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 (hereinafter the "Agreement") with AudioEye Acquisition Corp., a Nevada corporation (hereinafter "AudioEye Acquisition") pursuant to which:

- 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. AudioEye, Inc. will arrange the release of obligations of the Company under outstanding 13% Senior Secured Convertible Extendable Notes due in 2011 with a current balance of \$1,075,000 pursuant to a novation or other form of release of such obligation which shall include a termination of any security interest on any post Spin Off assets of the Company

On October 24, 2011, AudioEye, Inc. filed a registration statement to register the issuance of shares of its common stock, which will be distributed on a pro rata basis to the Company's shareholders. In connection with a Master Agreement dated as of June 22, 2011 between the Company and AudioEye Acquisition Corporation, the parties agreed, among other things that the shareholders of AudioEye Acquisition Corporation will exchange all of their shares of the capital stock of AudioEye Acquisition Corporation for 80% of the capital stock of AudioEye, Inc. and the Company will distribute to its shareholders in the form of a dividend 5% of the outstanding capital stock of AudioEye, Inc. Concurrently with the filing of the registration statement, the Company has filed a proxy statement relating to a special meeting of the Company shareholders to consider and vote on the spinoff, the share exchange and related matters.

On April 13, 2012, the Company amended its Jun 22, 2011 Master agreement with AudioEye Acquisitions Corporation pursuant to which the shareholders of AudioEye Acquisitions Corporation will acquire from the Company, 80% of the capital stock of AudioEye, Inc. and the Company will distribute to its shareholders, in the form of a dividend, 5% of the capital stock of Audioeye, Inc. The parties have concluded that it is in the best interests of all shareholders to amend the Master Agreement to separate the Spin-off and Share Exchange and to cause the satisfaction and release of the Notes and security interests to be effective as soon as practicable but no later than the closing of the Share Exchange.

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

#### 2010 Original Completion of the Acquisition of AudioEye, Inc.

On March 31, 2010, the Company and AudioEye executed the final Stock Purchase Agreement in connection with the Binding Letter of Intent signed on September 23, 2009, where the Company acquired all outstanding shares of Audio Eye, Inc. in exchange for \$30,000 cash, 1.5 million shares, warrants to purchase 250,000 shares at an exercise price of \$0.07 per share and a term of 5 years plus other contingent consideration. Audio Eye develops patented internet content publication and distribution software enabling conversion of any media into accessible formats and allowing for real time distribution to end users on any internet connected device. With this acquisition, the Company expects to be a leading provider in the Internet content publication and distribution software enabling the conversion of any media into accessible formats and allows for real time distribution to end users on any network connected device.

In accordance with the Stock Purchase Agreement, the Company paid to the Sellers the sum of Thirty Thousand Dollars (\$30,000) (the "Initial Cash Payment") and issued to the Sellers newly issued One Million Five Hundred Thousand (1,500,000) shares of the Company's common stock (the "Stock Payment") and warrants (the "Buyer Warrants") to purchase additional newly issued shares of the Company's common stock (the "Warrant Payment"). The Initial Cash Payment, the Stock Payment and the Warrant Payment were each to be apportioned and issued to the individual Sellers pro rata to their ownership in the Company at closing. The Buyer Warrants are exercisable in the aggregate for up to an additional Two Hundred Fifty Thousand (250,000) newly issued shares of the Company's common stock; at a strike price per share equal to the closing price of the Company's common stock on the last trading day immediately preceding the Closing Date; have a term of five (5) years from the Closing Date; are exercisable immediately following the Closing; provide for cashless exercise; contain standard weighted average anti-dilution provisions. As part of the Working Capital Funding Obligation, the Company provided to the Company at closing an initial working capital contribution of Four Hundred Seventy Thousand Dollars (\$470,000), a portion of which was used by AudioEye to retire the long-term and current debt on its books.

As part of the working capital funding obligation, the Company will provide to AudioEye a deferred working capital contribution of up to Two Million Five Hundred Thousand Dollars (\$2,500,000). The Company will fund the deferred working capital contribution to Audio Eye as follows: Six Hundred Twenty-Five Thousand Dollars (\$625,000) within

ninety (90) days after AudioEye achieves cumulative Contract Sales Value of Two Million Five Hundred Thousand Dollars (\$2,500,000) subsequent to the Closing. Six Hundred Twenty-Five Thousand Dollars (\$625,000) within ninety (90) days after AudioEye achieves cumulative Contract Sales Value of Five Million Five Hundred Thousand Dollars (\$5,500,000) subsequent to the Closing. One Million Two Hundred and Fifty Thousand Dollars (\$1,250,000) within ninety (90) days after AudioEye achieves a cumulative Contract Sales Value of Ten Million Dollars (\$10,000,000) subsequent to the Closing. Even if the Contract Sales Value targets in the Stock Purchase Agreement are not achieved, the Company will provide to AudioEye working capital of at least Five Hundred Thousand Dollars (\$500,000) on the eighteen (18) month anniversary of the Closing Date and an additional Five Hundred Thousand Dollars (\$500,000) on the thirty-six (36) month anniversary of the Closing Date. Company authorizes AudioEye to, and AudioEye may without further authorization from the Company and in the ordinary course of business, use up to Twenty-Five Percent (25%) of each deferred working capital contribution as it is received from the Company to effectuate and fund a patent infringement enforcement and licensing strategy pertaining to AudioEye's current and future patented intellectual property. As part of the Purchase Price, the remainder of the Purchase Price (following payment of the Initial Cash Payment, the Stock Payment and the Warrant Payment at Closing) will consist of, and be paid to the Sellers by the Company, as follows; During the life of the patents covering AudioEye's technology, fifty percent (50%) of any cash received from income earned, settlements or judgments directly resulting from the patent strategy (whether received by the Company, AudioEye or any of the Company's Affiliates), net of any direct costs or tax implications incurred in the pursuit of the patent strategy, which amounts the Company will pay promptly to the Sellers following receipt, with each Seller receiving a portion equal to their pro rata ownership in AudioEye at Closing; and payment to be paid in 2014 within thirty (30) days after AudioEye's year-end 2013 financial statements are completed and audited by an independent PCAOB accounting firm and that will reflect the average Company Net Income for the years 2010, 2011, 2012, and 2013 based on the following formula:



Deferred Payment Amount = (Average Company Net Income x Multiple Determination) - All Funding Provided to the Company by the Buyer to Satisfy the Working Capital Funding Obligation

Where

AVERAGE COMPANY NET INCOME = (YR1 + YR2 + YR3 + YR4) / 4

YR1 = the Company Net Income for Year 2010

YR2 = the Company Net Income for Year 2011

YR3 = the Company Net Income for Year 2012

YR4 = the Company Net Income for Year 2013

Where

MULTIPLE DETERMINATION = (10, 11, 12, 13, 14, OR 15)

10 = Average Growth of Company Net Income of 0.00% to 10.00%

11 = Average Growth of Company Net Income of 10.01% to 15.00%

12 = Average Growth of Company Net Income of 15.01% to 20.00%

13 = Average Growth of Company Net Income of 20.01% to 25.00%

14 = Average Growth of Company Net Income of 25.01% to 30.00%

15 = Average Growth of Company Net Income of 30.01% or greater

(With Average Growth of Company Net Income calculated over the entire YR1 to YR4 period.) For purposes of determining Company Net Income, no income from the Company derived from the Patent Strategy as set forth in Section 1.7(a) shall be included in the calculation of gross or net revenues of AudioEye or Average Growth of AudioEye Net Income. The Deferred Payment will consist of cash and newly issued restricted (not freely-trading) common stock of the Company at a ratio of Fifty Percent (50%) cash and Fifty Percent (50%) common stock. The value assigned to each share of the Buyer's restricted common stock to be issued as part of the Deferred Payment will equal the average close of trading price of the Company's common stock during the sixty (60) day period immediately preceding the date the deferred payment is made to Sellers.

The fair value of consideration transferred in the acquisition, the assets acquired and the liabilities assumed are set forth in the following table:

Consideration:

Cash (1)	\$ 30,000
Common stock (2)	59,850
Warrants to purchase common stock (3)	10,000
Contingent consideration (4)	-
Total consideration	\$ 99,850

Recognized amount of identifiable assets acquired and liabilities assumed :

Cash	\$ 3,217
Accounts receivable	15,967
Property and equipment	7,000
Other assets	32,500
Accounts payable	(168,300)
Accrued liabilities	(1,964)
Patent	211,430
Total identifiable net assets and liabilities assumed	\$ 99,850

- (1) This was paid on April 1, 2010 and as such as of March 31, 2010, the Company recognized this as a liability which is reported as “Due to sellers” in the consolidated balance sheets.
- (2) The fair value of the 1.5 million shares was determined based on the closing price at the acquisition date.
- (3) The fair value of the 250,000 warrants were determined using a Black-Scholes option valuation model using the following key assumptions: exercise price of \$0.07 per share, stock price of \$0.04, term of 5 years, expected volatility of 343% and a discount rate of 2.55%
- (4) The contingent consideration is based on the average net income of Audio Eye over a period of 4 years starting in 2010 after applying a multiple based on the average growth rate less any amounts of working capital contributions made by the Company to Audio Eye. The amount of working capital contribution to be made by the Company is a combination of a fixed amount of \$470,000 plus a deferred working capital contribution payable within a period of 3 years and is based on the greater of Audio Eye’s achievement of certain sales targets or \$1,000,000. The fair value of the contingent consideration was determined based on Audio Eye’s projected net income from 2010 and 2013 and the application of a discount rate to the future payment to be made. After deducting the amount of working capital contribution, the amount of contingent consideration was deemed to be zero. At the end of each reporting period after the acquisition date, the contingent payment will be remeasured to its fair value, with changes in fair value recorded in earnings.

Year ended December 31, 2011 compared to the year ended December 31, 2010

#### Overview

We have been unprofitable in both Fiscal 2011, and Fiscal 2010, primarily as a result of startup expenses related to becoming a public entity, increased operating expenses related to the acquisitions of XA, The Experiential Agency and AudioEye, Inc. and the initial startup expenses for our digital coupons and digital media expansion and the additional overhead operating expenses in advance of revenue that did not materialize.

#### Liquidity and capital resources

As of December 31, 2011 our cash on hand was \$365,204, as compared to \$13,695 in fiscal year ended December 31, 2010.

#### Revenues

The Company had revenues of \$7,231,069 in our fiscal year ended December 31, 2011, as compared to \$4,972,093 in fiscal year ended December 31, 2010. 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. and the AudioEye, Inc. generation and recognized revenues from this additional division and its new line of business.

#### Cost of Sales

The Company had cost of sales of revenues of \$5,085,957 in our fiscal year ended December 31, 2011, as compared to \$2,702,047 in fiscal year ended December 31, 2010. 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. and internet content publication cost of sales for the initial expansion of the AudioEye, Inc. business.

#### Expenses

The Company had total operating expenses of \$4,994,199 in our fiscal year ended December 31, 2011, as compared to \$5,674,094 in fiscal year ended December 31, 2010. The increase in operating expense due to the Company recognizing additional expenses associated with full year operating expenses from the acquisition of AudioEye, Inc., compared to only nine months of expenses in year 2010. These expenses are forecasted to be eliminated with the successful spinout of the Audioeye, Inc. operations. The additional expenses are also associated to the startup costs related to the digital coupons expansion. These expenses were recorded in year 2011 and the revenues of digital coupon platform are forecasted to be generated in year 2012. There was also a write off of inventory of Cel Art from our balance sheet during year 2011. Revenues from the sales of this inventory forecasted to be completed in future periods will be recorded to offset the write off of the inventory. This was a one-time expense that is not forecasted to be included into future years. The increased overhead operating, legal and accounting expenses associated with being a public company and increased expenses for marketing services, public relations, consulting services and event marketing as well as increased salaries, rent expense, production and administrative expenses regarding a full year of operations for XA, The Experiential Agency, Inc. line of business.

## Loss

The Company incurred a net loss of \$7,787,877 in our fiscal year ended December 31, 2011, as compared to a net loss of \$4,191,682 in fiscal year ended December 31, 2010. The increase in the net loss is from, operating expense due to the Company recognizing additional expenses associated with full year operating expenses from the acquisition of AudioEye, Inc., compared to only nine months of expenses in year 2010 as well as smaller revenue totals. These expenses are forecasted to be eliminated with the successful spinout of the Audioeye, Inc. operations. The additional expenses are also associated to the startup costs related to the digital coupons expansion. These expenses were recorded in year 2011 and the revenues of digital coupon platform are forecasted to be generated in year 2012. There was also a write off of inventory of Cel Art from our balance sheet during year 2011. Revenues from the sales of this inventory forecasted to be completed in future periods will be recorded to offset the write off of the inventory. This was a one-time expense that is not forecasted to be included into future years. The increased overhead operating, legal and accounting expenses associated with being a public company and increased expenses for marketing services, public relations, consulting services and event marketing as well as increased salaries, rent expense, production and administrative expenses regarding a full year of operations for XA, The Experiential Agency, Inc. line of business.

## Capital Resources

At December 31, 2011, we had assets recorded at \$619,440, as compared to \$884,621 in fiscal year ended December 31, 2010. Assets in 2011 primarily consisting of cash of \$365,204, investments of \$19,949, accounts receivables of \$95,645, prepaid expenses of \$53,916, fixed assets of \$10,142 and intangible assets of \$74,584.

## Liabilities

Our liabilities at December 31, 2011 totaled \$6,630,482, primarily consisting of \$5,384,639 of short term liabilities and \$1,245,843 of long term liabilities, as compared to a \$4,156,121 total liabilities balance in fiscal year ended December 31, 2010.

## 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 where 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.

ITEM 8: FINANCIAL STATEMENTS

CMG HOLDINGS GROUP, INC.  
FINANCIAL STATEMENTS  
FOR THE YEARS ENDED  
DECEMBER 31, 2011 AND 2010

CONTENTS

	Page
Report of Independent Registered Public Accounting Firm	F-2
Consolidated Balance Sheets	F-3
Consolidated Statements of Operations	F-4
Consolidated Statements of Stockholders' Deficit	F-5
Consolidated Statements of Cash Flows	F-6
Notes to Consolidated Financial Statements	F-7

F-1

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors  
CMG Holdings Group, Inc.  
5601 Biscayne Boulevard  
Miami, Florida 33137

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, 2011 and 2010 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, 2011 and 2010 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.

/s/ MaloneBailey, LLP  
www.malonebailey.com  
Houston, Texas  
April 18, 2012

CMG HOLDINGS, INC  
CONSOLIDATED BALANCE SHEETS

December 31, 2011

December 31, 2010

## ASSETS

## CURRENT ASSETS:

Cash	\$	365,204	\$	13,695
Marketable securities		19,949		49,006
Accounts receivable, net of allowance of \$161,003 and \$105,673, respectively		82,520		204,147
Accounts receivable, related party		13,125		--
Prepaid and other		--		71,497
<b>Total current assets</b>		<b>480,798</b>		<b>338,345</b>

Other Assets		53,916		--
Property, plant and equipment, net of accumulated depreciation of \$16,550 and \$56,357, respectively		10,142		151,520
Intangible assets, net of accumulated amortization of \$820,414 and \$522,082, respectively		74,584		394,756
<b>TOTAL ASSETS</b>	<b>\$</b>	<b>619,440</b>	<b>\$</b>	<b>884,621</b>

## LIABILITIES AND STOCKHOLDERS' DEFICIT

## CURRENT LIABILITIES:

Client payable	\$	11,317	\$	11,317
Accounts payable		1,413,373		1,713,300
Accounts payable – related party		169,550		--
Accrued liabilities		1,639,399		829,052
Deferred income		228,673		78,721
Derivative Liabilities		444,150		--
Short Term debt, net of unamortized discount of \$183,110 and \$67,063, respectively		1,284,289		1,007,937
Line of credit		107,560		183,478
Advances from related parties - current portion		86,328		127,438

<b>TOTAL CURRENT LIABILITIES</b>		<b>5,384,639</b>		<b>3,951,243</b>
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Advance from related parties - long term, net of unamortized discount of \$0 and \$841,824, respectively		1,245,843		204,878
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<b>TOTAL LIABILITIES</b>		<b>6,630,482</b>		<b>4,156,121</b>
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## 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	--
<b>Common Stock:</b>		
450,000,000 shares authorized, par value \$.001 per share; 124,811,383 and 58,165,988 shares issued, 124,774,209 and 58,128,814 outstanding	124,812	58,166
Additional paid in capital	12,254,301	7,272,662
Treasury Stock, 37,174 and 37,174 shares held, respectively.	37	37
Accumulated deficit	(18,390,242 )	(10,602,365 )
<b>TOTAL STOCKHOLDERS' DEFICIT</b>	<b>(6,011,042 )</b>	<b>(3,271,500 )</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT</b>	<b>\$ 619,440</b>	<b>\$ 884,621</b>

See accompanying notes to consolidated financial statements.

CMG HOLDINGS GROUP, INC  
CONSOLIDATED STATEMENTS OF OPERATIONS

	Year End December 31,	
	2011	2010
Revenues	\$ 7,231,069	\$ 4,972,093
Operating Expenses:		
Cost of revenues	5,085,957	2,702,047
Patent impairment expense	319,763	--
Depreciation and amortization expense	313,257	298,333
Inventory impairment expense	3,240,502	--
Operating expenses	4,994,199	5,674,094
Operating Loss	(6,722,609)	(3,702,381)
Other income (expense)		
Gain on derivative Liability	1,321,369	--
Loss on settlement of debt	(293,037)	--
Unrealized loss on marketable securities	(36,057)	(48,820)
Realized loss on trading securities	--	(23,474)
Interest expense	(2,057,543)	(417,007)
Net loss	\$ (7,787,877)	\$ (4,191,682)
Basic and diluted loss per common share	(0.11)	(0.10)
Basic and diluted weighted average common shares outstanding	70,444,199	43,828,538

See accompanying notes to consolidated financial statements

CMG HOLDINGS GROUP, INC  
CONSOLIDATED STATEMENT OF CHANGE IN STOCKHOLDERS' DEFICIT

	Preferred Shares	Stock Par	Treasury Stock Shares	Par	Common Stock Shares	Par	Additional Paid in Capital	Accumulated Deficit	Total Shareholders' Deficit
Balances, December 31, 2009			4,192,374	\$ 4,192	38,207,626	38,208	\$ 5,429,522	(6,410,683)	\$ (938,761)
Shares issued for services			(2,655,200)	(2,655)	6,227,273	6,227	554,302	-	557,874
Shares issued for cash			-	-	5,250,000	5,250	162,250	-	167,500
Cashless warrant exercises			-	-	6,981,089	6,981	(6,981)	-	-
Shares issued for purchase of Audio Eye			(1,500,000)	(1,500)	1,500,000	1,500	58,350	-	58,350
Warrant issued for purchase of Audio Eye			-	-	-	-	10,000	-	10,000
Warrant discount – purchase of Audio Eye			-	-	-	-	186,058	-	186,058
Debt discount			-	-	-	-	879,161	-	879,161
Net loss			-	-	-	-	-	(4,191,682)	(4,191,682)
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			-	-	3,870,000	3,870	213,130	-	217,000

cash									
Cashless warrant exercises			-	-				-	-
Shares issued for									
Accrued Liabilities				9,117,119	9,117	485,583			494,700
Shares issued Series B Preferred Stock	50,000	50	-	-	-	3,240,452	-		3,240,502
Gain on Debt Settlement of Derivative Liabilities through conversion of related notes payable			-	-	-	-	140,903	-	140,903
Settlement of Derivative Liabilities through conversion of related 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)

See accompanying notes to consolidated financial statements.

CMG HOLDINGS GROUP, INC  
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended	
	December 31, 2011	2010
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net loss	\$ (7,787,877)	\$ (4,191,682)
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock based compensation	195,452	557,874
Amortization of deferred financing costs	68,292	82,335
Amortization of intangible assets	298,332	298,333
Loss on extinguishment of debt	293,037	-
Amortization of debt discount	1,540,356	124,215
Realized loss on trading securities	-	23,474
Unrealized loss on trading securities	36,057	(72,757)
Impairment of AudioEye patent	319,763	-
Impairment of inventory	3,240,502	-
Depreciation expense	14,925	56,357
Gain on derivative liabilities	(1,321,369)	-
Changes in:		
Accounts receivable	114,627	19,819
Accounts receivable, related party	(13,125)	
Prepaid expense and other current assets	(206,182)	14,977
Deferred revenue	189,354	19,719
Accrued expense	1,563,245	1,585,920
Accounts payable	159,371	364,767
Accounts payable, related party	169,550	-
Net cash used in operating activities	(1,125,690)	(1,116,649)
<b>CASH FROM INVESTING ACTIVITIES</b>		
Cash paid for purchase of fixed assets	(15,999)	(11,287)
Cash from sale of trading securities	-	32,776
Cash paid for acquisition of AudioEye	-	(30,000)
Cash proceeds from acquisition of AudioEye	-	3,217
Net cash used in investing activities:	(15,999)	(5,294)
<b>FINANCING ACTIVITIES</b>		
Advances from related parties	1,132,727	84,938
Stock issued for cash	217,000	167,500
Net borrowings on line of credit	24,081	7,732
Proceeds from issuance of debt	207,500	1,075,000
Payments on debt	(2,000)	(125,000)
Payments on related party debt	(86,110)	-
Payment of financing fees	-	(107,500)

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Net cash provided by financing activities	1,493,198	1,102,670
Net increase (decrease) in cash	351,509	(19,273)
Cash, beginning of year	13,695	32,968
CASH BALANCE AT END OF YEAR	\$ 365,204	\$ 13,695
Supplemental cash flow information:		
Income tax paid	\$ --	\$ --
Interest paid	64,107	56,501
Non-Cash investing and financing:		
Acquisition of AudioEye	-	270,324
Accounts payable and accrued liabilities converted into debt	647,950	--
Conversion of accrued salaries to note payable	-	1,046,702
Common stock issued for settlement of note payables	1,422,100	-
Common stock issued for settlement of accounts payable and accrued liabilities	509,250	-
Debt discount on note payables from derivative liabilities	764,579	-
Debt discount on accrued salary conversion	-	879,161
Debt discount on warrant issued to acquire AudioEye	-	142,931
Deferred financing costs on warrant issued to acquire AudioEye	-	43,127
Reclassification of derivative liabilities from additional paid in capital	9,240,920	-
Reclassification of derivative liabilities to additional paid in capital	8,289,980	-
Securities received for accounts receivable	7,000	-
Gain on debt restructuring	121,934	-
Cashless warrant exercises	-	6,982

See accompanying notes to consolidated financial statements.

CMG HOLDINGS GROUP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 operates around distinct vertical disciplines of 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 event management, including implementation, sponsorships, licensing and broadcast, production, 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 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. See Note 3 for details. On March 31, 2010, the Company and 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. 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.

Principles of Consolidation

The consolidated financial statements include the accounts of CMG Holdings Group, Inc., CMG Acquisition, Inc., CMGO Capital, Inc., The Experiential Agency, Inc, Audio Eye, Inc., CMGO Logistics, Inc., , and Creative Management Group, Inc. USaveCT and USaveNJ, after elimination of all significant inter-company accounts and transactions. In September 2010, AudioEye, Inc., a wholly owned subsidiary of the Company formed Empire

Technologies, LLC (“Empire”) as part of a joint venture with LVS Health Innovations, Inc. (“LVS”) whereby AudioEye owns 50% of Empire. Empire had no transactions as of as of December 31, 2011 and 2010

#### 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.

F-7

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CMG HOLDINGS GROUP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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, 2011 and 2010, 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, 2011 and 2010, 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. The Company also earns commissions through contract negotiations in talent representation and endorsement contracts. 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. For talent representation, the Company generally records revenue net of pass-through charges as the Company believes the key indicators of the business suggest we generally act as an agent on behalf of our clients. This is recorded when we receive the gross payment. 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.

#### 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.

#### Inventory

Inventories are stated at the lower of cost or market. Inventory during 2011 consisted of cartoon animated cels. See Note 2.

#### 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 five years. Depreciation expense was \$14,925 and \$56,357 for the years ended December 31, 2011 and December 31, 2010.

CMG HOLDINGS GROUP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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 \$298,332 and \$298,333 for the years ended December 31, 2011 and December 31, 2010.

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 \$319,763 and \$0 during the years ended December 31, 2011 and 2010, 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 years ended December 31, 2011 and 2010, 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.

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 "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, 2011. There was no impact to the consolidated financial statements as a result of the above issuance and rescission.

CMG HOLDINGS GROUP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2: EQUITY (Continued)

Common Stock:

During the year ended December 31, 2011:

Garlette LLC

On January 6, 2011 the Company assigned \$50,000 of debt owed to Morgan Stanley Smith Barney to Garlette, LLC. On the same date, the Company amended the assigned debt to add a conversion feature. The new note was convertible at 25% of the average of the five lowest closing prices for the Company's stock during the previous 30 trading days. The Company analyzed the conversion option for derivative accounting consideration under ASC 815-15 "Derivatives and Hedging" and determined that the embedded conversion feature should be classified as a liability due to their being no explicit limit to the number of shares to be delivered upon settlement of the above conversion options. The embedded conversion feature was measured at fair value at inception and on the date of conversion (see below) with the change in fair value recorded to earnings. The addition of the embedded conversion option resulted in a full discount to the note of \$50,000 on January 6, 2011. See Note 6 for additional information on the derivative liability. \$25,000 of the note was converted on January 7, 2011 into 357,143 shares of common stock. The remaining \$25,000 was converted on January 18, 2011 into 357,143 shares of common stock. As a result of the conversion, the entire discount of \$50,000 was amortized to interest expense during the twelve months ended December 31, 2011.

American Settlement LLC

On February 17, 2011 the Company assigned \$25,000 of debt owed to Morgan Stanley Smith Barney to American Settlements, LLC. On the same date, the Company issued 548,246 shares of common stock with a fair value of \$98,684 to settle the note. The difference between the fair value of the common stock and the debt was recorded as a loss on settlement of debt during the three months ended March 31, 2011. On March 21, 2011 the Company assigned \$25,000 of debt owed to Morgan Stanley Smith Barney to American Settlements, LLC. On the same date, the Company issued 735,835 shares of common stock with a fair value of \$99,338 to settle the note. The difference between the fair value of the common stock and the debt was recorded as a loss on settlement of debt during the twelve months ended December 31, 2011.

Aware Capital Consultants Inc.

On April 18, 2011, the Company assigned \$41,398 of its accounts payable from a third party to Aware Capital Consultants, Inc. On May 6, 2011 the Company modified \$20,000 of the payables into a convertible debenture. On the same date, the Company issued 655,737 shares of common stock with a fair value of \$49,180 to settle the note. On May 24, 2011 the Company modified the remaining payables of \$21,398 into a convertible debenture. On the same date, the Company issued 1,426,553 shares of common stock with a fair value of \$85,592 to settle the note. The difference between the fair value of the common stock and the debt was recorded as a loss on settlement of debt during the twelve months ended December 31, 2011.

On August 8, 2011, the Company assigned \$60,000 of its accounts payable from a third party to Aware Capital Consultants, Inc. On August 10, 2011 the Company modified \$60,000 of the payables into a convertible debenture. The note was convertible at 50% of the lowest price of the immediately preceding 30 days prior to conversion. The note bears no interest and is due on August 10, 2012. 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 \$60,000 on August 10, 2011. The discount will be amortized over the term of the note to interest expense. As of December 31, 2011, \$50,864 of the discount had been amortized to interest expense. On August 25, 2011, the Company issued 1,500,000 shares of common stock to settle \$15,000 of the note. October 27, 2011, the Company issued 2,000,000 shares of common stock to settle \$15,000 of the note. On December 29, 2011, the Company issued 4,470,149 shares of common stock to settle \$15,000 of the note. As of December 31, 2011 the Company has an outstanding balance of notes payable due to Aware Capital Consultants Inc. of \$15,000, net of \$9,137 of unamortized discount.

#### Connied, Inc.

On April 11, 2011 the Company assigned \$135,000 of its account payable from a third party to Connied, Inc. On May 3, 2011, the Company amended the assigned account payable to add a conversion feature. The new note was convertible at 50% of the average of the five lowest closing prices for the Company's stock during the previous 30 trading days. On the same date, the Company issued 1,388,889 shares of common stock with a fair value of \$97,222 to settle \$50,000 of the note. The difference between the fair value of the common stock and the debt was recorded as a loss on settlement of debt during the 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. As of December 31, 2011, \$15,871 of the discount had been amortized to interest expense. See Note 6 for additional information on the derivative liability.

CMG HOLDINGS GROUP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2: EQUITY (Continued)

Asher Enterprises, Inc.

On March 15, 2011 the company issued a convertible promissory note for \$75,000 to Asher Enterprises, Inc. The note bears interest at 8% and is due on December 17, 2011 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. As a result of the conversion, the entire discount was amortized to interest expense during the year ended December 31, 2011.

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 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..

Magna Group LLC.

On October 17, 2011, the Company assigned \$148,000 of its accounts payable from a third party to Magna Group, LLC. The convertible promissory note bears interest at 10% due on October 17, 2012. The 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. As of December 31, 2011, \$77,530 of the discount had been amortized to interest expense. See Note 6 for additional information on the derivative liability.

Hanover Holdings, LLC.

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. As of December 31, 2011, \$15,625 of the discount had been amortized to interest expense. See Note 6 for additional information on the derivative liability.



CMG HOLDINGS GROUP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 2: EQUITY (Continued)

## Salary Payables

On August 18, 2011, 1,490,000 shares were issued to one officer with a fair value of \$44,700 to settle \$59,250 of outstanding salary payable. The difference between the fair value of the common stock and the salary payable was recorded to additional paid in capital. On December 30, 2011, to reduce the liabilities owed to senior executives and to improve the working capital position of the Company, the senior executives converted notes payables in total of \$1,046,702 and bonus payables in total of \$450,000 into 25,367,831 restricted common stock shares each to the three executives. The converted notes payables and the bonus payables were converted at a conversion price of \$0.06.

## Shares Issued for Services

During the twelve months ended December 31, 2011, a total of 3,953,333 shares valued at \$195,452 were issued to fifteen individuals for services provided. The entire fair value was recorded to expense during the twelve months ended December 31, 2011.

## Shares and Warrants Issued for Cash

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. 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 6 for additional information on the derivative liability.

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

	Outstanding and Exercisable	Weighted average Exercise Price
December 31, 2009	2,400,000	\$ 0.1
Granted	7,022,500	
Exercised	(9,172,000)	
December 31, 2010	250,000	0.07
Granted	1,548,000	0.32
Exercised	-	-
December 31, 2011	1,798,000	\$ 0.28

As of December 31, 2011, the warrants have a weighted average remaining life of 2.7 years with \$0 aggregate intrinsic value.

During the year ended December 31, 2010:

On January 25, 2010, 350,000 shares were issued for services provided by third parties valued at \$31,500. On March 31, 2010, 1,500,000 shares were issued for the acquisition of Audio Eye valued at \$58,350. See Note 3 for details. On May 1, 2010, 685,200 shares were issued for services to be provided by a third party and were valued at \$13,247. On April 1, 2010, 970,000 shares were issued to Audio Eye executives and the Company recognized \$31,040 of stock based compensation. On July 1, 2010, 650,000 shares were issued for advisory services and the Company recognized \$28,600 of stock based compensation. On October 6, 2010, 2,372,073 common shares were issued for services to be provided by third parties valued at \$211,115. On November 8, 2010, 5,250,000 shares were issued for cash of \$167,500.

On November 5, 2010, CMGO Investors, LLC, a Delaware limited liability company, exercised its cumulative warrants to purchase 5,375,000 common shares, pursuant to the 2010 Note Purchase Agreement between the Company and CMGO Investors, LLC providing for the sale and issuance of \$1,075,000 of its 13% Senior Secured Convertible Extendible Notes due 2011. The cumulative warrants to purchase the 5,375,000 shares were transferred and exercised on a cashless basis for a total of 3,695,310 shares, of which 1,015,314 shares were assigned to AtoZ Holdings, LLC, 1,906,560 shares stock were assigned to Infinite Alpha, Inc. and 773,436 shares were assigned to Grassy Knolls, LLC.

CMG HOLDINGS GROUP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2: EQUITY (Continued)

On November 5, 2010, Intermerchant Securities, LLC a Delaware limited liability company, exercised its cumulative warrants to purchase 1,397,000 common shares pursuant to the 2010 Note Purchase Agreement between the Company and CMGO Investors, LLC as to the sale and issuance of \$1,075,000 of its 13% Senior Secured Convertible Extendible Notes due 2011. Intermerchant Securities acted as the placement agent and received compensation payments of 10% of the gross proceeds of \$1,075,000 and cumulative warrants to purchase 1,397,000 shares. The cumulative warrants to purchase 1,397,000 shares were transferred and exercised on a cashless basis for a total of 960,779 shares, of which 759,686 shares were assigned to AtoZ Holdings, LLC, and 201,093 shares were assigned to Grassy Knolls, LLC.

On November 5, 2010, JT Ventures LLC, an Illinois limited liability company, exercised its cumulative warrants to purchase 2,400,000 common shares pursuant to the March 16, 2009 Warrant Purchase Agreement between the Company and JT Ventures, LLC. The cumulative warrants to purchase 2,400,000 shares were transferred and exercised on a cashless basis for a total of 2,325,000 shares, of which 275,000 shares were assigned to AtoZ Holdings, LLC, and 2,050,000 shares were assigned to Prime Equity IV, LLC.

NOTE 3: ASSET ACQUISITION OF AUDIOEYE, INC.

On March 31, 2010, the Company and AudioEye executed the final Stock Purchase Agreement where the Company acquired all outstanding shares of Audio Eye, Inc. in exchange for \$30,000 cash, 1.5 million shares, warrants to purchase 250,000 shares at an exercise price of \$0.07 per share and a term of 5 years plus other contingent consideration. Audio Eye develops patented internet content publication and distribution software enabling conversion of any media into accessible formats and allowing for real time distribution to end users on any internet connected device. With this acquisition, the Company expects to be a leading provider in the Internet content publication and distribution software enabling the conversion of any media into accessible formats and allows for real time distribution to end users on any network connected device. As part of the Working Capital Funding Obligation, the Company provided to the Company at closing an initial working capital contribution of Four Hundred Seventy Thousand Dollars (\$470,000), a portion of which was used by AudioEye to retire the long-term and current debt on its books. The AudioEye, Inc. operations prior to the closing date of March 31, 2010 were insignificant in terms of revenues, operating expenses, assets and liabilities relative to the Company's current operations. Therefore due to limited operations, the Company has not presented pro forma financial results for the year ended December 31, 2010.

As part of the working capital funding obligation, the Company agreed to provide AudioEye a deferred working capital contribution of up to Two Million Five Hundred Thousand Dollars (\$2,500,000). The Company will fund the deferred working capital contribution to Audio Eye as follows: Six Hundred Twenty-Five Thousand Dollars (\$625,000) within ninety (90) days after AudioEye achieves cumulative Contract Sales Value of Two Million Five Hundred Thousand Dollars (\$2,500,000) subsequent to the Closing. Six Hundred Twenty-Five Thousand Dollars (\$625,000) within ninety (90) days after AudioEye achieves cumulative Contract Sales Value of Five Million Five Hundred Thousand Dollars (\$5,500,000) subsequent to the Closing. One Million Two Hundred and Fifty Thousand Dollars (\$1,250,000) within ninety (90) days after AudioEye achieves a cumulative Contract Sales Value of Ten Million Dollars (\$10,000,000) subsequent to the Closing. Even if the Contract Sales Value targets in the Stock Purchase Agreement are not achieved, the Company will provide to AudioEye working capital of at least Five Hundred Thousand Dollars (\$500,000) on the eighteen (18) month anniversary of the Closing Date and an additional Five Hundred Thousand Dollars (\$500,000) on the thirty-six (36) month anniversary of the Closing Date. Company authorizes AudioEye to, and AudioEye may without further authorization from the Company and in the ordinary course of business, use up to Twenty-Five Percent (25%) of each deferred working capital contribution as it is

received from the Company to effectuate and fund a patent infringement enforcement and licensing strategy pertaining to AudioEye's current and future patented intellectual property. To date, no further working capital advances have been made by the Company to AudioEye in excess of the initial \$470,000.

As part of the Purchase Price, the remainder of the Purchase Price (following payment of the Initial Cash Payment, the Stock Payment and the Warrant Payment at Closing) will consist of, and be paid to the Sellers by the Company, as follows; During the life of the patents covering AudioEye's technology, fifty percent (50%) of any cash received from income earned, settlements or judgments directly resulting from the patent strategy (whether received by the Company, AudioEye or any of the Company's Affiliates), net of any direct costs or tax implications incurred in the pursuit of the patent strategy, which amounts the Company will pay promptly to the Sellers following receipt, with each Seller receiving a portion equal to their pro rata ownership in AudioEye at Closing; and payment to be paid in 2014 within thirty (30) days after AudioEye's year-end 2013 financial statements are completed and audited by an independent Public Company Accounting Oversight Board ("PCAOB") accounting firm and that will reflect the average Company Net Income for the years 2010, 2011, 2012, and 2013 based on the following formula:

CMG HOLDINGS GROUP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 3: ASSET ACQUISITION OF AUDIOEYE, INC. (Continued)

Deferred Payment Amount = (Average Company Net Income x Multiple Determination) - All Funding Provided to the Company by the Buyer to Satisfy the Working Capital Funding Obligation

Where

AVERAGE COMPANY NET INCOME = (YR1 + YR2 + YR3 + YR4) / 4

YR1 = the Company Net Income for Year 2010

YR2 = the Company Net Income for Year 2011

YR3 = the Company Net Income for Year 2012

YR4 = the Company Net Income for Year 2013

Where

MULTIPLE DETERMINATION = (10, 11, 12, 13, 14, OR 15)

10 = Average Growth of Company Net Income of 0.00% to 10.00%

11 = Average Growth of Company Net Income of 10.01% to 15.00%

12 = Average Growth of Company Net Income of 15.01% to 20.00%

13 = Average Growth of Company Net Income of 20.01% to 25.00%

14 = Average Growth of Company Net Income of 25.01% to 30.00%

15 = Average Growth of Company Net Income of 30.01% or greater

(With Average Growth of Company Net Income calculated over the entire YR1 to YR4 period.) For purposes of determining Company Net Income, no income from the Company derived from the Patent Strategy as set forth in Section 1.7(a) shall be included in the calculation of gross or net revenues of AudioEye or Average Growth of AudioEye Net Income. The Deferred Payment will consist of cash and newly issued common stock of the Company at a ratio of Fifty Percent (50%) cash and Fifty Percent (50%) common stock. The value assigned to each share of the Buyer's restricted common stock to be issued as part of the Deferred Payment will equal the average close of trading price of the Company's common stock during the sixty (60) day period immediately preceding the date the deferred payment is made to Sellers.

The fair value of consideration transferred in the acquisition, the assets acquired and the liabilities assumed are set forth in the following table:

Consideration:

Cash (1)	\$ 30,000
Common stock (2)	59,850
Warrants to purchase common stock (3)	10,000
Contingent consideration (4)	-
Total consideration	\$ 99,850

Recognized amount of identifiable assets acquired and liabilities assumed :

Cash	\$ 3,217
Accounts receivable	15,967
Property and equipment	7,000
Other assets	32,500
Accounts payable	(168,300)
Accrued liabilities	(1,964)

Patent	211,430
Total identifiable net assets and liabilities assumed	\$ 99,850

- (1) This was paid on April 1, 2010 and as such as of March 31, 2010, the Company recognized this as a liability which is reported as “Due to sellers” in the consolidated balance sheets.
- (2) The fair value of the 1.5 million shares was determined based on the closing price at the acquisition date.
- (3) The fair value of the 250,000 warrants were determined using a Black-Scholes option valuation model using the following key assumptions: exercise price of \$0.07 per share, stock price of \$0.04, term of 5 years, expected volatility of 343% and a discount rate of 2.55%
- (4) The contingent consideration is based on the average net income of Audio Eye over a period of 4 years starting in 2010 after applying a multiple based on the average growth rate less any amounts of working capital contributions made by the Company to Audio Eye. The amount of working capital contribution to be made by the Company is a combination of a fixed amount of \$470,000 plus a deferred working capital contribution payable within a period of 3 years and is based on the greater of Audio Eye’s achievement of certain sales targets or \$1,000,000. The fair value of the contingent consideration was determined based on Audio Eye’s projected net income from 2010 and 2013 and the application of a discount rate to the future payment to be made. After deducting the amount of working capital contribution, the amount of contingent consideration was deemed to be zero. At the end of each reporting period after the acquisition date, the contingent payment will be remeasured to its fair value, with changes in fair value recorded in earnings. As of December 31, 2011, the value of the contingent payment was \$0.

CMG HOLDINGS GROUP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3: ASSET ACQUISITION OF AUDIOEYE, INC. (Continued)

During the quarter ended September 30, 2011, the Company identified differences in the original purchase price allocation related to AudioEye's fixed assets and patents. The Company determined that amounts originally allocated to fixed assets should instead have been allocated to patents. As a result, the Company has reclassified approximately \$169,000 previously included in property and equipment to intangible assets in the consolidated balance sheet as of December 31, 2011. Since the acquisition occurred on March 31, 2010, the Company has determined the measurement period for the original purchase price allocation has passed and any resulting changes to depreciation and amortization from the reclassification has been reflected in the current period income statement.

NOTE 4: POTENTIAL SALE 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 (hereinafter the "Agreement") with AudioEye Acquisition Corp., a Nevada corporation (hereinafter "AudioEye Acquisition") pursuant to which:

- 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 sale assets of the Company.

On October 24, 2011, AudioEye, Inc. filed a registration statement to register the issuance of shares of its common stock, which will be distributed on a pro rata basis to the Company's shareholders. In connection with a Master Agreement dated as of June 22, 2011 between the Company and AudioEye Acquisition Corporation, the parties agreed, among other things that the shareholders of AudioEye Acquisition Corporation will exchange all of their shares of the capital stock of AudioEye Acquisition Corporation for 80% of the capital stock of AudioEye, Inc. and the Company will distribute to its shareholders in the form of a dividend 5% of the outstanding capital stock of

AudioEye, Inc. Concurrently with the filing of the registration statement, the Company has filed a proxy statement relating to a special meeting of the Company shareholders to consider and vote on the sale, the share exchange and related matters.

As of December 31, 2011, AudioEye is still presented as a consolidated subsidiary in the consolidated financial statements and will continue to be consolidated as a consolidated subsidiary in the consolidated financial statements until the completion of the Company's amended master agreement with AudioEye Acquisitions Corporation. See Note 15.

On April 13, 2012, the Company amended its Jun 22, 2011 Master agreement with AudioEye Acquisitions Corporation pursuant to which the shareholders of AudioEye Acquisitions Corporation will acquire from the Company, 80% of the capital stock of AudioEye, Inc. and the Company will distribute to its shareholders, in the form of a dividend, 5% of the capital stock of Audioeye, Inc. The parties have concluded that it is in the best interests of all shareholders to amend the Master Agreement to separate the Spin-off and Share Exchange and to cause the satisfaction and release of the Notes and security interests to be effective as soon as practicable but no later than the closing of the Share Exchange.

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



CMG HOLDINGS GROUP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5: NOTES PAYABLE

Security Agreement – 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 will mature on July 1, 2011. The Company has the option to extend the maturity date of the notes for three months by paying an extension fee of 5% of the principal amounts, provided that the Company is not in default, In the event of default, the annual interest rate increases to 18%. As of December 31, 2010, the Company has elected to extend the maturity date and has accrued the 5%. The notes are convertible into common shares at any time after the maturity date at \$0.10 per share. In connection with the issuance of the notes, the Company issued warrants to purchase 5,375,000 common shares. The warrants have an exercise price of \$0.10 per share and a term of 7 years. The conversion price of the notes and the exercise price of the warrants contain reset provisions. If the closing market price of the stock is less than the conversion and exercise price for a period of 90 consecutive trading days, then the conversion and exercise price in effect shall be reduced to the closing market price on such 90th trading days but both conversion and exercise price shall not be reduced to less than \$0.07 per share. The notes are secured by a security interest in all of the assets of the Company and its subsidiaries. The relative fair value of these warrants was calculated using Black-Scholes Model using these assumptions (1) 2.4% to 3.3% discount rate, (2) warrant life of seven years (3) expected volatility of 343% to 347% and (4) zero expected dividend. The relative fair value of the warrants was determined to be \$142,931 and was recorded as a debt discount. The debt discount is being amortized and recorded as interest expense over the term of the notes using the effective interest method. Amortization for the year ended December 31, 2010 was \$75,868. In connection with the above transaction, the Company paid the placement agent 10% of the gross proceeds and warrants to purchase 1,397,000 common shares. The fair value of these warrants was calculated using Black-Scholes Model using these assumptions (1) 2.4% to 3.3% discount rate, (2) warrant life of seven years (3) expected volatility of 343% to 347% (4) zero expected dividend. The fair value of the warrants was determined to be \$43,127 and was recorded as a deferred financing cost. The total deferred financing cost which includes the \$107,500 of placement agent fees is being amortized and recorded as interest expense over the term of the note using the effective interest method. Amortization for the year ended December 31, 2010 was \$82,335. We analyzed the convertible note and warrants issued for derivative accounting consideration and determined that derivative accounting is not applicable for these instruments.

On October 1, 2011, the notes matured and became convertible. Due to other outstanding convertible instruments described in Note 2, the conversion option embedded in the CMGO Investor notes became a liability on the maturity date. The fair value of the conversion option resulted in a discount to the related notes of \$346,579. Because the notes had already matured, the Company amortized the entire discount to interest expense during the year ended December 31, 2011.

The note agreements have various covenants. The agreements require the purchaser provide the Company with notice and a cure period of 10 days prior to an event qualifying as an event of default under the agreement. The agreements require a) the Company within 90 days after the close of each fiscal year of the Company, deliver to the Purchaser and InterMerchant the balance sheet of the Company as at the end of such fiscal year and the related statements of income and retained earnings and statement of cash flows for such fiscal year certified by an independent registered accounting firm of recognized national standing, accompanied by an opinion of such accounting firm (which opinion shall be without any qualification or exception as to scope of audit) stating that in the course of its regular audit of the financial statements of the Company, which audit was conducted in accordance with GAAP, such accounting firm obtained no knowledge of any Default or an Event of Default relating to financial or accounting matters which has occurred and is continuing or, if in the opinion of such accounting firm such a Default or an Event of Default has occurred and is continuing, a statement as to the nature thereof, and management's

discussion and analysis of the important operational and financial developments during such fiscal year. The timely public filing of the items described on EDGAR shall satisfy the delivery requirement under this provision but only with respect to the financial statements but not the opinion of the independent registered public accounting firm; and b) the Company deliver written Notice to the Purchaser within three Business Days after any Officer of the Company has knowledge of the occurrence of any event that, with the giving of notice or the lapse of time or both, would become an Event of Default under the agreement. As of April 18, 2012, the Company has not delivered to the purchaser the aforementioned information under a) or notice under b). As of April 18, 2012, the Company has not received notice of default from the purchaser. It is the Company's opinion that the filing hereof constitutes compliance with the terms and provisions of the agreements prior to the delivery by the purchaser of notice of default.

Asher Enterprises, Inc.

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..

CMG HOLDINGS GROUP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5: NOTES PAYABLE (Continued)

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..

Aware Capital Consultants Inc.

On August 8, 2011, the Company assigned \$60,000 of its accounts payable from a third party to Aware Capital Consultants, Inc. On August 10, 2011 the Company modified \$60,000 of the payables into a convertible debenture. The note was convertible at 50% of the lowest price of the immediately preceding 30 days prior to conversion. The note bears no interest and is due on August 10, 2012. 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 \$60,000 on August 10, 2011. The discount will be amortized over the term of the note to interest expense. As of December 31, 2011, \$50,864 of the discount had been amortized to interest expense. On August 25, 2011, the Company issued 1,500,000 shares of common stock to settle \$15,000 of the note. On October 27, 2011 On October 27, 2011, the Company issued 2,000,000 shares of common stock to settle \$15,000 of the note. On December 29, 2011, the Company issued 4,470,149 shares of common stock to settle \$15,000 of the note. As of December 31, 2011 the Company has an outstanding balance of notes payable due to Aware Capital Consultants Inc. of \$15,000, net of \$9,137 of unamortized discount.

Magna Group LLC.

On October 17, 2011, the Company assigned \$148,000 of its accounts payable from a third party to Magna Group, LLC. The convertible promissory note bears interest at 10% due on October 17, 2012. The 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. As of December 31, 2011, the remaining balance was \$87,000. 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. As of December 30, 2011, \$77,530 of the discount had been amortized to interest expense. See Note 6 for additional information on the derivative liability.

Hanover Holdings, LLC.

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. As of December 30, 2011, \$15,625 of the discount had been amortized to interest expense. See Note 6 for additional information on the derivative liability.

F-17

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CMG HOLDINGS GROUP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5: NOTES PAYABLE (Continued)

Nathan Bradley

During the nine months ended September 30, 2011, the Company entered into several promissory notes with one of its officers. The promissory notes total \$1,084,224, bear interest at 15% and were due before August, 2011.

On August 30, 2011, the Company and the officer entered into a modified promissory note agreement in which the nine promissory notes (the "Notes") totaling \$1,084,224 were modified into one promissory note of \$1,084,224. Any interest accrued on the Notes prior to the modification shall be adjusted and recalculated at a rate of 7% per annum. Any penalties assessed on the Notes prior to August 30, 2011 shall be waived. Interest shall be accrued at a rate of 7% per annum commencing August 31, 2011. The Term of the Notes shall individually be extended until August 31, 2013. The notes are convertible into common stock of Audioeye, Inc. at a conversion price of \$0.25.

The Company analyzed the convertible notes for derivative accounting consideration under FASB ASC 815-15 and FASB ASC 815-40. The Company determined the embedded conversion option in the convertible met the criteria for classification in stockholders equity under ASC 815-15 and ASC 815-40 "Derivatives and Hedging". In addition, the Company determined that the convertible note does not contain a beneficial conversion feature under FASB ASC 470-20 "Debt with Conversion and Other Options". The Company also analyzed the modification of the term under ASC 470-60 "Trouble Debt Restructurings". The Company determined the debtor is experiencing financial difficulty and the creditor has granted a concession under the modified terms and concluded the modification should be accounted under ASC 470-60 "Trouble Debt Restructurings". The total future cash payments specified by the new terms is \$1,242,340 which was less than the carrying amount of the promissory note of \$1,364,274 (including accrued interest and penalties) prior to the modification. Accordingly, the Company has reduced the carrying amount to an amount equal to the future cash payments and of the difference of \$121,934 is recognized in additional paid in capital.

NOTE 6: DERIVATIVE LIABILITIES

Garlette LLC

As discussed in Note 2, the Company determined that the instruments embedded in the convertible note should be classified as liabilities and recorded at fair value due to their being no explicit limit to the number of shares to be delivered upon settlement of the above conversion options. The fair value of the instruments was determined to be \$246,314 using the Black-Scholes option pricing model. Because the number of shares to be issued upon settlement cannot be determined under this instrument, the Company cannot determine whether it will have sufficient authorized shares at a given date to settle any other of its share-settleable instruments. As a result of this, under ASC 815-15 "Derivatives and Hedging", all other share-settleable instruments must be reclassified from equity to liabilities. The company had conversion options embedded in related parties' notes payable agreements and accrued expenses and 298,000 warrants to purchase the Company's common stock that were classified in equity as of the date that the Company entered in to the convertible note. The fair value of these instruments on January 7, 2011 was \$7,940,752 of which \$7,694,438 was reclassified to liabilities, \$50,000 recorded as debt discount and \$196,314 was recognized as loss on derivatives.

As a result of the note conversion in January 2011, under ASC 815-15 "Derivatives and Hedging", the instrument is measured at fair value at the date of termination with the change in fair value recorded to earnings. The fair value of these instruments on January 18, 2011 was \$7,894,220 and this value was reclassified out of liabilities to equity and

\$46,532 was recognized as a gain on derivatives during the year ended December 31, 2011.

Connied, Inc.

As discussed in Note 2, the Company determined that the instruments embedded in the convertible note should be classified as liabilities and recorded at fair value due to their being no explicit limit to the number of shares to be delivered upon settlement of the above conversion options. The fair value of the instruments was determined to be \$162,467 using the Black-Scholes option pricing model of which \$85,000 recorded as debt discount and \$77,467 was recognized as loss on derivatives. Because the number of shares to be issued upon settlement cannot be determined under this instrument, the Company cannot determine whether it will have sufficient authorized shares at a given date to settle any other of its share-settleable instruments. As a result of this, under ASC 815-15 "Derivatives and Hedging", all other share-settleable instruments must be reclassified from equity to liabilities. The company had conversion options embedded in related parties' notes payable agreements and accrued expenses and 948,000 warrants to purchase the Company common stock that were classified in equity as of the date that the Company entered in to the convertible note. The fair value of these instruments on May 3, 2011 was \$1,509,194 and was reclassified to 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 the convertible debt on December 31, 2011 was \$144,359 and \$18,107 was recognized as loss on derivative.

For the year ended December 31, 2011, a total of 25,367,831 shares were issued to settle the related parties' note payable and accrued expenses. As a result of the conversion, the fair value of the related derivative instrument on the date of settlement of \$26,531 was reclassified out of liabilities to equity and \$1,417,672 was recognized as a gain on derivative during the year ended December 31, 2011.

F-18

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CMG HOLDINGS GROUP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6: DERIVATIVE LIABILITIES (Continued)

Under ASC 815-15 “Derivatives and Hedging”, because the Connied, Inc. convertible note remains outstanding as of December 31, 2011, all other share-settleable instruments that are issued subsequently should be classified as a liability due to their being no explicit limit to the number of shares to be delivered upon settlement of the above conversion options. The Company performed an analysis and determined all the following instruments should be classified as liabilities:

Asher Enterprises, Inc.

As discussed in Note 3, in September 2011 the Company determined that the instruments embedded in the convertible note should be classified as liabilities and recorded at fair value due to their being no explicit limit to the number of shares to be delivered upon settlement of the above conversion options. The fair value of the instruments was determined to be \$93,370 using the Black-Scholes option pricing model of which \$75,000 was recorded as debt discount and \$18,370 was recognized as loss on derivatives.

For the year ended December 31, 2011, a total of 7,622,740 shares were issued to settle \$75,000 of the note. As a result of the conversion, the entire debt discount of \$75,000 was amortized into interest expense, the fair value of the related derivative on the date of settlement of \$153,613 was reclassified out of liabilities to equity and \$78,613 was recognized as a loss on derivative during the year ended December 31, 2011.

Aware Consultants, Inc.

As discussed in Note 2, the Company determined that the instruments embedded in the convertible note should be classified as liabilities and recorded at fair value due to their being no explicit limit to the number of shares to be delivered upon settlement of the above conversion options. The fair value of the instruments was determined to be \$241,676 using the Black-Scholes option pricing model of which \$60,000 recorded as debt discount and \$181,676 was recognized as loss on derivatives.

For the year ended December 31, 2011, a total of 7,970,149 shares were issued to settle \$45,000 of the note. As a result of the conversion, \$34,136 of debt discount was amortized into interest expense, the fair value of the related derivative instrument on the date of settlement of \$109,398 was reclassified out of liabilities to equity and \$154,736 was recognized as a gain on derivative during the year ended December 31, 2011.

Under ASC 815-15 “Derivatives and Hedging” the liabilities were subsequently measured at fair value at the end of each reporting period with the change in fair value recorded to earnings. The fair value of these instruments on December 31, 2011 was \$26,927 and \$49,385 was recognized as loss on derivative.

Security Agreement – CMGO Investors, LLC

As discussed in Note 5 on October 1, 2011, the notes matured and became convertible the Company determined that the instruments embedded in the convertible note should be classified as liabilities and recorded at fair value due to their being no explicit limit to the number of shares to be delivered upon settlement of the above conversion options. The fair value of the instruments was determined to be \$346,579 using the Black-Scholes option pricing model and \$346,579 was recognized as debt discount.

Under ASC 815-15 “Derivatives and Hedging” the liabilities were subsequently measured at fair value at the end of each reporting period with the change in fair value recorded to earnings. The fair value of these instruments on December 31, 2011 was \$50,515 and \$296,064 was recognized as gain on derivative.

Hanover Holdings, LLC.

As discussed in Note 5, on October 17, 2011 the Company determined that the instruments embedded in the convertible note should be classified as liabilities and recorded at fair value due to their being no explicit limit to the number of shares to be delivered upon settlement of the above conversion options. The fair value of the instruments was determined to be \$130,713 using the Black-Scholes option pricing model of which \$50,000 was recorded as debt discount and \$80,713 was recognized as loss on derivatives.

Under ASC 815-15 “Derivatives and Hedging” the liabilities were subsequently measured at fair value at the end of each reporting period with the change in fair value recorded to earnings. The fair value of these instruments on December 31, 2011 was \$74,504 and \$56,209 was recognized as gain on derivative.

F-19

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CMG HOLDINGS GROUP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 6: DERIVATIVE LIABILITIES (Continued)

## Magna Group LLC.

As discussed in Note 5, on October 17, 2011 the Company determined that the instruments embedded in the convertible note should be classified as liabilities and recorded at fair value due to their being no explicit limit to the number of shares to be delivered upon settlement of the above conversion options. The fair value of the instruments was determined to be \$386,381 using the Black-Scholes option pricing model of which \$148,000 was recorded as debt discount and \$238,381 was recognized as loss on derivatives.

For the year ended December 31, 2011, a total of 10,901,816 shares were issued to settle \$61,000 of the note. As a result of the conversion, the debt discount of \$77,530 was amortized into interest expense, the fair value of the related derivative on the date of settlement of \$106,218 was reclassified out of liabilities to equity and \$157,541 was recognized as a gain on derivative during the year ended December 31, 2011.

Under ASC 815-15 “Derivatives and Hedging” the liabilities were subsequently measured at fair value at the end of each reporting period with the change in fair value recorded to earnings. The fair value of these instruments on December 31, 2011 was \$136,170, and \$13,548 was recognized as loss on derivative.

## Warrants

On May 20, 2011, 25,000 A Warrants and 25,000 B Warrants were issued to an individual in addition to shares purchase for cash as described in Note 2. The A Warrants are exercisable at a strike price of \$0.25 for three years, and the B Warrants are exercisable at a strike price of \$0.50 for three years. The fair value of the instruments was determined to be \$2,450 using the Black-Scholes option pricing model.

On July 19, 2011, 200,000 A Warrants and 200,000 B Warrants were issued to an individual in addition to shares purchase for cash as described in Note 2. The A Warrants are exercisable at a strike price of \$0.10 for three years, and the B Warrants are exercisable at a strike price of \$0.20 for three years. The fair value of the instruments was determined to be \$25,756 using the Black-Scholes option pricing model.

On October 13, 2011, 200,000 A Warrants and 200,000 B Warrants were issued to an individual in addition to shares purchase for cash as described in Note 2. The A Warrants are exercisable at a strike price of \$0.25 for three years, and the B Warrants are exercisable at a strike price of \$0.50 for three years. The fair value of the instruments was determined to be \$9,082 using the Black-Scholes option pricing model.

Under ASC 815-15 “Derivatives and Hedging” the liabilities were subsequently measured at fair value at the end of each reporting period with the change in fair value recorded to earnings. The fair value of all outstanding warrants as of December 31, 2011 was \$11,673 and \$90,605 was recognized as gain on derivative.

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

Derivative Liabilities	
Balance at December 31 2010	\$ -
ASC 815-15 additions (Garlette, LLC)	7,940,752
Change in fair value	(46,532)
ASC 815-15 deletions (Garlette, LLC)	(7,894,220)

ASC 815-15 additions (Connied, Inc.)	162,467
Change in fair value	(18,107)
ASC 815-15 additions (Aware Capital, Inc.)	241,676
Change in fair value	(105,351)
ASC 815-15 deletions (Aware Capital, Inc.)	(109,398)
ASC 815-15 additions (Asher Enterprises, LLC.)	93,370
Change in fair value	60,243
ASC 815-15 deletions (Asher Enterprises, LLC)	(153,613)
ASC 815-15 additions (Magna Group, LLC)	386,381
Change in fair value	(143,993)
ASC 815-15 deletions (Magna Group, LLC)	(106,218)
ASC 815-15 additions (Hanover Holdings, LLC)	130,713
Change in fair value	(56,209)
ASC 815-15 additions (CMGO Investor Debt)	346,579
Change in fair value	(296,064)
ASC 815-15 additions (Salary and Bonus)	1,444,203
Change in fair value	(1,417,672)
ASC 815-15 deletions (Salary and Bonus)	(26,531)
ASC 815-15 additions (Warrants)	102,279
Change in fair value	(90,605 )
Balance at December 31 2011	\$ 444,150

CMG HOLDINGS GROUP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 6: DERIVATIVE LIABILITIES (Continued)

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

Derivative Liabilities	
Balance at December 31 2010	\$ -
Excess of fair value of liabilities over note payable (Garlette, LLC)	(196,314)
Change in fair value	46,532
Excess of fair value of liabilities over note payable (Connied, Inc.)	(77,467)
Change in fair value	18,107
Excess of fair value of liabilities over note payable (Aware Capital, Inc.)	(181,676)
Change in fair value	105,351
Excess of fair value of liabilities over note payable (Asher Enterprises, LLC.)	(18,370)
Change in fair value	(60,243)
Excess of fair value of liabilities over note payable (Magna Group, LLC)	(238,381)
Change in fair value	143,993
Excess of fair value of liabilities over note payable (Hanover Holdings, LLC)	(80,713)
Change in fair value	56,209
Change in fair value (CMGO Investor Debt)	296,064
Change in fair value (Salary and Bonus)	1,417,672
Change in fair value (Warrants)	90,605
Balance at December 31 2011	\$ 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 204% to 488%, (4) zero expected dividends, (5) exercise price as set forth in the agreements, (6) common stock price of the underlying share on the valuation date, and (7) number of shares to be issued if the instrument is converted.

## NOTE 7: RELATED PARTY TRANSACTIONS

On September 30, 2010 and December 31, 2010, the Company and its executive management entered into a deferred salary conversion agreements in order to assists with the working capital needs of the Company. The \$1,046,702 unsecured notes 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. See Note 2.

From time to time the Company borrows money from its officers. During the twelve months ended December 31, 2011, these advances from the officers that bear no interest and they are due on demand. As of December 31, 2011 and 2010, the Company owed \$86,328 and \$127,438 as related party debt to three officers.

CMG HOLDINGS GROUP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 7: RELATED PARTY TRANSACTIONS (Continued)

As described in Note 5, the Company modified a note payable with an officer during 2011. As of December 31, 2011, the Company owes \$1,245,843 as related party debt to this officer.

During the twelve months ended December 31, 2011, the Company performed services for two related party entities and are owed \$13,125 of outstanding related party accounts receivable.

## NOTE 8: LINE OF CREDIT

The Company obtained a credit line from Smith Barney that is secured by the company's Smith Barney money market account. The loan balance as of December 31, 2011 and 2010 was \$107,560 and \$183,478, respectively. The credit line carries an annual interest rate equivalent to the bank's prime rate.

## NOTE 9: INCOME TAX

The Company accounts for income taxes using the liability method, where deferred tax assets and liabilities are determined based on the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities for financial and income tax reporting purposes. Under the liability method, the deferred tax assets and liabilities are determined based on the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities for financial and income tax reporting purposes. The net deferred tax asset generated by the loss carry-forward has been fully reserved. The cumulative net operating loss carry-forward was approximately \$11,594,747 at December 31, 2011, and will begin to expire in 2027.

At December 31, 2011 and 2010, deferred tax assets consisted of the following:

	2011	2010
Deferred tax assets due to net operating loss carry forward	\$ 4,058,161	\$ 2,397,924
Valuation allowance	(4,058,161)	(2,397,924)
Net deferred tax assets	-	-

## NOTE 10: COMMITMENTS AND CONTINGENCIES

On February 25, 2011, The Company's subsidiary XA Scenes and XA, The Experiential Agency, Inc. signed a separation agreement with Waterfront NY Realty Corporation regarding their office space located at 640 West 28th Street, New York NY. The separation agreement included the vacating of the premises on February 25, 2011, the payment of \$50,000 on February 25, 2011, the full release from all of obligations under the Lease for XA, regarding the commercial premises located at 636-.642 West 28th Street, New York, NY 10001. The \$50,000 payment was accrued as of December 31, 2011.

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

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

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

2012	147,522
2013	152,137
2014	100,158
2015	84,248
2016	86,637
Thereafter	394,649

NOTE 11: ESCROW AGREEMENT – CMGO INVESTORS LLC:

On October 29, 2010, the Company and CMGO Investors, LLC, a New York limited liability company, entered into an Escrow Agreement regarding the \$1,075,000 13% Senior Secured Convertible Extendible Notes due 2011 in which the Company and CMGO Investors, LLC agreed not to convert these Convertible Notes until October 1, 2011. The Company issued 5,375,000 shares to CMGO Investors, LLC, and 1,397,500 shares to InterMerchant Securities, LLC in consideration for CMGO Investors, LLC agreement not to convert its Convertible Notes until July 1, 2011, of which 952,381 issued shares are to be issued in the name of CMGO Investors, LLC and which 247,619 issued shares are to be issued in the name of InterMerchant Securities LLC. The balance of 4,422,619 shares to CMGO Investors, LLC and balance of 1,149,881 shares to InterMerchant Securities, LLC. These 4,422,619 shares to CMGO Investors, LLC and 1,149,881 shares to InterMerchant Securities, LLC shall be delivered and held by an Escrow Agent and will only to be delivered to CMGO Investors, LLC and InterMerchant Securities, LLC in the event upon non-payment by CMG the total amount due including principal, interest, pre-payment penalties and other fees on or before July 1, 2011, which has been extended to October 1, 2011 for a 5% fee in accordance with the terms of the Convertible Notes. In the event of a non-payment by CMG to CMGO Investors, LLC, of the amount due by April 1, 2011, five-percent (5%) of the CMGO Investors, LLC, Escrow Shares was to be delivered to CMGO Investors, LLC, and five-percent (5%) of the InterMerchant Escrow Shares was to be delivered to InterMerchant. CMG did not make the required payment due by April 1, 2011 and 5% of the escrow shares will be due to both parties upon settlement of the balance. These shares still remain with the escrow agent as of April 16, 2012

These notes are expected to be repaid as a part of the potential sale of AudioEye. See Note 4.

CMG HOLDINGS GROUP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 12: FAIR VALUE MEASUREMENTS AND INVESTMENTS

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

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

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

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

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

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

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, 2011 and 2010. 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, 2011	Level 1	Level 2	Level 3	Total
Marketable trading securities	\$ 19,949	\$ -	\$ -	\$ 19,949

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Derivative Liabilities	\$	-	\$	-	\$	444,150	\$	444,150
December 31, 2010		Level 1		Level 2		Level 3		Total
Marketable trading securities	\$	49,006	\$	-	\$	-	\$	49,006
Derivative Liabilities	\$	-	\$	-	\$	-	\$	-

F-23

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CMG HOLDINGS GROUP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 12: FAIR VALUE MEASUREMENTS AND INVESTMENTS (Continued)

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, 2011 and 2010 are as follows:

	2011	2010
Aggregate fair value	\$ 19,949	\$ 49,006
Gross unrealized holding gains		-
Gross unrealized holding losses	36,057	49,006
Proceeds from sales	\$	\$ 32,776
Gross realized gains		-
Gross realized losses		23,474
Other than temporary impairment		-

## NOTE 13: SECURITIES RECEIVED FOR REVENUE TRANSACTIONS

The Company received equity holdings in other companies in the following transactions during the year ended December 31, 2010:

- Audio Eye completed a licensing transaction with Roth Kline Inc., an organization that will be creating an Interactive Talking Coupon utilizing Audio Eye’s technology. In exchange for licensing its technology, Audio Eye received a 19.5% equity ownership position of Roth Kline as well as a 2.5% licensing royalty on gross revenues of Roth Kline. Roth Kline is currently a privately held company. The Company recorded the non-marketable investment at its fair value of \$0 and is accounting for the investment using the cost method. The license expires at the expiration of the patents associated with the license.

- CMG signed a branding agreement with XenaCare Holdings, Inc. (“XEN”), and the Company received 500,000 shares of XEN. XEN is publicly traded. The Company recorded the marketable securities at their fair value of \$74,500. The agreement is for three years therefore the revenue is being recognized over the life of the agreement, \$18,625 and \$4,139 was recognized for twelve months ended December 31, 2011 and 2010 with \$51,736 and \$70,361 deferred as of December 31, 2011 and 2010.

- In 2007, CMG signed a consulting agreement with XEN and the Company was to receive 330,000 shares of XEN. Due to concerns over collectability in 2007, the Company did not recognize revenue related to this agreement. The Company received the shares in the three months ended September 30, 2010. The Company recorded the marketable securities at their fair value of \$82,500. The services under the agreement were previously performed therefore the entire amount of revenue is being recognized during the period ended December 31, 2010 with \$0 deferred as of December 31, 2010.

## NOTE 14: LEGAL PROCEEDINGS.



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

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

On April 21, 2011, the Company was served with a lawsuit that was filed in Clark County, Nevada against the Company by A to Z Holdings, LLC and seven other individuals or entities. The complaint alleges, among other things, that the Company's Board of Directors did not have the power to designate series A and B preferred stock without amending the articles of incorporation. The complaint also alleges any such amendment would require shareholder approval and filing of a proxy statement. The Company has retained counsel in Nevada to represent it in this matter and intends to vigorously defend same. The Company believes those most, if not all, of the allegations contained in the lawsuit are moot and/or not actionable and further believes that the Plaintiffs lack standing to pursue their claim against the company. The Company, through counsel, is in the process of conducting discovery to ascertain the validity of the Plaintiffs' claims and their standing to bring this lawsuit and, upon completion of discovery, will file appropriate pleadings with the Nevada court to attempt to have the complaint, as filed, dismissed.

CMG HOLDINGS GROUP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 14: LEGAL PROCEEDINGS (Continued)

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.

NOTE 15: SUBSEQUENT EVENTS

Amendment Master Service Agreement

On April 13, 2012, the Company amended its Jun 22, 2011 Master agreement with AudioEye Acquisitions Corporation pursuant to which the shareholders of AudioEye Acquisitions Corporation will acquire from the Company, 80% of the capital stock of AudioEye, Inc. and the Company will distribute to its shareholders, in the form of a dividend, 5% of the capital stock of Audioeye, Inc. The parties have concluded that it is in the best interests of all shareholders to amend the Master Agreement to separate the Spin-off and Share Exchange and to cause the satisfaction and release of the Notes and security interests to be effective as soon as practicable but no later than the closing of the Share Exchange.

Option, Note Purchase and Note Modification Agreement of Convertible Notes

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

Asher Enterprises, Inc.

On August 24, 2011 the company issued a convertible promissory note for \$37,500 to Asher Enterprises, Inc. On March 12, 2012 The Company issued 2,500,000 shares of common stock to settle \$10,000 of the note. On March 15, 2012 The Company issued 2,926,829 shares of common stock to settle \$12,000 of the note. On March 19, 2012 The Company issued 3,571,429 shares of common stock to settle \$12,500 of the note. On March 28, 2012 The Company issued 862,069 shares of common stock to settle \$1,000 of the final amount of this note.

On February 6, 2012 the company issued a convertible promissory note for \$37,500 to Asher Enterprises, Inc. The note bears interest at 8% and is due on November 8, 2012 and any amount not paid by November 8, 2012 will incur a

22% interest rate. The note is convertible at 50% of the average of the lowest three trading prices for the Company's common stock during the ten trading day period prior to the conversion date.

Aware Capital Consultants Inc.

On August 8, 2011, the Company assigned \$60,000 of its accounts payable from a third party to Aware Capital Consultants, Inc. On August 10, 2011 the Company modified \$60,000 of the payables into a convertible debenture. On February 6, 2012, the Company issued 4,000,000 shares of common stock to settle \$7,000 of the note. On March 20, 2012, the Company issued 3,500,000 shares of common stock to settle \$7,000 of the final amount of this note.

Magna Group LLC.

On October 17, 2011, the Company assigned \$148,000 of its accounts payable from a third party to Magna Group, LLC. The convertible promissory note bears interest at 10% due on October 17, 2012. The 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 January 13, 2012 the Company issued 2,463,054 shares of common stock to settle \$10,000 of the note. On February 03, 2012, the Company issued 4,056,796 shares of common stock to settle \$20,000 of the note. On February 23, 2012, the Company issued 2,638,987 shares of common stock to settle \$15,000 of the note. On March 16, 2012, the Company issued 4,171,301 shares of common stock to settle \$20,000 of the note. On April 4, 2012, the Company issued 5,747,127 shares of common stock to settle \$15,000 of the note.

F-25

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CMG HOLDINGS GROUP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 15: SUBSEQUENT EVENTS (Continued)

On April 11, 2012, the Company assigned \$50,000 of its accounts payable from a third party to Magna Group, LLC. The convertible promissory note bears interest at 10% due on April 13, 2013. The note is convertible at 58% of the average of the lowest three trading prices for the Company's common stock during the ten trading day period prior to the conversion date.

Hudson Capital Advisors, Inc. Agreement

On January 5, 2012, the Company modified its July 11, 2011 agreement with Hudson Capital Advisors, Inc. into a convertible debenture note bearing interest at 2% due on January 5, 2013. This convertible debenture is \$100,000. On March 8, 2012, the Company issued 1,500,000 shares of common stock to settle \$15,750 of the convertible debenture note. On April 10, 2012, the Company received notification of a conversion of common stock of 6,425,000 shares of common stock to settle \$64,250 of the convertible debenture note.

Braeden Storm Enterprises, Inc. Agreement

On January 5, 2012, the Company modified its July 6, 2011 agreement with Braeden Storm Enterprises, Inc. from into a convertible debenture note bearing interest at 2% due on January 6, 2013. This convertible debenture is \$90,000. On February 24, 2012, the Company issued 3,000,000 shares of common stock to settle \$30,000 of the convertible debenture note. On April 3, 2012, the Company received notification of a conversion of common stock of 6,000,000 shares of common stock to settle \$60,000 of the convertible debenture note.

On February 10, 2012, the Company assigned \$56,000 of its accounts payable from a third party to Braeden Storm Enterprises, Inc. The convertible promissory note bears interest at 10% due on April 15, 2013.

Martin Boyle Agreement

On January 5, 2012, the Company modified its September 2, 2011 agreement with Boyle into a convertible debenture note bearing interest at 2% due on January 8, 2013. This convertible debenture is \$35,000. On March 5, 2012, the Company issued 2,800,000 shares of common stock to settle \$35,000 of the convertible debenture note.

Scott Baily Agreement

On January 8, 2012, the Company modified its October 2, 2011 agreement with this Scott Baily into a convertible debenture note bearing interest at 2% due on January 5 2013. This convertible debenture is \$60,000.

Grassy Knolls, LLC

On January 4, 2012, the Company modified its July 5, 2011 agreement with Grassy Knolls, LLC into a convertible debenture note bearing interest at 2% due on January 4, 2013. This convertible debenture is \$72,000.

Consulting Agreements

On the month of January 2012, the Company engaged several consultants to perform services and issued 9,850,000 shares as compensation for services.



ITEM CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON  
9: 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, 2011:

- 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 evaluating assets for impairment
- 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. Management's 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, 2011, that materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

#### ITEM OTHER INFORMATION

9B.

None

## 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
Alan Morell	64	01/2008	CEO, Chairman of the Board, Director
James Ennis	43	01/2008	Chief Financial Officer, Director
Michael Vandetty	56	01/2008	Chief Legal Counsel, Director

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.

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.

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.

## 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 Executive Officers have deferred salary through December 31, 2011 based on working capital needs of the Company. The Parties acknowledge and agree that the Executive will be paid 100% of annual base compensation based on the working capital needs of the Company and as



soon as the Company has sufficient working capital to do so. 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, 2011, no other 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.

## EXECUTIVE AGREEMENTS

The Company has entered into an employment contract with Alan Morell, CEO, James Ennis, COO and CFO and Michael Vandetty, Chief General Counsel effective January 1, 2010.

## 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 16, 2012, information with respect to the beneficial ownership of the Company's Common Stock by (i) each person known by the Company to own beneficially 5% or more of such stock, (ii) each Director of the Company who owns any Common Stock, and (iii) all Directors and Officers as a group, together with their percentage of beneficial holdings of the outstanding shares. The information presented below regarding beneficial ownership of our voting securities has been presented in accordance with the rules of the Securities and Exchange Commission and is not necessarily indicative of ownership for any other purpose. Under these rules, a person is deemed to be a "beneficial owner" of a security if that person has or shares the power to vote or direct the voting of the security or the power to dispose or direct the disposition of the security. A person is deemed to own beneficially any security as to which such person has the right to acquire sole or shared voting or investment power within 60 days through the conversion or exercise of any convertible security, warrant, option or other right. More than one person may be deemed to be a beneficial owner of the same securities. The percentage of beneficial ownership by any person as of a particular date is calculated by dividing the number of shares beneficially owned by such person, which includes the number of shares as to which such person has the right to acquire voting or investment power within 60 days, by the sum of the number of shares outstanding as of such date plus the number of shares as to which such person has the right to acquire voting or investment power within 60 days. Consequently, the denominator used for calculating such percentage may be different for each beneficial owner. Except as otherwise indicated below and under applicable community property laws, we believe that the beneficial owners of our common stock listed below have sole voting and investment power with respect to the shares shown.

## SECURITY OWNERSHIP OF BENEFICIAL OWNERS:

None

## SECURITY OWNERSHIP OF MANAGEMENT:

Title of Class	Name	Shares	Percent
Common Stock	Alan Morell	18,622,944	10.5%%
Common Stock	James J. Ennis	11,955,944	6.7%
Common Stock	Michael Vandetty	10,945,944	6.2 %
All Directors and Executive Officers as a group (6 persons)		41,524,832	23.4 %

These tables are based upon 177,261,624 shares outstanding as of April 25 , 2011 and information derived from our stock records. Unless otherwise indicated in the footnotes to these tables and subject to community property laws where applicable, we believe unless otherwise noted that each of the shareholders named in this table has sole or shared voting and investment power with respect to the shares indicated as beneficially owned.

#### 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.

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, 2011 and December 31, 2010 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 2011	Fiscal Year 2010
MaloneBailey – audit and audit related	\$ 129,715	\$ 120,000

PART IV

ITEM 15. EXHIBITS AND REPORTS ON FORM 8-K

1. Financial Statements
2. Financial Statement Schedules
3. Exhibits
4. Reports on Form 8-K:

The Company filed a form 8-K on October 14, 2012 relating to opening of Waldwin, New Jersey office.

SIGNATURE

CMG HOLDINGS  
GROUP, INC.  
(Registrant)

Date: April 25 , 2012

By: /s/ ALAN  
MORELL  
Alan Morell  
Chief Executive  
Officer  
(Duly Authorized  
Officer)

Date: April 25 , 2012

By: /s/ JAMES J.  
ENNIS  
James J. Ennis  
Chief Financial  
Officer  
(Principal Financial  
and Accounting  
Officer)

