

CMG HOLDINGS, INC.
Form 10-Q
May 21, 2010

QUARTELY REPORT MARCH 31, 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 March 31, 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 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

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

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As of May 21, 2010, there were 42,400,000 common stock of the registrant issued and 40,057,626 shares outstanding.

CMG HOLDINGS, INC.
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32.2 SECTION 906 CERTIFICATION OF CHIEF FINANCIAL OFFICER

PART I

ITEM 1 FINANCIAL STATEMENTS

CMG HOLDINGS, INC.
UNAUDITED FINANCIAL STATEMENTS

FOR THE QUARTER ENDED MARCH 31, 2010 AND 2009

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CMG HOLDINGS, INC
CONSOLIDATED BALANCE SHEETS
(unaudited)

March 31, 2010

December 31, 2009

ASSETS

CURRENT ASSETS:

Cash	\$	279,050	\$	32,968
Accounts receivable		441,283		207,789
Prepaid and other current assets		15,182		18,182
Total current assets		735,515		258,939
Property and equipment		294,387		--
Intangible assets, net accumulated amortization of \$298,333 and \$223,750, respectively		596,665		671,248
Other assets		32,500		--
TOTAL ASSETS	\$	1,659,067	\$	930,187

LIABILITIES AND STOCKHOLDERS' DEFICIT

CURRENT LIABILITIES:

Client payable	\$	11,317	\$	11,317
Accounts payable		1,459,323		1,145,467
Accrued liabilities		587,427		360,328
Deferred revenue		-		19,600
Short term debt, net of unamortized discount of \$5,610 and \$11,010, respectively		119,390		113,990
Line of credit		177,930		175,746
Due to sellers		30,000		-
Advances from related parties		42,500		42,500
TOTAL CURRENT LIABILITIES		2,427,887		1,868,948

STOCKHOLDERS' DEFICIT

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; 40,057,626 and 38,207,626 shares outstanding respectively		40,058		38,208
Additional paid in capital		5,531,022		5,429,522

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Treasury stock, 2,342,374 and 4,192,374 shares held, respectively.	2,342	4,192
Accumulated deficit	(6,342,242)	(6,410,683)
TOTAL STOCKHOLDERS' DEFICIT	(768,820)	(938,761)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	\$ 1,659,067	\$ 930,187

See accompanying notes to consolidated financial statements

CMG HOLDINGS, INC
CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)

	Three Months Ended March 31,	
	2010	2009
Gross revenues	\$ 1,286,599	\$ 212,394
Cost of revenue	709,006	--
Gross margin	577,593	212,394
Amortization expense	74,583	--
Operating expenses	832,744	365,689
Operating loss	(329,734)	(153,295)
Other income (expense)		
Bargain purchase gain	405,759	--
Interest expense	(7,584)	(1,386)
Net income (loss)	\$ 68,441	\$ (154,681)
Basic income (loss) per common share	\$ 0.00	\$ (0.00)
Diluted income (loss) per common share	0.00	(0.00)
Basic weighted average common shares outstanding	38,460,404	31,726,518
Diluted weighted average common shares outstanding	40,591,654	31,726,518

See accompanying notes to consolidated financial statements

CMG HOLDINGS, INC
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Three Months Ended March 31,	
	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	\$ 68,441	\$ (154,681)
Adjustments to reconcile net loss to net cash used in operating activities:		
Bargain purchase gain	(405,759)	--
Shares issued for services	31,500	--
Amortization of intangible assets	74,583	--
Amortization of debt discount	5,400	--
Changes in:		
Accounts receivable	(37,375)	--
Prepaid expense and other current assets	3,000	--
Deferred revenue	(19,600)	--
Accrued liabilities	225,135	98,462
Client payable	--	100,036
Accounts payable	295,356	53,498
Net cash provided by operating activities	240,681	97,315
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash received from acquisition of Audio Eye, Inc.	3,217	--
Cash paid to acquire a bank loan	--	(150,000)
Cash advance for acquisition of assets for Experiential Agency Inc.	--	(100,000)
Net cash provided (used in) by investing activities	3,217	(250,000)
CASH FLOWS FROM FINANCING ACTIVITIES		
Advances from related parties	--	25,000
Net borrowings on line of credit	2,184	20,750
Proceed from issuance of debt	--	100,000
Cash provided by financing activities	2,184	145,750
Net increase (decrease) in cash	246,082	(6,935)
Cash, beginning of year	32,968	13,934
Cash, end of the year	\$ 279,050	\$ 6,999
Supplemental cash flow information:		
Interest paid	\$ --	\$ 1,386
Income taxes paid	\$ --	\$ --
Non-cash investing activity:		
Acquisition of Audio Eye, Inc. .	\$ 502,542	\$ --

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.

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.

NOTE 2: GOING CONCERN

As shown in the accompanying financial statements, The Company has an accumulated deficit and a working capital deficit as of March 31, 2010. These conditions raise substantial doubt as to the Company’s ability to continue as a going concern. In response to these conditions, the Company has raised additional capital through the sale of equity securities, through an offering of debt securities or through borrowings from financial institutions or individuals. The financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

NOTE 3: ACQUISITIONS

On March 31, 2010, the Company acquired all outstanding shares of Audio Eye, Inc. (“Audio Eye”) in exchange for \$30,000 cash, 1.5 million shares of the Company’s common stock, warrants to purchase 250,000 shares of the Company’s common stock at an exercise price of \$0.07 per share and a term of 5 years plus other contingent consideration. Audio Eye developed 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.

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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

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

NOTE 3: ACQUISITIONS (CONTINUED)

- (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 issued by the Company was determined based on the closing price of the Company's stock 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 three months ended March 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 take place on the first day of fiscal year 2009.

	Pro Forma	
	Three months ended March 31	
	2010	2009
Revenues	\$ 1,356,301	\$ 517,180
Cost of revenue	(709,006)	(485,287)
Operating expenses	(1,041,458)	(932,762)

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Interest expense	(7,584)	(2,667)
Net loss	\$ (401,747)	\$ (903,536)

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

NOTE 4: EQUITY

Common Stock:

On January 25, 2010, 350,000 shares were issued, out of treasury stock held by CMG Acquisition, Inc., for services provided by third parties valued at \$31,500.

On March 31, 2010, 1,500,000 shares were issued, out of treasury stock held in reserve held by CMG Acquisition, Inc., for the acquisition of Audio Eye valued at \$60,000. See Note 3 for details.

Warrants:

During the three months ended March 31, 2010, 250,000 warrants were issued in connection with the acquisition of Audio Eye. See Note 3 for details on the valuation of the warrants.

A summary of warrant activity for the three months ended March 31, 2010 is as follows:

	Outstanding and Exercisable	Weighted average Exercise Price
December 31, 2009	2,400,000	\$ 0.01
Granted	250,000	\$ 0.07
Exercised	-	-
Forfeited	-	-
March 31, 2010	2,650,000	\$ 0.02

The warrants have a weighted average remaining life of 4.9 years and an aggregate intrinsic value of \$72,000.

NOTE 5: COMMITMENTS AND CONTINGENCIES

On January 1, 2010, the Company and the executive management entered into executive employment agreements, effective up to 2016, regarding base salary compensation, executive 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 executive 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 restricted shares of the Company's 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.

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

NOTE 6: SUBSEQUENT EVENTS

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

On various dates in April 2010, the Company issued two 13% Senior Secured Convertible Extendible Notes to a third party totaling \$850,000 that mature on July 1, 2011. Provided that the Company is not in default, the Company has the option to extend the maturity date of the notes 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, the annual interest rate is increased to 18%. The notes are convertible into the Company's 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 4,250,000 shares of the Company's common stock. 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 Company's common 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.

In connection with the above transaction, , the Company paid the placement agent 10% of the gross proceeds and warrants to purchase 1,105,000 shares of the Company's common stock.

On May 1, 2010, 685,200 shares were issued from treasury stock held in reserve held by CMG Acquisition, Inc. for services provided by third parties.

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 THREE MONTH PERIOD ENDED MARCH 31, 2010

Gross revenues increased from \$212,394 for the three months ended March 31, 2009 to \$1,286,999 for the three months ended March 31, 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.

Cost of revenue increased from \$0 for the three months ended March 31, 2009 to \$709,006 for the three months ended March 31, 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 XA.

Operating expenses increased from \$365,689 for the three months ended March 31, 2009 to \$832,744 for the three months ended March 31, 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.

The net loss of \$154,681 for the three months ended March 31, 2009 increased to a net income of \$68,441 for the three months ended March 31, 2010. This is mainly due to the bargain purchase gain resulting from the acquisition of

Audio Eye, Inc.

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LIQUIDITY AND CAPITAL RESOURCES:

As of March 31, 2010, the Company's cash on hand was \$279,050.

Cash provided by operations for the three months ended March 31, 2009 was \$97,315, as compared to cash provided by operations of \$240,681 for the three months ended March 31, 2010. This change is primarily due to amortization of intangible assets, stock expenses for services, and accrued expenses related to the increase in operating expenses due to the increased personnel and operations from the event marketing, public relations, consulting business of XA.

Cash used in investing activities for the three months ended March 31, 2009 was \$250,000, as compared cash provided by investing activities of \$3,217 for the three months ended March 31, 2010. For the three months ended March 31, 2009, the Company incurred \$150,000 for the acquisition of assets of XA to obtain a note receivable from a financial institution and for the three month ended March 31, 2010, the cash received of \$3,217 resulted from the acquisition of Audio Eye, Inc.

Cash provided by financing activities for the three months ended March 31, 2009 was \$145,750, as compared to \$2,184 provided for the three months ended March 31, 2010. In 2009, the Company borrowed \$20,750 from its line of credit and also borrowed \$25,000 from one of the executives of executive management

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth as of May 20, 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	23.83%
Common Stock	James J. Ennis	3,500,000	8.25%
Common Stock	Michael Vandetty	1,000,000	2.36%

All Directors and Executive Officers	14,607,000	34.45%
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These tables are based upon 42,400,000 shares outstanding as of May 20, 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 42,400,000 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.

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.

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.

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 three months ended March 31, 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 or about April 30, 2010, the Company became aware that a former employee had filed a lawsuit against the Company, which was filed in the United States District Court for the Southern District of New York. 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 retained counsel and filed a Motion to Dismiss the Complaint, alleging that the New York court lacks jurisdiction over the controversy and or that venue of the proceeding should lie in Dade County, Florida. 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. 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.

On April 1, 2010, the Company paid \$125,000 to satisfy the payoff due to JT Venture, LLC pursuant to the Participation Agreement, Forbearance Agreement and Security Agreement. As a result, The Company executed a satisfaction of all obligations due it from the Company and its subsidiaries.

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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

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
10.1	Amended Executive Agreement with CEO
10.2	Amended Executive Agreement with COO
10.3	Amended Executive Agreement with General Counsel
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:

The Company filed a Form 8-K on February 1, 2010 - Item 8.01 Issuing Senior Convertible Debt.

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: May 21, 2010

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

Date: May 21, 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	May 21, 2010
/s/James I. Ennis	James I. Ennis	CFO & Director	May 21, 2010

