CMG HOLDINGS, INC.
Form 10-Q
November 22, 2010

QUARTELY REPORT SEPTEMBER 30, 2010

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

FORM 10-Q

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

For the quarter ended September 30, 2010

Commission file number 000-51770

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.)
5601 Biscayne Boulevard Miami, Florida, USA (Address of principal executive offices)	33137 (Zip Code)

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

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

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

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

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

As of November 22, 2010, there were 63,525,662 common stock of the registrant issued and 63,468,488 shares outstanding.

CMG HOLDINGS, INC.
FORM 10-Q

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PART I

ITEM 1: CONSOLIDATED FINANCIAL STATEMENTS

CMG HOLDINGS, INC.
UNAUDITED FINANCIAL STATEMENTS

FOR THE QUARTER ENDED SEPTEMBER 30, 2010 AND 2009

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CMG HOLDINGS, INC
CONSOLIDATED BALANCE SHEETS
(unaudited)

	September 30, 2010	December 31, 2009
ASSETS		
CURRENT ASSETS:		
Cash	$ 151,755	$ 32,968
Accounts receivable, net of allowance for doubtful accounts of $105,673 and $0, respectively	373,318	207,789
Marketable trading securities	136,750	--
Non marketable investments available for sale	658,142	--
Prepaid and other current assets	122,530	18,182
Deferred financing fees, net of accumulated amortization of $51,509 and $0, respectively	99,118	--
Total current assets	1,541,613	258,939
Property and equipment, net of accumulated depreciation of $20,802 and $0, respectively	284,872	--
Intangible assets, net accumulated amortization of $447,499 and $223,750 respectively	447,499	671,248
TOTAL ASSETS	$ 2,273,984	$ 930,187
LIABILITIES AND STOCKHOLDERS' DEFICIT		
CURRENT LIABILITIES:		
Client payable	$ 11,317	$ 11,317
Accounts payable	1,270,571	1,145,467
Accrued liabilities	182,092	360,328
Deferred revenue	95,626	19,600
Short term debt, net of unamortized discount of $0 and $11,010 respectively	--	113,990
Line of credit	182,064	175,746
Advances from related parties	127,438	42,500
Total current liabilities	1,869,288	1,868,948
Long-term debt, net of unamortized discount of $95,980	1,838,222	--
Deferred revenue	637,023	--
TOTAL LIABILITIES	4,344,533	1,868,948
STOCKHOLDERS' DEFICIT		
Preferred stock:		
5,000,000 shares authorized par value $0.001 per share; none issued outstanding	--	--
Common stock:		
150,000,000 shares authorized, par value $0.001 per share; 42,400,000 issued 42,362,826 and 38,207,626 shares outstanding respectively	42,363	38,208
Additional paid in capital	5,786,620	5,429,522
Treasury stock, 37,174 and 4,192,374 shares held, respectively.	37	4,192

Accumulated deficit	(7,899,569)	(6,410,683)
TOTAL STOCKHOLDERS' DEFICIT	(2,070,549)	(938,761)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	$ 2,273,984	$ 930,187

See accompanying notes to consolidated financial statements

CMG HOLDINGS, INC
CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009 (Restated)	2010	2009 (Restated)
Revenues	$ 1,005,237	$ 933,742	$ 3,859,490	$ 2,991,493
Cost of revenues	297,663	155,160	1,735,964	609,160
Gross profit	707,574	778,582	2,123,526	2,382,333
Operating expenses	1,650,557	757,584	3,773,338	2,349,875
Operating income (loss)	(942,983)	20,998	(1,649,812)	32,458
Other income (expense)				
Unrealized gain (loss) on marketable trading securities	13,500	--	3,500	--
Realized loss on trading securities	(23,474)	--	(23,474)	--
Bargain purchase gain	--	--	405,759	81,616
Gain on Extinguishment of Debt	--	--	--	19,565
Interest expense	(144,708)	(485,528)	(224,908)	(615,857)
Interest income	--	9,255	49	61,562
Net income (loss)	$ (1,097,665)	$ (455,275)	$ (1,488,886)	$ (420,656)
Basic and diluted loss per common share	$ (0.03)	$ (0.01)	$ (0.04)	$ (0.01)
Basic and diluted weighted average common shares outstanding	42,355,761	32,638,474	40,775,906	32,033,844

See accompanying notes to consolidated financial statements

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CMG HOLDINGS, INC

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Nine Months Ended September 30, 2010	2009 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	$ (1,488,885)	$ (420,656)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Bargain purchase gain	(405,759)	(81,616)
Shares issued for services	101,040	--
Amortization of intangible assets	223,749	149,167
Gain on Extinguishment of Debt	--	(19,565)
Revenue for receipt of securities	(103,301)	--
Amortization of deferred financing fees	51,509	--
Warrant expense	--	425,000
Amortization of debt discount	57,961	40,857
Depreciation expense	20,802	--
Realized (gain) loss on trading securities	23,474	--
Unrealized (gain) loss on marketable trading securities	(3,500)	--
Changes in operating assets and liabilities:		
Accounts receivable	30,590	(410,934)
Prepaid expense and other current assets	(104,348)	(10,366)
Deferred revenue	1,208	(771,245)
Accrued liabilities	--	397,846
Client payable	679,002	129,817
Accounts payable	106,784	672,157
Net cash provided by (used) by operating activities	(809,675)	100,462
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed assets	(11,287)	--
Cash for sale of marketable securities	32,776	--
Acquisition of Audio Eye, Inc., net of cash received	(26,783)	--
Cash paid to acquire a bank loan	--	(250,000)
Net cash used in investing activities	(5,294)	(250,000)
CASH FLOWS FROM FINANCING ACTIVITIES		
Advances from related parties	84,938	25,000
Net borrowings on line of credit	6,318	55,763
Proceed from issuance of debt	1,075,000	100,000
Stock for cash	--	80,000
Payment of financing fees	(107,500)	--
Payments of debt	(125,000)	--
Cash provided by financing activities	933,756	260,763
Net increase in cash	118,787	111,225
Cash, beginning of year	32,968	13,934
Cash end of the year	$ 151,755	$ 125,159

Supplemental cash flow information:		
Interest paid	$ 16,307	$ --
Income taxes paid	--	--
Non-cash investing activity:		
Acquisition of Audio Eye, Inc	$ 523,006	$ --
Assets acquired after foreclosing on bank loan	--	331,616
Securities received for deferred revenue	732,642	--
Conversion of accrued salaries to long term notes payable	859,202	--
Warrants issued recorded as debt discount	142,931	--
Warrants issued recorded as deferred financing cost	43,127	--

See accompanying notes to consolidated financial statements

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

NOTE 1 – BASIS OF PRESENTATION

The accompanying unaudited interim consolidated financial statements of CMG Holdings, Inc. (the "Company") have been prepared in accordance with accounting principles generally accepted in the United States of America and the rules of the Securities and Exchange Commission, and should be read in conjunction with the audited financial statements and notes contained in its 2009 annual report on Form 10-K. In the opinion of management, these interim financial statements include all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of financial position and the results of operations for the interim periods presented have been reflected herein. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year. Our future results of operations may change materially from the historical results of operations reflected in our historical financial statements. The unaudited consolidated financial statements should be read in conjunction with the historical audited consolidated financial statements and footnotes of the Company and management's discussion and analysis of financial condition and results of operations included in the Company's Annual Report for the year ended December 31, 2009 as filed with the Securities and Exchange Commission on Form 10-K. Notes to the financial statements that would substantially duplicate the disclosure contained in the audited financial statements for fiscal year 2009, as reported in the Form 10-K, have been omitted.

Formation of Empire Technologies, LLC

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 September 30, 2010.

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.

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. and Creative Management Group, Inc. after elimination of all significant inter-company accounts and transactions.

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.

NOTE 2 – RESTATEMENTS

In the third quarter of fiscal 2009, the Company's management determined that $100,000 of notes payable with 1 million warrants attached to the notes were not recorded during the six months ended June 30, 2009. The note matured on June 15, 2009 and additional $50,000 in fees and 400,000 warrants were issued to the note holder as of June 30, 2009 but not timely recorded as originally filed. The adjustment to correct the above resulted in an increase in liability of $150,000 to record the notes and fees, $57,500 in additional paid-in-capital to record the fair value of the 1.4 million warrants and $107,500 in interest expense.

In the fourth quarter of fiscal 2009, the Company's management determined that there were errors in the accounting for the acquisition of XA The Experiential Agency, Inc, which resulted in the overstatement of intangibles, leasehold improvements, amortization related to the intangibles and leaseholder improvements and the bargain purchase gain.

Therefore, the Company is adjusting its previously reported September 30, 2009 consolidated statements of operations and cash flows in this September, 2010 quarterly filing. The following tables reflect the impact of the above errors to the consolidated statements of operations for the three and nine months ended September 30, 2009:

Consolidated Statements of Operations	Nine months ended September 30, 2009		
	As Previously Reported	Adjustments	As Adjusted
Revenues	$ 2,991,493	$ --	$ 2,991,493
Cost of revenues	609,160	--	609,160
Gross profit	2,382,333	--	2,382,333
Operating expenses	2,413,536	(63,661)	2,349,875
Operating income (loss)	(31,203)	(63,661)	32,458
Other income (expense)			
Bargain purchase gain	904,886	(823,270)	81,616
Gain on extinguishment of debt	19,565	--	19,565
Interest expense	(615,857)	--	(615,857)
Interest income	61,562	--	61,562
Net income (loss)	$ 338,953	$ (759,609)	$ (420,656)
Basic and diluted income (loss) per common share	$ 0.01	$ (0.02)	$ (0.01)
Basic weighted average common shares outstanding	32,033,844	--	32,033,844

Consolidated Statements of Operations	Three months ended September 30, 2009		
	As Previously Reported	Adjustments	As Adjusted
Revenues	$ 933,742	$ --	$ 933,742
Cost of revenues	155,160	--	155,160
Gross profit	778,582	--	778,582
Operating expenses	788,317	(30,733)	757,584
Operating income (loss)	(9,735)	30,773	20,998
Other income (expense)			
Bargain purchase gain	--	--	--
Gain on extinguishment of debt	19,565	(19,565)	--
Interest expense	(508,357)	22,829	(485,528)
Interest income	9,255	--	9,255
Net income (loss)	$ (489,272)	$ 43,252	$ (455,275)
Basic and diluted income (loss) per common share	$ (0.01)	$ (0.00)	$ (0.01)

NOTE 3: ACQUISITIONS

On March 31, 2010, 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.

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)		60,000
Warrants to purchase common stock (3)		10,000
Contingent consideration (4)		-
Total consideration	$	100,000
Recognized amount of identifiable assets acquired and liabilities assumed :		
Cash	$	3,217
Accounts receivable		196,119
Property and equipment		294,387
Other assets		32,500
Accounts payable		(18,500)
Accrued liabilities		(1,964)
Total identifiable net assets and liabilities assumed	$	505,759
Bargain purchase gain (5)	$	405,579

(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.

(5) The amount of bargain purchase gain recognized is provisional pending receipt of the final valuation of all identifiable assets acquired.

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 nine months ended September 30, 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 take place on the first day of fiscal year 2009.

	Pro Forma Nine months ended September 30	
	2010	2009
Revenues	$ 3,929,391	$ 3,393,202
Cost of revenues	(1,735,964)	(674,521)
Operating expenses	(3,812,959)	(2,527,752)
Other income (expense)	160,926	(453,114)
Net loss	$ (1,458,606)	$ (262,185)

NOTE 4: DEBT

During nine months ended September 30, 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 September 30, 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 nine months ended September 30, 2010 was $46,951. 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 nine months ended September 30, 2010 was $51,509. We analyzed the convertible note and warrants issued for derivative accounting consideration and determined that derivative accounting is not applicable for these instruments.

On April 1, 2010, the Company fully paid its $125,000 loan to JT Ventures, LLC.

NOTE 5: EQUITY

Common Stock:

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. 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 1 year and were valued at $19,871. The Company recognized share-based compensation cost for the nine months ended September 30, 2010 of $8,280, leaving $11,591 in unrecognized cost.

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.

Warrants:

During the nine months ended September 30, 2010, 250,000 warrants were issued in connection with the acquisition of Audio Eye and 6,772,500 warrants were issued in connection with the 13% Senior Secured Convertible Extendible Notes. See Notes 3 and 4 for details on the valuation of these warrants.

A summary of warrant activity for the nine months ended September 30, 2010 is as follows:

	Outstanding and Exercisable	Weighted Average Exercise Price
December 31, 2009	2,400,000	$ 0.01
Granted	7,022,500	$ 0.10
Exercised	-	-
Forfeited	-	-
September 30,2010	9,442,500	$ 0.08

The warrants have a weighted average remaining life of 6.2 years and an aggregate intrinsic value of $197,000.

NOTE 6: RELATED PARTY TRANSACTIONS

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 a 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.

Related parties advanced the Company $84,938 for working capital purposes during the nine months ended September 30, 2010.

NOTE 7: 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.

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
Revenue:				
Event marketing	$ 590,117	$ 790,733	$ 2,944,868	$ 2,282,954
Commercial rights	$ 119,777	$ -	$ 187,243	$ -
Consulting services	295,343	143,009	727,379	708,539
Total	$ 1,005,237	$ 933,742	$ 3,859,490	$ 2,991,493
Operating income (loss)				
Event marketing	$ (407,095)	$ 280,130	$ (953,084)	$ (133,466)
Commercial rights	$ (153,411)	$ -	$ (513,192)	$ -
Consulting services	(382,477)	(259,132)	(183,536)	165,923
Total	$ (942,983)	$ 20,998	$ (1,649,812)	$ 32,458

Assets	September 30, 2010	December 31, 2009
Event marketing	$ 1,056,149	$ 910,741
Commercial rights	1,022,589	--
Consulting services	195,246	19,446
Total	$ 2,273,984	$ 930,187

NOTE 8 - FAIR VALUE MEASUREMENTS AND INVESTMENTS

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

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

hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurement).

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

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

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

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

The following table sets forth by level within the fair value hierarchy the Company's financial assets and liabilities that were accounted for at fair value as of September 30, 2010. As required by ASC 820, financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels.

	Level 1	Level 2	Level 3	Total
Marketable trading securities	$136,750	$-	$-	$136,750
Non marketable investments available for sale	-	-	658,142	658,142
	$136,750	$-	$658,142	$794,892

Securities and Investments

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

Details of the Company's marketable trading securities as of September 30, 2010 are as follows:

Aggregate fair value	$136,750
Gross unrealized holding gains	-
Gross unrealized holding losses	3,500
Proceeds from sales	$32,776
Gross realized gains	-
Gross realized losses	23,474
Other than temporary impairment	-

NOTE 9 – SECURITIES RECEIVED FOR REVENUE TRANSACTIONS

The Company received equity holdings in other companies in the following transactions:

a. During the three months ended September 30, 2010, Audio Eye completed a licensing transaction with Roth Kline Inc., an organization that will be creating an Interactive Talking Coupon utilizing Audio Eye's technology. Audio Eye in exchange for the licensing its technology received a 19.5% equity ownership position of Roth Kline as well as 2.5% licensing royalty on gross revenues of Roth Kline. Roth Kline is currently a privately held company. The Company recorded the non marketable investment at its fair value of $658,142 and is accounting for the investment using the cost method. The license expires at the expiration of the patents associated with the license therefore the revenue is being recognized over the life of the license for which 154 months remains at September 30, 2010. $16,662 was recognized in the three and nine months ended September 30, 2010 with $641,480 deferred as of September 30, 2010.
b. During the three months ended September 30, 2010, CMG signed a branding agreement with XenaCare Holdings, Inc. ("XEN"), and the Company received 500,000 shares of XEN. XEN is publicly traded. The Company recorded the marketable securities at their fair value of $74,500. The agreement is for three years therefore the revenue is being recognized over the life of the agreement. $4,139 was recognized in the three and nine months ended September 30, 2010 with $70,361 deferred as of September 30, 2010.
c. In 2007, CMG signed a consulting agreement with XEN and the Company was to receive 330,000 shares of XEN. Due to concerns over collectability in 2007, the Company did not recognize revenue related to this agreement. The Company received the shares in the three months ending September 30, 2010. The Company recorded the marketable securities at their fair value of $82,500. The services under the agreement were previously performed therefore the entire amount of revenue is being recognized in the three month period ended September 30, 2010 with $0 deferred as of September 30, 2010.

NOTE 10: SUBSEQUENT EVENTS

The Company has evaluated events and transactions that occurred subsequent to September 30, 2010, for possible disclosure or recognition in the consolidated financial statements. The Company has determined that there were events or transactions that warrant disclosure or recognition in the consolidated financial statements.

Audio Eye – Empire Technologies, LLC

Subsequent to September 30, 2010, Audio Eye and LVS through their Joint Venture company, Empire, completed a five year licensing transaction of its technology to Vail School District in Arizona, related to the use of Audio Eye's technology within a technology product, The Bio Metric Display System (BDS). Audio Eye CEO Nathaniel Bradley is a named inventor on a provisional application filed with the United States Patent Office (USPTO) along with LVS Health Innovations CEO, Richard Francis. The Bio Metric Display System (BDS) technology will provide students and parents within public, private, technology, and other schools to access a "3D Talking Avatar" display of their own overall health and wellness. In exchange for licensing its technology, Empire will receive Thirty (30%) percent of net profits from the sale, lease or licensing of products related to the license.

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 773,438 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.

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 shall be delivered to CMGO Investors, LLC, and five-percent (5%) of the InterMerchant Escrow Shares shall be delivered to InterMerchant.

Shares for Services and for Working Capital

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.

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

FORWARD LOOKING STATEMENTS

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

RESULTS OF OPERATIONS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009

Gross revenues increased from $2,991,493 for the nine months ended September 30, 2009 to $3,859,490 for the nine months ended September 30, 2010. The increase in revenues is mainly due to the revenues generated from the event marketing, public relations, consulting business of, The Experiential Agency, Inc ("XA"), a wholly-owned subsidiary acquired in the second quarter of 2009 that has build up new business pipeline of new clients. The increase in revenues also includes revenues from new business generated from licensing of the patented technology from the Audio Eye, Inc. a wholly-owned subsidiary acquired in 2010.

Cost of revenues increased from $609,160 for the nine months ended September 30, 2009 to $1,735,964 for the nine months ended September 30, 2010. The increase is related to the increase in the revenues which is mainly due to the new business generated from the event marketing, public relations, consulting business of The Experiential Agency, Inc. ("XA"), a wholly-owned subsidiary acquired in the second quarter of 2009 that has build up new business pipeline of new clients.

Operating expenses increased from $2,349,875 for the nine months ended September 30, 2009 to $3,773,338 for the nine months ended September 30, 2010. The increase in operating expenses is mainly due to increased personnel, marketing, professional fees and operations from the event marketing, public relations, consulting business of XA, bad debt expenses and includes additional operating expenses from months of activity from the inclusion of the purchase of Audio Eye, Inc. a wholly-owned subsidiary acquired in 2010

The net loss for the nine months ended September 30, 2009 is $420,656 which increased to a net loss of $1,488,886 for the nine months ended September 30, 2010. This is mainly due to the increase in the legal expenses pertaining to the acquisition of Audio Eye, Inc., bad debt expenses, operating expenses regarding the lead generation related to new business pipeline of new clients in the sectors of internet accessibility, licensing, and interactive marketing.

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009

Gross revenues increased from $933,742 for the three months ended September 30, 2009 to $1,005,237 for the three months ended September 30, 2010. The decrease in revenues is mainly due to the delay in the generation of new business related to Creative Management Group and the implementation activity of new business associated with the purchase of Audio Eye, Inc. The new business for Audio Eye is forecasted to be reflective into the remainder of the calendar year. The decrease in revenues generated is offset from the event marketing, public relations, consulting business of, The Experiential Agency, Inc. a wholly-owned subsidiary acquired in the second quarter of 2009 that has build up new business pipeline of new clients.

Cost of revenues increased from $155,160 for the three months ended September 30, 2009 to $297,663 for the three months ended September 30, 2010. The increase is mainly due to the new business generated from the event marketing, public relations, consulting business of The Experiential Agency, Inc, a wholly-owned subsidiary acquired in the second quarter of 2009 that has build up new business pipeline of new clients. The increase in cost of revenue also includes three months of activity of new business generation regarding the purchase of Audio Eye, Inc forecasted to generate revenues into the remainder of the calendar year.

Operating expenses increased from $757,584 for the three months ended September 30, 2009 to $1,650,557 for the three months ended September 30, 2010. The decrease in operating expenses is mainly due to decreased personnel for Creative Management Group and reduced marketing, professional fees at public relations, consulting business of XA. This decrease in operating expenses are offset by the inclusion of additional personnel from the purchase of Audio Eye, Inc.

The net loss increased from $455,275 for the three months ended September 30, 2009 to a net loss of $1,097,665 for the three months ended September 30, 2010. This is mainly due to the decrease in revenues due to delay in implementation activity of new business associated with the purchase of Audio Eye, Inc. and the delay in the generation of new business related to Creative Management Group. The new business for Audio Eye and Creative Management is forecasted to be reflected in the remainder of the calendar year. The decrease in net income generated is offset by the event marketing, public relations, consulting business of, The Experiential Agency, Inc. (“XA”), a wholly-owned subsidiary acquired in the second quarter of 2009 that has build up new business pipeline of new clients.

LIQUIDITY AND CAPITAL RESOURCES:

As of September 30, 2010, the Company’s cash balance was $151,755.

Cash provided by operations for the nine months ended September 30, 2009 was $100,462, as compared to cash used in operations of $809,675 for the nine months ended September 30, 2010. This change is primarily due to amortization of intangible assets, shares issued for services, and increase in accrued expenses due to increased operating expenses resulting from increased personnel and operations from the event marketing, public relations, and consulting business of XA and the purchase of the business operations of Audio Eye, Inc.

Cash used in investing activities for the nine months ended September 30, 2009 was $250,000, as compared to cash used in investing activities of $5,294 for the nine months ended September 30, 2010. For the nine months ended September 30, 2009, the Company incurred $250,000 for the acquisition of assets of XA to obtain a note receivable

from a financial institution and for the nine month ended September 30, 2010, the incurred $30,000 for to acquisition of Audio Eye, Inc. and purchase of fixed assets of $11,287 and cash received of $3,217 resulted from the acquisition of Audio Eye, Inc.

Cash provided by financing activities for the nine months ended September 30, 2009 was $260,763, as compared to $933,756 provided for the nine months ended September 30, 2010. In 2009, the Company borrowed $20,750 from its line of credit and also borrowed $25,000 from one of the management executives. In 2010, the Company secured a total of five 13% Senior Secured Convertible Extendible Notes from third parties totaling $1,075,000, for the purchase of Audio Eye, Inc. and for working capital purposes.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth as of November 22, 2010, information with respect to the beneficial ownership of the Company's Common Stock by (i) each person known by the Company to own beneficially 5% or more of such stock, (ii) each Director of the Company who owns any Common Stock, and (iii) all Directors and Officers as a group, together with their percentage of beneficial holdings of the outstanding shares. The information presented below regarding beneficial ownership of our voting securities has been presented in accordance with the rules of the Securities and Exchange Commission and is not necessarily indicative of ownership for any other purpose. Under these rules, a person is deemed to be a "beneficial owner" of a security if that person has or shares the power to vote or direct the voting of the security or the power to dispose or direct the disposition of the security. A person is deemed to own beneficially any security as to which such person has the right to acquire sole or shared voting or investment power within 60 days through the conversion or exercise of any convertible security, warrant, option or other right. More than one person may be deemed to be a beneficial owner of the same securities. The percentage of beneficial ownership by any person as of a particular date is calculated by dividing the number of shares beneficially owned by such person, which includes the number of shares as to which such person has the right to acquire voting or investment power within 60 days, by the sum of the number of shares outstanding as of such date plus the number of shares as to which such person has the right to acquire voting or investment power within 60 days. Consequently, the denominator used for calculating such percentage may be different for each beneficial owner. Except as otherwise indicated below and under applicable community property laws, we believe that the beneficial owners of our common stock listed below have sole voting and investment power with respect to the shares shown.

SECURITY OWNERSHIP OF MANAGEMENT:

Title of Class	Name	Shares	Percent
Common Stock	Alan Morell	10,107,000	15.91%
Common Stock	James J. Ennis	3,500,000	5.51%
Common Stock	Michael Vandetty	1,000,000	1.57%
All Directors and Executive Officers		14,607,700	22.99%

These tables are based upon 63,525,662 shares outstanding as of November 22, 2010 and information derived from our stock records. Unless otherwise indicated in the footnotes to these tables and subject to community property laws where applicable, we believe unless otherwise noted that each of the shareholders named in this table has sole or shared voting and investment power with respect to the shares indicated as beneficially owned.

(1) Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission and includes voting and investment power with respect to shares. Unless otherwise indicated, the persons named in the table have sole voting and sole investment control with respect to all shares beneficially owned, subject to community property laws where applicable. The number and percentage of shares beneficially owned are based on 63,525,662 shares of common stock outstanding. The address for those individuals for which an address is not otherwise indicated is: c/o CMG Holdings, Inc., 5601 Biscayne Boulevard, Miami, Florida 33137, USA.

(2) Mr. Morell owns 3,500,000 shares of The Company directly, and is the beneficial owner of additional 6,607,000 shares owned by Commercial Rights Intl Corp. for a total of 10,107,000 shares.

(3)

Mr. Ennis owns 1,500,000 shares of The Company directly, and is the beneficial owner of an additional 2,000,000 shares owned by Hastings Creek Group, Inc. for a total of 3,500,000 shares.

ITEM 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK FACTORS

RISKS RELATED TO OUR BUSINESS

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

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

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

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

COMPETITION FOR CLIENTS IN HIGHLY COMPETITIVE INDUSTRIES

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

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

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

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

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

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

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

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

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

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

BUSINESS EXPOSED TO THE RISK OF CLIENT MEDIA ACCOUNT DEFAULTS

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

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

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

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 35% 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.

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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 2009 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.

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

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

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

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

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

ITEM 4: CONTROLS AND PROCEDURES

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

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

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

No change in the Company's internal control over financial reporting occurred during the nine months ended September 30, 2010, that materially affected, or is reasonably likely to materially affect, the Company s internal control over financial reporting.

PART II

ITEM 1 – LEGAL PROCEEDINGS

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

ITEM 1A – RISK FACTORS

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

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

CAPITAL INVESTMENT CMGO INVESTORS, LLC.

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

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ITEM 3 – DEFAULT UPON SENIOR SECURITIES

None

ITEM 4 – SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None

ITEM 5 – OTHER INFORMATION

None

ITEM 6 – EXHIBITS

Exhibit No.	Document Description
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended.
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended.
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350 as adopted Pursuant to Section 906 of the Sarbanes Oxley Act of 2002.
32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350 as adopted Pursuant to Section 906 of the Sarbanes Oxley Act of 2002.

Reports on Form 8-K:

SIGNATURES

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

CMG HOLDINGS, INC.
(Registrant)

Date: November 22, 2010

By: /s/ ALAN MORELL
Alan Morell
Chief Executive Officer and Chairman of the Board

Chief Executive Officer and Chairman of the Board

Date: November 22, 2010

By: /s/ JAMES J. ENNIS
James J. Ennis
Chief Financial Officer and Director

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

SIGNATURE	NAME	TITLE	DATE
/s/Alan Morell	Alan Morell	CEO & Chairman of the Board	November 22, 2010
/s/James I. Ennis	James I. Ennis	CFO & Director	November 22, 2010