

CMG HOLDINGS, INC.  
Form 10-K  
April 21, 2011

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2010

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

Nevada (State or other jurisdiction of incorporation or organization)	87-0733770 (I.R.S. Employer Identification No.)
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5601 Biscayne Boulevard Miami, FL (Address of principal executive offices)	33137 (Zip Code)
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Registrant's telephone number including area code (305) 751-1667

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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



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 filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>	Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
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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 20, 2011, the aggregate market value of the Registrant's voting and none-voting common stock held by non-affiliates of the registrant was approximately: \$4,928,340 at \$0.07 price per share, based on the closing price on the OTC Pink Sheets. As of April 20, 2011, there were 70,404,855 common stock of the registrant issued and outstanding.

Documents Incorporated by Reference: None

CMG HOLDINGS, INC.

FORM 10-K

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## 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, Inc. and subsidiaries.

### ITEM 1: DESCRIPTION OF BUSINESS

#### THE COMPANY

##### Our Business

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

##### Overview

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

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 sponsorships division 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 division positions and leverages 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 division includes creating commercial rights opportunities, identifying sales targets and strategically selling commercial rights to maximize client revenues.

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 sports and 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 division secures, and negotiates electronic production, broadcast and syndication opportunities for our clients via network, cable television, radio and digital media.

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 division 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 marketing and communications services 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 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 professional talent, training and technology 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

## 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 clienta 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., 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.

AudioEye, Inc.

On March 31, 2010, The Company, acquired AudioEye, Inc. AudioEye has developed patented (one is U.S. patent number 7653544 as well as three additional pending patents) 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 who 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 provides an ideal solution for accessibility issues thus resulting in significant demand for AudioEye's patented solution.

## Business Model

The Company is currently focused on developing a comprehensive licensing strategy for the AudioEye's patented technology and is targeting Content Delivery Networks (CDN), website developers, and government Internet communications providers for product distribution and licensing activities. AudioEye is also pursuing patent applications under a family of patents entitled "System and Method for Audible Web Site Navigation" which includes additional mobile phone and breakthrough Really Simple Syndication (RSS) audio publishing capabilities. The Company aims to integrate this technology into its products and services to enable it to translate text to speech and speak to users in natural voices. The Company seeks to generate revenue streams from search advertising as a majority of Internet business flow through smart phones and other wireless devices in the future, which makes high quality voice services a critical component. With broad patent protection and surging market interest, Company is seeking to exploit this unique niche of the alternative marketing industry where internet searches would consist of the user stating a query; with the computer replying with options and helping the user refine his/her search by asking questions before the user locates what is wanted. AudioEye's patented solution also addresses social issues by attracting an underserved market, effectively addresses government legislation, and creates additional revenues for businesses. AudioEye's patented solution addresses social issues by attracting an underserved market, effectively addresses government legislation, and creates additional revenues for businesses. Assuming that management can effectively sign licensing deals and beneficial settlements or verdicts from patent infringement litigation could mean significant revenues and value for our shareholders.

## 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 75 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, organic revenues and profitability

## Business Model

In the sector of Talent Management, Creative Management Group Inc. Agency manages the careers of entertainment figures and personalities through a complete approach of management and representation to match entertainment brands with our clients specific. CMG manages their client throughout sectors of literary, television, media training, image marketing, endorsements, licensing, contract negotiations and speaking appearances. The company manages the careers of writers, directors and producers in packaging in scripted and non-scripted cable and syndicated television programming and guides up and coming talent to reach their full media potential. The Company represents successful personalities that reach the public in one medium by augmenting their reach to additional audiences via dedicated readers through book publishing. This critical philosophy is the basis of the literary ventures of the Company where they work with clients who are active in multiple media platforms such as television, film, finance, internet, and retail business to develop book properties that will build and enhance a client's brand. Drawing on their experience and expertise in television, finance, healthcare to develop successful book careers ranging Company collaborates with their clients to coordinate our clients the release of a book with an upcoming television project in order to turn a book publication into a multimedia event. The Company also leverages its insights into television programming and interactive media opportunities through collections of expert-content medical, healthcare, financial, fashion and entertainment-themed vignettes sponsored by advertisers and licensed to local television stations and to create compelling entertainment content that increases multi media traffic by attracting targeted consumer audiences. In the sector of Commercial Rights, the management of the Company has thirty year plus year track record of licensing and commercial rights success and expertise in a number of services, including corporate trademarks, brands, and entertainment and personality properties. The Company provides expert assistance in licensing brands that generate new revenue streams and build brand loyalty and also provides services including creative direction, strategy

development, relationship management among licensors and licensees, contract negotiation assistance or direct contract negotiation, marketing, merchandising and global sales representation, monitoring and analyzing results and license fee collections.

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## 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 Alloy Marketing, 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 w 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 services 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 some 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 19, 2011, the company and its subsidiaries have 23 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 in compliance with all regulations concerning the discharge of materials into the environment, and such regulations have not had a material effect on the capital expenditures or operations of the company.

## Company Organization

The legal office of the Company is located at 5601 Biscayne Boulevard, Miami Florida 33137 with our corporate telephone number (305) 751-1667. The Company also has marketing sales offices located at 875 North Michigan Avenue, Chicago, IL 60611 and 9070 Rita Road Tucson, AZ 85747

## 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.

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## 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.

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

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

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

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

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

Business exposed to the risk of client media account defaults

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

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

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

The results of operations are subject to currency fluctuation risks

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



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

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

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

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

On April 23, 2010, the Company entered into a Note Purchase Agreement with CMGO Investors, LLC, a Delaware limited liability company, providing for the sale and issuance of (i) \$125,000 of its 13% Senior Secured Convertible Extendible Notes due 2011 and (ii) warrants to purchase 625,000 shares of the Company's Common Stock. The Note bears interest at a rate of 13% per annum payable quarterly. The entire amount of the Note, together with all accrued but unpaid interest thereon, is due and payable in full on July 28, 2011; provided that, so long as there is no continuing Event of Default, the Company may in its sole discretion extend the Maturity Date for a period of three months by paying an extension fee equal to 5% of the principal amount of the outstanding Notes. In the event of Default on the Note, the Note shall bear interest at the rate per annum equal to 18%. The Notes rank senior in right of payment with all indebtedness of the Company, whether currently existing or issued in

the future. The Notes are secured by a security interest in all of the assets of the Company and the Company's subsidiaries pursuant to a Security Agreement and Subsidiary Guarantee. The Notes are convertible into shares of Common Stock of the Company at any time after the Maturity Date at an initial conversion price of \$0.10 per share. The warrants are exercisable for seven years at an exercise price of \$0.10 per share. The conversion price of the Notes and the exercise price of the warrants will be adjusted in connection with stock splits, dividends, mergers, reclassifications and similar transactions. In addition, if at any time the closing market price of the Common Stock is less than the conversion price or exercise price for a period of 90 consecutive trading days, then the conversion price or exercise price in effect shall be reduced to the closing market price of the Common Stock on such 90th trading day; provided that in no event shall the conversion price or exercise price be reduced to less than \$0.07 per share pursuant to this provision. The investors also received certain registration rights pursuant to a Registration Rights Agreement. In connection with this transaction, the Company paid the placement agent 10% of the gross proceeds and warrants to purchase 162,500 shares of Common Stock. The sale of securities discussed above was made solely to accredited investors and was exempt from registration under Section 4(2) and/or Rule 506 of Regulation D of the Securities Act of 1933, as amended.

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

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

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

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 "OTCBB"), it is more difficult (1) to obtain accurate quotations, (2) to obtain coverage for significant news events because major wire services generally do not publish press releases about such companies, and (3) to obtain needed capital. As a result, purchasers of the Company's common stock may have difficulty selling their shares in the public market, and the market price may be subject to significant volatility.

The Company's stock price may be volatile

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

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

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

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

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



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

The Company's certificate of incorporation does not contain any specific provisions that eliminate the liability of directors for monetary damages to the Company and the Company's stockholders; however, the Company is prepared to give such indemnification to its directors and officers to the extent provided by Nevada law. The Company may also have contractual indemnification obligations under its employment agreements with its executive officers. The foregoing indemnification obligations could result in the Company incurring substantial expenditures to cover the cost of settlement or damage awards against directors and officers, which the Company may be unable to recoup. These provisions and resultant costs may also discourage the Company from bringing a lawsuit against directors and officers for breaches of their fiduciary duties and may similarly discourage the filing of derivative litigation by the Company's stockholders against the Company's directors and officers even though such actions, if successful, might otherwise benefit the Company and its stockholders

#### ITEM 1B: UNRESOLVED STAFF COMMENTS

None.

#### ITEM 2: DESCRIPTION OF PROPERTY

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

Corporate

Our principal executive 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, 2010.

Sales, Marketing, Public Relations

We currently lease office space on a monthly basis, at the location of 875 North Michigan Avenue, Chicago, IL 60611 and 9070 Rita Road Tucson, AZ 85747

#### 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. On September 2, 2010, the Company became aware that it had been named as a Defendant in a lawsuit filed by a former employee in the United States District Court for the Southern District of Florida. The complaint alleges breach of employee contract and entitlement to additional equity in the Company. The Company disagrees with the allegations contained in the Complaint and intends to vigorously defend the matter and otherwise enforce its rights with respect to the matter. Although the Company has not been served with the lawsuit, the Company has retained counsel and is prepared to defend this lawsuit in the event that it is eventually served with process. The Company believes that all of the employee's claims are frivolous or are barred pursuant to the terms of the contract or various releases executed in favor of the Company by the employee. If served, the Company will seek damages against the former employee regarding breach of his employment agreement, his non-compete agreements and other causes of action. The case is still ongoing and the matter remains unresolved.

On April 20, 2011, the company became aware that on April 20, 2011, a lawsuit 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 yet to be served with legal process and is not yet obligated to respond to the complaint and therefore as of April 20, 2011 has not evaluated these claims or their merits.

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

None

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## 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 OTC Bulletin Board since October 2007. 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, 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
FISCAL YEAR ENDED DECEMBER 31, 2009		
First Quarter	0.20	0.03
Second Quarter	0.12	0.03
Third Quarter	0.15	0.04
Fourth Quarter	0.19	0.05

#### Holder of Shares of Common Stock

The Company has authorized 150,000,000 shares of common stock with a par value of \$.001 per share. As of April 19, 2011, the Company had 70,154,855 shares of common stock issued and outstanding. As of April 19, 2011, there were approximately 169 stockholders of record of our common stock. This does not reflect shares held beneficially or those shares 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.

#### Preferred Stock

The Company has 5,000,000 shares of preferred stock authorized with a par value of \$.001. As of December 31, 2010, the Company has no shares of preferred stock issued and 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.

## 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.

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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.

## 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, 2010 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, 2010. 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 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, Inc. was incorporated in Nevada in July 2004 under the name of Pebble Beach Enterprises, Inc. The Company has operated under the CMG Holdings, 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”, “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

### 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	196,590
Other assets	32,500
Accounts payable	(168,300)
Accrued liabilities	(1,964)
Patent	21,840
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.

Security Agreement with JT Ventures, LLC

On April 1, 2010, the Company paid \$125,000 to fully satisfy the outstanding note payable of \$100,000 and the cash fee due on January 1, 2010 to JTV pursuant to the Participation Agreement, Forbearance Agreement and Security Agreement. Since full payment was made prior to April 1, 2010, the cash fee due on such date was waived.



Year ended December 31, 2010 compared to the year ended December 31, 2009

#### Overview

We have been unprofitable in both Fiscal 2010, and Fiscal 2009, primarily as a result of start up expenses related to becoming a public entity, increased operating expenses related to the acquisitions of XA, The Experiential Agency and AudioEye, Inc. and the additional overhead operating expenses in advance of revenue that did not materialize.

#### Liquidity and capital resources

As of December 31, 2010 our cash on hand was \$13,695,, as compared to \$32,986 in fiscal year ended December 31, 2009.

#### Revenues

The Company had revenues of \$4,972,093 in our fiscal year ended December 31, 2010, as compared to \$3,527,493 in fiscal year ended December 31, 2009. The increase in revenues is mainly due to new business revenues generated in public relations, marketing services and event marketing consulting business for full year of operations of XA, The Experiential Agency, Inc. compared to nine months of operations during the previous year. Also, beginning in the second quarter of 2010, after the acquisition of AudioEye, Inc. the company started to generate and recognize revenues from this additional and new line of business.

#### Expenses

The Company had total operating expenses of \$5,674,094 in our fiscal year ended December 31, 2010, as compared to \$3,489,015 in fiscal year ended December 31, 2009. The increased in operating expense are due to to the Company recognizing additional expenses associated with the acquisition of AudioEye, Inc., increased overhead operating 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 \$4,191,682 in our fiscal year ended December 31, 2010, as compared to a net loss of \$1,672,494 in fiscal year ended December 31, 2009. The increased loss is due to recognizing additional expenses related to acquisition of AudioEye, Inc., increased operating expenses and overhead expense related to operating as a public company. The company also has full year expenses related to marketing services, public relations, consulting services as well as full year salaries, rent expense, production and administrative expenses regarding a twelve months of operating activity for XA, The Experiential Agency, Inc.

#### Capital Resources

At December 31, 2010, we had assets recorded at \$884,621, as compared to \$930,187 in fiscal year ended December 31, 2009. Assets in 2010 primarily consisting of cash of \$13,695, investments of \$49,006, accounts receivables of \$204,147, prepaid expenses of \$71,497, fixed assets of \$151,520 and intangible assets of \$394,756.

#### Liabilities

Our liabilities at December 31, 2010 totaled \$4,156,121, primarily consisting of \$3,951,243 of short term liabilities and \$204,878 of long term liabilities, as compared to a \$1,868,948 total liabilities balance in fiscal year ended

December 31, 2009.

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## 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, INC.  
FINANCIAL STATEMENTS  
FOR THE YEARS ENDED  
DECEMBER 31, 2010 AND 2009

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

Dear Board of Directors:

We have audited the accompanying consolidated balance sheets of CMG Holdings, Inc. (“the Company”) as of December 31, 2010 and 2009 and the related consolidated statements of operations, stockholders’ deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these 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 financial statements referred to above present fairly, in all material respects, the financial position of CMG Holdings, Inc. as of December 31, 2010 and 2009 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 20, 2011

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CMG HOLDINGS, INC  
CONSOLIDATED BALANCE SHEETS

	December 31, 2010	December 31, 2009
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash	\$ 13,695	\$ 32,968
Investments	49,006	
Accounts receivable	204,147	207,789
Prepaid and other	71,497	18,182
Total current assets	338,345	258,939
Property, plant and equipment, net of accumulated depreciation of \$56,357 and \$--, respectively	151,520	--
Intangible assets, net of accumulated amortization of \$522,082 and \$223,750, respectively	394,756	671,248
<b>TOTAL ASSETS</b>	<b>\$ 884,621</b>	<b>\$ 930,187</b>
<b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>		
<b>CURRENT LIABILITIES:</b>		
Client payable	\$ 11,317	\$ 11,317
Accounts payable	1,713,300	1,145,467
Accrued liabilities	868,454	360,328
Deferred compensation	39,319	19,600
Short term debt, net of unamortized discount of \$67,063 and \$11,010, respectively	1,007,937	113,990
Line of credit	183,478	175,746
Advances from related parties - current portion	127,438	42,500
<b>TOTAL CURRENT LIABILITIES</b>	<b>3,951,243</b>	<b>1,868,948</b>
Advance from related parties - long term	204,878	--
<b>TOTAL LIABILITIES</b>	<b>\$4,156,121</b>	<b>1,868,948</b>
<b>STOCKHOLDERS' DEFICIT</b>		
Preferred stock:		
5,000,000 shares authorized par value \$0.001 per share; none issued and outstanding	\$ --	\$ --
Common stock:		
150,000,000 shares authorized par value \$0.001 per share; 42,400,000 issued,; 38,207,626 and 31,726,518 shares outstanding respectively	58,167	38,208
Additional paid in capital	7,272,661	5,429,522
Treasury Stock, 4,192,374 and 10,673,482 shares held, respectively.	37	4,192
Accumulated deficit	(10,602,365)	(6,410,683)
<b>TOTAL STOCKHOLDERS' DEFICIT</b>	<b>(3,271,500)</b>	<b>(938,761)</b>

TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	\$	884,621	\$	930,187
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See accompanying notes to consolidated financial statements

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CMG HOLDINGS, INC  
CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31,	
	2010	2009
Gross revenues	\$ 4,972,093	\$ 3,527,493
Cost of revenue	2,702,047	1,386,392
Gross margin	2,270,046	2,141,101
Amortization expense	298,333	223,750
Operating expenses	5,674,094	3,489,015
Operating loss	(3,702,381)	(1,571,664)
Other income (expense)		
Bargain purchase gain	--	81,616
Gain on extinguishment of debt	--	19,565
Other	(72,294)	83,540
Interest expense	(417,007)	(285,556)
Interest income	--	5
Net loss	( \$ 4,191,682)	\$ (1,672,494)
Basic and diluted loss per common share	\$ (0.10)	\$ (0.05)
Basic and diluted weighted average common shares outstanding	43,828,538	33,035,120

See accompanying notes to consolidated financial statements

## CMG HOLDINGS, INC

## CONSOLIDATED STATEMENT OF CHANGE IN STOCKHOLDERS' DEFICIT

	Treasury Stock Shares	Par	Common Stock Shares	Par	Additional Paid in Capital	Accumulated Deficit	Total Shareholders' Deficit
Balances, December 31, 2008	10,673,482	\$ 10,673	31,726,518	\$ 31,727	\$ 4,449,863	\$ (4,738,189)	\$ (245,926)
Shares issued for services	(3,181,108)	(3,181)	3,181,108	3,181	337,626	-	337,626
Shares issued for cash	(3,300,000)	(3,300)	3,300,000	3,300	180,000	-	180,000
Warrants expense	-	-	-	-	143,999	-	143,999
Contribution capital for accrued salary forfeited by officers	-	-	-	-	318,034	-	318,034
Net loss	-	-	-	-	-	(1,672,494)	(1,672,494)
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	6,982	(6,982)	-	-
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	\$58,167	\$ 7,272,661	\$(10,602,365)	\$(3,271,500)
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See accompanying notes to consolidated financial statements.

## CMG HOLDINGS, INC

## CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,	
	2010	2009
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net loss	\$ (4,191,682)	\$ (1,672,494)
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock based compensation	557,874	337,626
Amortization of deferred financing costs	82,335	-
Amortization of intangible assets	298,333	223,750
Gain on extinguishment of debt	-	(19,565)
Amortization of debt discount	124,215	8,555
Realized loss on trading securities	23,474	-
Unrealized loss on trading securities	(72,757)	-
Warrant expense	-	143,999
Bargain purchase gain	-	(81,616)
Depreciation expense	56,357	-
Loss on write off of deposit	-	300,000
Changes in:		
Accounts receivable	19,819	1,580
Prepaid expense and other current assets	14,977	(18,182)
Deferred revenue	19,719	(751,645)
Accrued expense	1,585,920	288,003
Client payable	-	3,317
Accounts payable	364,767	1,115,691
Net cash used in operating activities	(1,116,649)	(120,981)
<b>CASH FROM INVESTING ACTIVITIES</b>		
Cash paid for purchase of fixed assets	(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	(250,000)
Net cash used in investing activities:	(5,294)	(250,000)
<b>FINANCING ACTIVITIES</b>		
Advances from related parties	84,938	42,500
Stock issued for cash	167,500	180,000
Net borrowings on line of credit	7,732	67,515
Proceeds from issuance of debt	1,075,000	100,000
Payments on debt	(125,000)	-
Payment of financing fees	(107,500)	-
Net cash provided by financing activities	1,102,670	390,015
Net increase (decrease) in cash	(19,273)	19,034

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Cash, beginning of year		32,968		13,934
<b>CASH BALANCE AT END OF YEAR</b>		<b>\$ 13,695</b>	<b>\$</b>	<b>32,968</b>
Supplemental cash flow information:				
Income tax paid		\$ --	\$	--
Interest paid		56,501		141,557
Non-Cash investing and financing:				
Acquisition of AudioEye		270,324		331,616
Conversion of accrued salaries to note payable		1,046,702		318,034
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		-
Cashless warrant exercises		6,982		-

See accompanying notes to consolidated financial statements.

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CMG HOLDINGS, 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, 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, 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.

Principles of Consolidation

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

### 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, 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, 2009, 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, 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.

### Cash and Cash Equivalents

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

### Property and Equipment

Property and equipment are stated at cost, net of accumulated depreciation and amortization. Depreciation and amortization is computed using the straight-line method over the estimated useful lives of the respective assets, which is generally five years. Depreciation expense was \$56,357 and \$0 for the years ended December 31, 2010 and December 31, 2009.

### 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 \$298,333 and \$223,750 for the years ended December 31, 2010 and December 31, 2009.

### 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. The Company recognized no impairment loss at December 31, 2010 or December 31, 2009.

### 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, 2010 and 2009, 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: 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.

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 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:

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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		196,590	
Other assets		32,500	
Accounts payable		(168,300)	)
Accrued liabilities		(1,964)	)
Patent		21,840	
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.

On March 6, 2009, the Company, through a newly formed wholly owned subsidiary CMGO Capital, Inc., a Nevada corporation, completed a Note Purchase Agreement with Bank of America to purchase the senior secured debt obligations of The Experiential Agency, Inc. The purchase price of the Note Purchase Agreement with Bank of America to purchase the senior secured debt obligations of The Experiential Agency, Inc. was a total of \$150,000. CMG also loaned The Experiential Agency, Inc. \$100,000 in March 2009 which has been accounted for as part of the purchase price. On April 1, 2009, CMG Holdings, Inc. foreclosed on the note and completed the acquisition of the assets of The Experiential Agency, Inc.

Unaudited pro forma operation results for the year ended December 31, 2010 and 2009, as though the Company had acquired Audio Eye and The Experiential Agency, Inc. on the first day of fiscal year 2009, are set forth below. The unaudited pro forma operating results are not necessarily indicative of what would have occurred had the transaction taken place on the first day of fiscal year 2009.

Pro Forma

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	For the year ended December 31	
	2010	2009
Revenues	\$ 5,041,795	\$ 4,201,416
Cost of revenues	(2,702,047)	(1,934,490)
Operating expenses	(6,106,558)	(3,960,651)
Other income (expense)	(489,301)	(607,410)
Net loss	\$ (4,256,111)	\$ (2,301,135)

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NOTE 3: NOTES PAYABLE

Security Agreement – JT Ventures, LLC:

On April 1, 2010, the Company paid \$125,000 to fully satisfy the outstanding note payable of \$100,000 and the cash fee due on January 1, 2010 to JTV pursuant to the Participation Agreement, Forbearance Agreement and Security Agreement. Since full payment was made prior to April 1, 2010, the cash fee due on such date was waived.

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.

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 20, 2011, the Company has not delivered to the purchaser the aforementioned information under a) or notice under b). As of April 20, 2011, 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.

#### NOTE 4: RELATED PARTY TRANSACTIONS

The company shares an office space with a law firm whose owners are the principal owners of the company. The company paid the law firm for the related expenses incurred by the company.

From time to time the company borrows money from its officers. These advances from the officers bear no interest and they are due on demand. As of December 31, 2010, the Company owes \$332,316 as related party debt to three officers. There were a total of related party payables of \$42,500 due to the officers at December 31, 2009.

On January 1, 2010, the Company and its executive management entered into employment agreements, effective up to 2016, regarding base salary compensation, incentive bonus consideration and expense reimbursement. The agreements provide for the deferral of payment of a portion of the annual base salary until such time that the Company has sufficient working capital, but in no case later than December 31, 2012. The agreements also provide that the bonus consideration and expense reimbursement shall be earned upon achievement of certain performance conditions. The executives have the option to convert the deferred base salary and any incentive bonuses and expense reimbursements earned to common stock at a conversion price that is based on the one hundred eighty (180) day average closing price of the Company's stock prior to the conversion. On May 19, 2010, the above agreements were amended to reflect a conversion price that will be based on the one hundred and eighty (180) day average closing price of the Company stock prior to the conversion but not to exceed \$1.00 or below \$0.10. On September 30, 2010 the Company and its executive management entered into a deferred salary conversion agreement regarding 2010 salary payables and 2009 deferred salary payables consideration in order to assist with the working capital needs of the Company. The Company and its executive management agreed that the salary payables and deferred salary payables of \$859,202 will be converted into a note payable due to the executives on March 31, 2012 which carries an interest rate of 1% and is unsecured. In the event the Company has sufficient working capital to operate, the Company agreed to pay the executives an amount not to exceed 25% of the Note Payable during any quarterly period through maturity. The notes are convertible by the executives at the average closing price of the Company stock from January 1, 2010 through September 30, 2010 which was \$0.057 per share. The executives have agreed to amend the agreements to increase the interest rate to a market rate and increase the conversion price to the closing price at September 30, 2010. On December 31, 2010 the Company and its executive management entered into a deferred salary conversion agreement regarding 2010 salary payables consideration in order to assist with the working capital needs of the Company. The Company and its executive management agreed that the salary payables and deferred salary payables of \$187,500 will be converted into a note payable due to the executives on March 31, 2012 which carries an interest rate of 1% and is unsecured. In the event the Company has sufficient working capital to operate, the Company agreed to pay the executives an amount not to exceed 25% of the Note Payable during any quarterly period through maturity. The notes are convertible by the executives at the average closing price the conversion price to the closing price at December 31, 2010.

## NOTE 5: 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, 2010 and 2009 was \$183,478 and \$175,746, respectively. The credit line carries an annual interest rate equivalent to the bank's prime rate.

## NOTE 6: 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 \$6,851,213 at December 31, 2010, and will begin to expire in 2027.

At December 31, 2010 and 2009, deferred tax assets consisted of the following:

	2010	2009
Deferred tax assets due to net operating loss carry forward	2,397,924	1,070,000
Valuation allowance	(2,397,924 )	(1,070,000)
Net deferred tax assets	-	-

## NOTE 7: EQUITY

## Common Stock:

During the year ended December 31, 2009:

3,300,000 shares were issued from the shares held in reserve held by CMG Acquisition, Inc. for cash amounting to \$180,000. 3,181,108 shares were issued from the shares held in reserve held by CMG Acquisition, Inc. for services provided by third parties valued at \$337,626.

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 over a period of one year 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.

## Common Stock Warrants:

During the year ended December 31, 2009, 2,400,000 warrants were issued to JT Ventures, LLC in connection with the Participation / Forbearance Agreements. During the year ended December 31, 2010, the Company borrowed \$1,075,000 under five 13% Senior Secured Convertible Extendible Notes from third parties. 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. 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 warrants have an exercise price of \$0.10 per share and a term of 7 years.

## NOTE 8: COMMITMENTS AND CONTINGENCIES

The company entered into three executive employment agreements in 2010, effective January 1, 2010, end in 2016. In 2009, the Company entered into a sublease to operate an additional office at 640 West 28th Street, New York, NY 10021, 875 North Michigan Avenue, Chicago, IL 60611 and 9070 Rita Road Tucson, AZ 85747. The company guarantees this lease. For the years ended December 31, 2010 and 2009, the company incurred rent expense of \$497,851 and \$337,762, respectively.

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

2011	\$ 477,303
2012	414,581
2013	347,789
2014	358,223
2015	369,215
Thereafter	93,001
	\$2,060,112



NOTE 9: WARRANTS – CONVERSION:

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.

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 10: 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 July 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.

NOTE 11: SEGMENTS

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

Twelve months ended  
December 31,