

CMG HOLDINGS GROUP, INC.

Form 10-Q

November 19, 2014

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF**

**THE SECURITIES EXCHANGE ACT OF 1934**

**For the quarter ended September 30, 2014**

**Commission file number 000-51770**

**CMG HOLDINGS GROUP, INC.**

(Exact name of registrant as specified in its charter)

**Nevada**

**87-0733770**

(State or other jurisdiction of (I.R.S. Employer

incorporation or organization) Identification No.)

**875 North Michigan Avenue, Suite 2929**

**Chicago, IL**

**60611**

(Address of principal executive offices) (Zip Code)

Registrant's telephone number including area code (732) 536-3800

Edgar Filing: CMG HOLDINGS GROUP, INC. - Form 10-Q

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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes 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

As of November 14, 2014, there were 289,329,190 shares of common stock of the registrant issued and outstanding.

**CMG HOLDINGS GROUP, INC.**

**FORM 10-Q**

**TABLE OF CONTENTS**

<b>Item #</b>	<b>Description</b>	<b>Page Numbers</b>
<b>PART I FINANCIAL INFORMATION</b>		
ITEM 1	CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)	3
ITEM 2	MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	18
ITEM 3	QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK FACTORS	21
ITEM 4	CONTROLS AND PROCEDURES	21
<b>PART II OTHER INFORMATION</b>		
ITEM 1	LEGAL PROCEEDINGS	23
ITEM 1A	RISK FACTORS	23
ITEM 2	UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS	23
ITEM 3	DEFAULTS UPON SENIOR SECURITIES	23
ITEM 4	MINE SAFETY DISCLOSURES	23
ITEM 5	OTHER INFORMATION	23
ITEM 6	EXHIBITS	24

**PART I FINANCIAL INFORMATION**

**ITEM 1- CONSOLIDATED FINANCIAL STATEMENTS**

**CMG HOLDINGS GROUP, INC.**

**UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE NINE MONTHS ENDED AND THREE MONTHS ENDED SEPTEMBER 30, 2014 AND 2013**

**CONTENTS**

Consolidated Balance Sheets as of September 30, 2014 and December 31, 2013 (Unaudited)	4
Consolidated Statements of Operations for the three months ended and nine months ended September 30, 2014 and 2013 (Unaudited)	5
Consolidated Statements of Cash Flows for the nine months ended September 30, 2014 and 2013 (Unaudited)	6
Notes to Consolidated Financial Statements (Unaudited)	7

CMG Holdings Group, Inc.  
Consolidated Balance Sheets

	September 30, 2014 (Unaudited)	December 31, 2013
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash	\$ 145,853	\$ 476,588
Marketable securities	-	764,088
Accounts receivable, net of allowance of \$0 and \$0, respectively	115,500	287,094
Prepaid expenses and other current assets	8,400	8,400
<b>Total Current Assets</b>	<b>269,753</b>	<b>1,536,170</b>
Other noncurrent assets	79,741	60,078
<b>TOTAL ASSETS</b>	<b>\$ 349,494</b>	<b>\$ 1,596,248</b>
<b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 795,322	\$ 627,695
Deferred compensation	69,000	486,875
Accrued liabilities	293,710	593,710
Deferred income	13,370	13,370
Convertible notes - carrying value	5,550	-
Derivative liabilities	84,822	11,121
Short term debt, net of unamortized discount of \$0 and \$0, respectively	9,943	9,943
<b>Total Current Liabilities</b>	<b>1,271,717</b>	<b>1,742,714</b>
<b>TOTAL LIABILITIES</b>	<b>1,271,717</b>	<b>1,742,714</b>
Commitments and contingencies		
<b>STOCKHOLDERS' DEFICIT</b>		
Preferred stock:		
Series A Convertible Preferred Stock; 5,000,000 shares authorized; par value \$0.001 per share; no shares issued and outstanding as of September 30, 2014 and December 31, 2013	-	-
Series B Convertible Preferred Stock; 5,000,000 shares authorized; par value \$0.001 per share; 0 and 0 shares issued and outstanding as of September 30, 2014 and December 31, 2013	-	-
Common Stock:		
450,000,000 shares authorized, par value \$.001 per share; 289,329,190 and 283,657,190 shares issued and outstanding as of September 30, 2014 and December	289,329	283,657

Edgar Filing: CMG HOLDINGS GROUP, INC. - Form 10-Q

31, 2013

Additional paid in capital	15,367,019	14,529,751
Treasury Stock, 37,174 and 37,174 shares held, respectively, at cost of -0-, as of September 30, 2014 and December 31, 2013.	-	-
Accumulated deficit	\$(16,578,571 )	(14,959,874 )
<b>TOTAL STOCKHOLDERS' DEFICIT</b>	<b>(922,223 )</b>	<b>(146,466 )</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT</b>	<b>\$ 349,494</b>	<b>\$ 1,596,248</b>

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

4

## CMG Holdings Group, Inc.

Consolidated Statements of Operations  
(Unaudited)

	For the Three Months Ended September 30, 2014		For the Nine Months Ended September 30, 2014	
	2013	2013	2013	2013
Revenues	\$ 120,058	\$ 1,048,407	\$ 7,646,532	\$ 6,441,216
Operating Expenses:				
Cost of revenues	64,203	722,819	6,312,846	4,526,627
General and administrative expenses	581,819	725,858	2,767,332	2,073,031
Research and development expenses	46,800	-	140,550	-
Total Operating Expenses	692,822	1,448,677	9,220,728	6,599,658
Operating Income (Loss)	(572,764 )	(400,270 )	(1,574,196 )	(158,442 )
Other Income (Expense):				
Derivative expense	(31,627 )	-	(31,627 )	-
Gain (loss) on derivative liability	-	153,096	7,926	165,938
Gain on extinguishment of debt	-	183,332	-	793,732
Effective interest expense (derivatives)	(5,550 )	-	(5,550 )	-
Realized gain (loss) on marketable securities	282,148	-	709,150	-
Unrealized gain (loss) on marketable securities	(113,714 )	(45,800 )	(622,769 )	1,479,899
Costs related to acquisition of Good Gaming, Inc	-	-	(87,500 )	-
Other income (expense)	(6,386 )	(65 )	(11,002 )	(5,465 )
Interest Income (expense)	(2,997 )	(6,092 )	(3,129 )	(205,178 )
Total Other Income (Expense)	121,874	284,471	(44,501 )	2,228,926
Net Income (Loss)	\$(450,890 )	\$(115,799 )	\$(1,618,697 )	\$2,070,484
Basic income (loss) per common share	\$(0.00 )	\$(0.00 )	\$(0.01 )	\$0.01
Basic weighted average common shares outstanding	289,329,190	295,829,864	289,344,809	295,054,040

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

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

	For the Nine Months Ended September 30,	
	2014	2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net loss	\$(1,618,697)	\$2,070,484
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Shares issued for services	120,813	-
Warrants issued for compensation	619,627	-
Costs related to acquisition of Good Gaming	87,500	-
Unrealized gain on marketable securities	622,769	(1,479,899)
Realized gain on marketable securities	(709,150 )	-
(Gain) on settlement of debt	-	(165,938 )
(Gain) loss on derivatives	(7,926 )	-
Derivative expense	31,627	-
Effective interest - derivatives	5,550	-
Amortization of debt discount	-	152,848
Gain on extinguishment of debt	-	(793,732 )
Changes in:		
Accounts receivable	171,594	(146,882 )
Prepaid expense and other current assets	(1,264 )	7,142
Deferred income	-	-
Accrued liabilities	(300,000 )	93,406
Accounts payable	167,627	270,257
Accounts payable, related party	-	(19,625 )
Deferred compensation	(417,875 )	-
Cash provided by (used in) operating activities	(1,227,805)	(11,939 )
<b>CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES</b>		
Cash paid for purchase of fixed assets	(18,400 )	-
Proceeds from sales of marketable securities	850,470	-
Net cash from (used) in investing activities	832,070	-
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payment on short term debt	-	(52,500 )
Proceeds from issuance of debt	50,000	104,500
Proceeds from sales of common stock	15,000	-
Net cash provided by financing activities	65,000	52,000
Net increase in cash	(330,735 )	40,061
Cash, beginning of period	476,588	238,124
Cash, end of period	145,853	278,185



Supplemental cash flow information:

Interest paid	\$3,201	\$25,000
Income taxes	\$-	\$-

Non-cash investing and financing activity:

Discount on notes payable from derivative liability	\$5,000	\$98,097
Common stock issued for settlement of notes payable	\$-	\$26,600
Cancellation of Common Stock and Preferred Stock	\$7,350	\$2,550

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

**CMG HOLDINGS GROUP, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**September 30, 2014**

**(Unaudited)**

**NOTE 1: DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Business Activity**

Creative Management Group, Inc. was formed in Delaware on August 13, 2002 as a limited liability company named Creative Management Group, LLC. On August 7, 2007, this entity converted to a corporation and changed its legal name to Creative Management Group Inc. The Company is a sports, entertainment, marketing and management company providing event management implementation, sponsorships, licensing and broadcast, production and syndication.

On February 20, 2008, Creative Management Group, Inc. formed CMG Acquisitions, Inc., a Delaware company, for the purpose of acquiring companies and expansion strategies. On February 20, 2008, Creative Management Group, Inc. acquired 92.6% of Pebble Beach Enterprises, Inc. (a publicly traded company) and changed the name to CMG Holdings Group, Inc. ("the Company"). The purpose of the acquisition was to effect a reverse merger with Pebble Beach Enterprises, Inc. at a later date. On May 27, 2008, Pebble Beach entered into an Agreement and Plan of Reorganization with its controlling shareholder, Creative Management Group, Inc., a privately held Delaware corporation. Upon closing the eighty shareholders of Creative Management Group delivered all of their equity interests in Creative Management Group to Pebble Beach in exchange for shares of common stock in Pebble Beach owned by Creative Management Group, as a result of which Creative Management Group became a wholly-owned subsidiary of Pebble Beach. The shareholders of Creative Management Group received one share of Pebble Beach's common stock previously owned by Creative Management Group for each issued and outstanding common share owned of Creative Management Group. As a result, the 22,135,148 shares of Pebble Beach that were issued and previously owned by Creative Management Group, are now owned directly by its shareholders. The 22,135,148 shares of Creative Management Group previously owned by its shareholders are now owned by Pebble Beach, thereby making Creative Management Group a wholly-owned subsidiary of Pebble Beach. Pebble Beach did not issue any new shares as part of the Reorganization. The transaction was accounted for as a reverse merger and recapitalization whereby Creative Management Group is the accounting acquirer. Pebble Beach was renamed CMG Holdings Group, Inc.

On April 1, 2009, the Company, through a newly formed wholly owned subsidiary CMGO Capital, Inc., a Nevada corporation, completed the acquisition of XA, The Experiential Agency, Inc. On March 31, 2010, the Company and AudioEye, Inc. (“AudioEye”) completed the final Stock Purchase Agreement under which the Company acquired all of the outstanding capital stock of AudioEye. On June 22, 2011 the Company entered into a Master Agreement subject to shareholder approval as may be required under applicable law and subject to closing conditions with AudioEye Acquisition Corp., a Nevada corporation where the shareholders of AudioEye Acquisition Corp. exchanged 100% of the stock in AudioEye Acquisition Corp for 80% of the capital stock of AudioEye. The Company retained 15% of AudioEye subject to transfer restrictions in accordance with the Master Agreement; on October 2012, the Company distributed to its shareholders, in the form of a dividend, 5% of the capital stock of AudioEye in accordance with provisions of the Master Agreement.

On March 28, 2014, CMG Holdings Group, Inc. (the “Company” or “CMG”), completed its acquisition of 100% of the shares of Good Gaming, Inc. (“GGI”) by entering into a Share Exchange Agreement (the “SEA”) with BMB Financial, Inc. and Jackie Beckford, the then shareholders of GGI. The sole owner of BMB Financial, Inc. is also the sole owner of Infinite Alpha, Inc. which provides consulting services to CMG. Pursuant to the SEA, the Company received 100% of the shares of GGI in exchange for 5,000,000 shares of the Company’s common stock, \$33,000 in equipment and consultant compensation and a commitment to pay \$200,000 in development costs. As of September 30, 2014, the Company has paid \$58,600 of equipment and consultant compensation and \$190,550 in development costs, of which \$50,000 of the development costs had been advanced by the Company, prior to entering the agreement. In addition, pursuant to the SEA, CMG shall adopt an incentive plan for GGI which shall entitle the GGI officers, directors and employees to receive up to 30% of the net profits of GGI and up to 30% of the proceeds, in the event of a sale of GGI or its assets.

**CMG HOLDINGS GROUP, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**September 30, 2014**

**(Unaudited)**

**Principles of Consolidation**

The consolidated financial statements include the accounts of CMG Holdings Group, Inc., XA, The Experiential Agency, Inc. ("XA") and GGI after elimination of all significant inter-company accounts and transactions.

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the period reported. Estimates are used when accounting for allowance for doubtful accounts, depreciation, and contingencies. Actual results could differ from those estimates.

**Concentrations of Risk**

**Financial Institutions** - The Company maintains its cash balances at two financial institutions where they are insured by the Federal Deposit Insurance Corporation up to \$250,000 each. At September 30, 2014 and December 31, 2013, neither of these accounts was in excess of the limit. The Company also maintains a money market investment account at one securities firm where the account is insured by the Securities Investor Protection Corporation up to \$500,000 for the bankruptcy, etc., of the securities firm. At September 30, 2014 and December 31, 2013, the account did not have a balance in excess of the limit.

**Sales and Accounts Receivable** - For the three months ended and nine months ended September 30, 2014 and the year ended December 31, 2013, one customer accounts for 0%, 93% and 72% of the Company's total revenues, respectively.

## **Revenue and Cost Recognition**

The Company earns revenues by providing event management services under individually negotiated contracts with varying terms, recognizing revenue in accordance with ASC 605, *Revenue Recognition*, only when the price is fixed or determinable, persuasive evidence of an arrangement exists, the services have been provided and collectability is assured. In arrangements where key indicators suggest the Company acts as principal, the Company records the gross amount billed to the client as revenue and the related costs incurred as cost of revenues as the services are provided.

## **Accounts Receivable and Allowance for Doubtful Accounts**

Accounts receivable are amounts due from event management services, are unsecured and are carried at their estimated collectible amounts. Credit is generally extended on a short-term basis and do not bear interest, although a finance charge may be applied to amounts outstanding more than thirty days. Accounts receivable are periodically evaluated for collectability based on past credit history with clients. Provisions for losses on accounts receivable are determined on the basis of loss experience, known and inherent risk in the account balance and current economic conditions. There were no allowances for doubtful accounts as of September 30, 2014 or December 31, 2013.

## **Share-Based Compensation**

The Company accounts for share-based compensation to employees in accordance with Accounting Standards Codification subtopic 718-10, *Stock Compensation* ("ASC 718-10") and share-based compensation to non-employees in accordance with ASC 505-50 *Accounting for Equity Instruments Issued to Non-Employees for Acquiring, or in Conjunction with Selling, Goods or Services*. ASC 718-10 and 505-50 require the measurement and recognition of compensation expense for all share-based payment awards, including stock options based on the estimated fair values.

**CMG HOLDINGS GROUP, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**September 30, 2014**

**(Unaudited)**

**Derivative Instruments**

We generally do not use derivative financial instruments to hedge exposures to cash-flow risks or market-risks. However, certain financial instruments, such as warrants and the embedded conversion features of our convertible promissory notes and debentures, which are indexed to our common stock, are classified as liabilities when either (a) the holder possesses rights to net-cash settlement or (b) physical or net-share settlement is not within our control. In such instances, net-cash settlement is assumed for financial accounting and reporting purposes, even when the terms of the underlying contracts do not provide for net-cash settlement. Derivative financial instruments are initially recorded, and continuously carried, at fair value.

Determining the fair value of these complex derivative financial instruments involves judgment and the use of certain relevant assumptions including, but not limited to, interest rates, volatility and conversion and redemption privileges. The use of different assumptions could have a material effect on the estimated fair value amounts.

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

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

### **Cash and Cash Equivalents**

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

### **Property and Equipment**

Property and equipment are stated at cost, net of accumulated depreciation and amortization. Depreciation and amortization is computed using the straight-line method over the estimated useful lives of the respective assets, which is generally between three and five years. Depreciation expense was \$0, \$0 and \$0 for the three months ended and nine months ended September 30, 2014 and December 31, 2013, respectively.

### **Intangible Assets**

Intangible assets are stated at cost, net of accumulated amortization. Amortization is computed using the straight-line method over the estimated useful life of the respective asset, which is three years. Amortization expense was \$0, \$0 and \$0 for the three months ended and nine months ended September 30, 2014 and the year ended December 31, 2013, respectively.

**CMG HOLDINGS GROUP, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**September 30, 2014**

**(Unaudited)**

**Income Taxes**

The Company accounts for income taxes using the asset and liability approach. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amounts expected to be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

**Basic and Diluted Net Loss per Share**

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

**Recently Issued Accounting Pronouncements**

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



## Fair Value Measurements

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

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

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

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

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

The following table sets forth by level with the fair value hierarchy the Company's financial assets and liabilities measured at fair value on September 30, 2014 and December 31, 2013:

September 30, 2014

Level 3 Total

Edgar Filing: CMG HOLDINGS GROUP, INC. - Form 10-Q

	Level 1	Level 2		
Marketable trading securities	\$ -	\$ -	\$-	\$-
Derivative Liabilities	\$ -	\$ -	\$84,822	\$84,822

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

**CMG HOLDINGS GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****September 30, 2014****(Unaudited)****Investments in Debt and Equity Securities**

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

Details of the Company's marketable trading securities as of September 30, 2014 and December 31, 2013 are as follows:

	September 30, 2014	December 31, 2013
Aggregate fair value	\$ -	\$ 764,088
Gross unrealized holding gains (losses)	(622,769 )	622,769
Proceeds from sales (\$1,423,491 stocks plus \$85,000 options)	\$ 850,470	\$ 658,021
Gross realized gains (stocks and options)	709,150	524,668
Gross realized losses	-	-
Other than temporary impairment	-	-

**NOTE 2 - EQUITY****Preferred Stock**

*Series B Preferred Stock and Inventory Purchase*

On March 31, 2011 the Company acquired 20,000 cartoon animated cels (the “Cel Art”) from Continental Investments Group, Inc. (the “Agreement”). The Company issued 50,000 shares of its Series B Convertible Preferred Stock to Continental Investments Group, Inc. as consideration for the Cel Art, such shares of Series B Convertible Preferred Stock having a stated value per share of \$100. The Cel Art consists of collectible, hand-painted cartoon animation cels. The shares of Series B Preferred Stock are convertible into common shares of the Company at the stated value of \$100 per share divided by the volume weighted average trading price for the 30 days prior to conversion. The preferred shares are non-voting and do not receive dividends. The Company determined the fair value of the preferred stock to be \$3,240,502 on the acquisition date based on the number of shares of common stock the preferred shares could be converted into and the market price of the common stock on the agreement date. The cartoon animated cels are valued at the lower of cost or market. As of December 31, 2011, Management wrote down the inventory to zero. The Company also analyzed the embedded conversion option for derivative accounting consideration under ASC 815-15 and determined that the conversion option should be classified as equity. During the year ended December 31, 2011, the Company determined that due to uncertainties related to future sales of the Cel Art, the entire balance should be reserved as of December 31, 2011.

**CMG HOLDINGS GROUP, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**September 30, 2014**

**(Unaudited)**

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

**Common Stock**

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

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

On April 7, 2014, the Company issued 522,000 shares of its common stock pursuant to a consulting agreement. The shares were valued at a total of \$8,613 or \$0.0165 per share, the closing price of the company’s common stock on the OTCQB.

On May 9, 2014, the Company issued to a total of 6,000,000 shares of Common Stock to its three former directors of the Company, with each former director receiving 2,000,000 shares, pursuant to the agreements between the Company and each of the former directors dated February 5, 2014.

On June 30, 2014, the Company canceled 7,350,000 shares of common stock pursuant to a settlement agreement with CMGO Investors LLC and Craig Boden.

### **Common Stock Warrants**

During 2011, eight individuals purchased 3,870,000 shares of common stock, 774,000 A Warrants and 774,000 B Warrants for \$217,000. A total of 574,000 and 200,000 A Warrants are exercisable at a strike price of \$0.25 and \$0.10, respectively for three years; 574,000 and 200,000 B Warrants are exercisable at a strike price of \$0.50 and \$0.20, respectively for three years. The Company can call each of the Warrants after twelve months if the price of the Common Shares of the Company in the Market is 150% of the Warrant strike price for 10 consecutive days.

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

On April 7, 2014, we issued to our newly appointed CEO and Chairman of the Board of Directors, as compensation, a warrant to purchase a total of 40,000,000 shares of Common Stock at the exercise price of \$0.0155 with a term of 5 years.

**CMG HOLDINGS GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****September 30, 2014****(Unaudited)**

A summary of warrant activity for the nine months ended September 30, 2014 and the years ended December 31, 2013 and 2012 is as follows:

	Outstanding and Exercisable	Weighted average Exercise Price
December 31, 2011	1,798,000	\$ 0.28
Granted	—	—
Exercised	—	—
December 31, 2012	1,798,000	\$ 0.28
Granted	—	—
Exercised	—	—
December 31, 2013	1,798,000	\$ 0.28
Granted	40,000,000	\$ 0.016
Exercised	—	—
Expired	(1,148,000 )	
September 30, 2014	40,650,000	\$ 0.02

As of September 30, 2014, the warrants have a weighted average remaining life of 4.43 years with \$0 aggregate intrinsic value.

**NOTE 3 - NOTES PAYABLE****Paul Sherman Agreement**

On May 12, 2012, the Company modified its July 24, 2011 agreement with Paul Sherman into a \$9,943 convertible promissory note bearing interest at 2% and due on May 15, 2013. The convertible promissory note is convertible at a

price equal to the close price on the day prior to Paul Sherman's request for conversion, but not to go below \$.001. The Company analyzed the conversion option for derivative accounting consideration under ASC 815-15 and determined that the instrument should be classified as a liability. The fair value of the embedded conversion option resulted in a discount of \$8,875 on the date of the note. The discount is being amortized over the term of the note to interest expense. The discount balance was \$0 and \$0 as of September 30, 2014 and December 31, 2013, respectively. Amortization of \$0 and \$3,376 was recognized as interest expense during the nine months ended September 30, 2014 and the year ended December 31, 2013, respectively. The convertible promissory note has an outstanding balance of \$9,943 and \$9,943 as of September 30, 2014 and December 31, 2013, respectively.

### **Convertible Promissory Note**

On September 30, 2014, the Company sold a convertible promissory Note (the "Note") in private placements to Iconic Holdings LLC. The principal amount of the Note is \$55,000. The Note is convertible, at the holder's option, into shares of our common stock, generally at 70% of the lowest trading price of our common stock, for the prior 20 trading days. The Note bears interest at 10% annum, can be repaid at any time prior to maturity with a prepayment penalty of 10% of the principal amount paid, is due on September 30, 2015 and contains customary events of default and provide for increased interest rates in the event of default. We did not pay a placement agent or other fees and the Note was issued with an original issue discount of \$5,000. Net proceeds to the Company was \$50,000. The Note does not require us to register the shares of our common stock underlying their conversion.

The terms of the embedded conversion options in the Note does not meet all of the established criteria for equity classification in FASB ASC 815-40, Derivatives and Hedging - Contracts in Entity's Own Equity. Accordingly, the embedded derivative instrument in the Note (the conversion option), is accounted for separately from the host contract, and is recorded at fair value of \$81,627. The Company recorded a derivative expense of \$31,627 on the date of the Note. Accordingly, the initial carrying amount of the Note on the date of the Note was \$0. The embedded derivative instrument that has been separated from the Note, shall be re-valued each reporting period, with any changes in their fair values recognized as a gain or loss in our income statement.



**CMG HOLDINGS GROUP, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**September 30, 2014**

**(Unaudited)**

**NOTE 4 - DERIVATIVE LIABILITIES**

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

**Embedded Derivative Liabilities in Convertible Notes**

During the nine months ended September 30, 2014 and the year ended December 31, 2013, the Company recognized new derivative liabilities of \$81,627 and \$98,097, respectively, as a result of new convertible debt issuances. The fair value of these derivative liabilities exceeded the principal balance of the related notes payable by \$31,627 and \$0 for the nine months ended September 30, 2014 and the year ended December 31, 2013, respectively. As a result of conversions of notes payable, the Company reclassified \$0 and \$9,240,920 from equity and \$0 and \$0 of derivative liabilities to equity during the nine months ended September 30, 2014 and the year ended December 31, 2013, respectively. The Company recognized a gain of \$11,121 and a gain of \$210,810 on derivatives due to change in fair value of the liability during the nine months ended September 30, 2014 and the year ended December 31, 2013, respectively. The fair value of the Company's embedded derivative liabilities was \$81,627 and \$0 at September 30, 2014 and December 31, 2013, respectively.

**Warrants**

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

Under ASC 815-15, the liabilities were subsequently measured at fair value at the end of each reporting period with the change in fair value recorded to earnings. The fair value of all outstanding warrants as of September 30, 2014 and

December 31, 2013 was \$3,195 and \$11,121, respectively. The Company recognized an expense of \$381 and a gain \$10,196 related to the warrants for the nine months ended June 30, 2014 and the year ended December 31, 2013, respectively.

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

Derivative Liabilities	
Balance at December 31, 2011	\$444,150
ASC 815-15 additions	721,590
Change in fair value	192,025
ASC 815-15 deletions	(1,211,795)
Balance at December 31, 2012	145,970
ASC 815-15 additions	98,097
Change in fair value	(210,180 )
ASC 815-15 deletions	(22,766 )
Balance at December 31, 2013	11,121
ASC 815-15 additions	86,640
Change in fair value	(1,818 )
ASC 815-15 deletions	(11,121 )
Balance at September 30, 2014	\$84,822

The embedded conversion options in the Notes, which is accounted for separately as a derivative instrument is valued using a binomial lattice model because that model embodies all of the significant relevant assumptions that address the features underlying these instruments. Significant assumptions used in the model as of the date the Note was issued and as of September 30, 2014 included an expected life equal to the remaining term of the Note, an expected dividend yield of zero, estimated volatility ranging of 116%, and a risk-free rate of return of 0.13%. For the risk-free rates of return, we use the published yields on zero-coupon Treasury Securities with maturities consistent with the remaining term of the Note. Volatility is based upon our expected common stock price volatility over the remaining term of the Note. The volatility used for the Note is based on the Company's 100-day volatility, which is considered a reasonable surrogate for the volatility to be expected over the life of the Note. That volatility has generally ranged from 116% to 146%.

**CMG HOLDINGS GROUP, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**September 30, 2014**

**(Unaudited)**

**NOTE 5 - LEGAL PROCEEDINGS**

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

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

On July 6, 2011, the Company was served with a lawsuit filed in the Circuit Court for the County of Multnomah, Oregon. The complaint alleges breach of contract and entitlement to consulting fees from the Company. The Company disagrees with the allegations contained in the Complaint and intends to vigorously defend the matter and otherwise enforce its rights with respect to the matter. The Company has retained counsel and is prepared to defend this lawsuit. The Company believes that the claims are frivolous pursuant to the terms of the contract. The case was settled on September 28, 2012 for \$30,000. The Company has accrued for this liability as of September 30, 2014 and December 31, 2013.

On September 23, 2014, XA filed a lawsuit in the Supreme Court of the State of New York, County of New York against HG and its principals alleging wrongdoing by the defendants in connection with soliciting XA's clients and seeking against further contact with XA clients. The Company conducted an internal investigation of actions taken by XA's former employees during the quarter ended September 30, 2014. While the investigation is not complete, we have discovered that there are numerous instances of conversion of XA assets and funds, such as personal charges on company credit cards, payments for cell phones for family members, reimbursement for personal travel and other expenses which did not relate to XA in any way, and transactions between XA and parties owned by these former employees who did not disclose their interests in them. The Company and XA plan to complete the investigation,

including recovering e-mails deleted by the former employees, and to vigorously pursue any and all amounts wrongfully taken from XA.

In October, 2014, Ronald Burkhardt, XA,s former Executive Chairman and a current member of the Company’s Board of Directors filed a lawsuit in the Supreme Court of the State of New York, County of New York, alleging breach of his employment contract and seeking approximately \$695,000 in damages. The Company believes that Mr. Burkhardt’s claim is without merit and plans to vigorously defend the lawsuit.

#### **NOTE 6 - ACQUISITION OF GOOD GAMING, INC.**

On March 28, 2014, CMG Holdings, Inc. (the “Company” or “CMG”), completed its acquisition of 100% of the shares of Good Gaming, Inc. (“GGI”) by entering into a Share Exchange Agreement (the “SEA”) with BMB Financial, Inc. and Jackie Beckford, the then shareholders of GGI. The sole owner of BMB Financial, Inc. is also the sole owner of Infinite Alpha, Inc. which provides consulting services to CMG. The transaction was completed under the purchase method of accounting. Pursuant to the SEA, the Company received 100% of the shares of GGI in exchange for 5,000,000 shares of the Company’s common stock, \$33,000 in equipment and consultant compensation and a commitment to pay \$200,000 in development costs, of which \$50,000 of the development costs had been advanced by the Company. In addition, pursuant to the SEA, CMG shall adopt an incentive plan for GGI which shall entitle the GGI officers, directors and employees to receive up to 30% of the net profits of GGI and up to 30% of the proceeds, in the event of a sale of GGI or its assets. In accordance with the purchase method of accounting, the Company recorded a charge of \$87,500.

#### **NOTE 7 - RELATED PARTY TRANSACTIONS**

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

XA has made business reimbursements to a consulting firm which is controlled by its former CEO. The accounts payable in the amount of \$47,912 and \$47,912 is included in account payable as of September 30, 2014 and December 31, 2013, respectively. Total amount submitted to the Company for reimbursement from the consulting firm is \$0 and \$142,060 for the nine months ended September 30, 2014 and the year ended 2013, respectively.

**CMG HOLDINGS GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****September 30, 2014****(Unaudited)****NOTE 8 - SEGMENTS**

The Company splits its business activities during the nine months ended September 30, 2014 into three reportable segments. Each segment represents an entity of which are included in the consolidation. The table below represents the operations results for each segment or entity, for the nine months ended September 30, 2014.

	XA	Good Gaming	CMG Holdings Group	Totals
Revenue	\$7,646,532	\$—	\$—	\$7,646,532
Operating expenses	7,840,673	140,550	1,239,505	9,220,728
Operating Income (Loss)	(194,141 )	(140,550)	(1,239,505)	(1,574,196)
Other Income (Expense)	(11,200 )	—	(33,301 )	(44,501 )
Net Income (Loss)	\$(205,341 )	\$(140,550)	\$(1,272,806)	\$(1,618,697)

**NOTE 9 – RESIGNATION OF OFFICERS AND MEMBERS OF THE BOARD.**

On September 26, 2012, Alan Morell officially resigned as Chief Executive Officer and Director of the Company. In conjunction with the resignation, Mr. Morell was issued a convertible note for \$525,000 representing the amount of accrued salary owed to him by the company up to the date of resignation and assumed all obligations related to a Smith Barney Credit Line that was secured by Mr. Morell's security accounts and issued another convertible note to Morell for \$112,000. The notes bore interest at 2% and were due on April 26, 2014. The notes were convertible beginning on November 15, 2012 at a conversion price of \$0.06 per share. In June 2013, the Company issued 2,800,000 shares of common stock to settle the notes totaling \$637,000, resulting in a gain on settlement of debt of \$610,400.

On May 9, 2014, the Company issued to a total of 6,000,000 shares of Common Stock to its three former directors of the Company, with each former director receiving 2,000,000 shares, pursuant to the agreements between the Company and each of the former directors dated February 5, 2014.

On September 17, 2014, Jeffrey Devlin resigned as Chief Financial Officer and Director of the Company.

#### **NOTE 10 - COMMITMENTS AND CONTINGENCIES**

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

Year ending December 31, 2013

2014	\$84,353
2015	196,805
2016	202,572
2018	208,440
2019	141,784
After	214,205

**CMG HOLDINGS GROUP, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**September 30, 2014**

**(Unaudited)**

Except as discussed above in Note 5, The Company is not the subject of any pending legal proceedings and, to the knowledge of management; no proceedings are presently contemplated against the Company by any federal, state or local governmental agency.

**NOTE 11 - SUBSEQUENT EVENTS**

On October 1, 2014 the Company sold a Convertible Debenture in the principal amount of \$114,000 to Typenex Co-Investment, LLC. The principal amount includes an Original Issue Discount in the amount of \$10,000 and investor fees in the amount of \$4,000. Total net proceeds to the Company were \$100,000. The Debenture bears interest at an annum rate of 10% and is payable in 5 equal installments that can be paid in cash or share of the Company's common stock. The number of shares to be issued for installment payments made in the form of shares of the Company's common stock, shall be calculated at 70% of the average of the three closing prices in the 20 trading days prior to the date of conversion, of the Company's common stock. The Note's maturity date is August 1, 2015.

On October 10, 2014 the Company sold a Convertible Debenture in the principal amount of \$115,000 to KBM Investments LLC. The principal amount includes an Original Issue Discount in the amount of \$11,000 and investor fees in the amount of \$4,000. Total net proceeds to the Company were \$100,000. The Debenture bears interest at an annum rate of 8% and can be repaid at any time prior to the date of maturity. The prepayment penalty for such prepayment ranges from 8% to 25% of the principal amount paid. On the 181<sup>st</sup> day from the date of the Note, is convertible into shares of the Company's common stock. The conversion rate for such conversion is 75% of the lowest 3 trading prices of the Company's common stock during the ten trading days prior to the conversion date. The Note's maturity date is October 8, 2015.

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

### FORWARD LOOKING STATEMENTS

*The following discussion of our financial condition and results of operations should be read in conjunction with our unaudited condensed consolidated financial statements and the notes to those financial statements appearing elsewhere in this Report.*

*Certain statements in this Report constitute forward-looking statements. These forward-looking statements include statements, which involve risks and uncertainties, regarding, among other things, (a) our projected sales, profitability, and cash flows, (b) our growth strategy, (c) anticipated trends in our industry, (d) our future financing plans, and (e) our anticipated needs for, and use of, working capital. They are generally identifiable by use of the words “may,” “will,” “should,” “anticipate,” “estimate,” “plan,” “potential,” “project,” “continuing,” “ongoing,” “expects,” “management believes,” “we believe,” “we intend,” or the negative of these words or other variations on these words or comparable terminology. In light of these risks and uncertainties, there can be no assurance that the forward-looking statements contained in this filing will in fact occur. You should not place undue reliance on these forward-looking statements.*

*The forward-looking statements speak only as of the date on which they are made, and, except to the extent required by federal securities laws, we undertake no obligation to update any forward-looking statements to reflect events or circumstances after the date on which the statements are made or to reflect the occurrence of unanticipated events.*

*Unless the context indicates otherwise, the terms “Company”, “Corporate”, “CMGO”, “our”, and “we” refer to CMG Holdings Group, Inc. and its subsidiaries, including XA, The Experiential Agency, Inc. (“XA”) and Good Gaming, Inc. (“Good Gaming”).*

### RECENT DEVELOPMENTS

Good Gaming has launched its website platform on October 17, 2014, with most features of the platform being functional or fully completed. Based on feedback of Good Gaming gamers, the Company anticipates that the site will be a success and expects to generate a significant amount of subscribers over the next 12 months. Good Gaming held its inaugural tournament on October 24, 2014 and has planned additional tournaments beginning on December 12, 2014.



During the quarters ended June 30, 2014 and September 30, 2014, each of the employees in XA's New York office, as well as its COO in Chicago resigned. The Company later learned that each of these employees had, along with XA's former CEO, formed a new company, called Hudson Gray, LLC ("HG") which was soliciting XA's clients using confidential and proprietary information gained from their employment with XA.

On September 23, 2014, XA filed a lawsuit in the Supreme Court of the State of New York, County of New York against HG and its principals alleging wrongdoing by the defendants in connection with soliciting XA's clients and seeking against further contact with XA clients. The Company conducted an internal investigation of actions taken by XA's former employees during the quarter ended September 30, 2014. While the investigation is not complete, we have discovered that there are numerous instances of conversion of XA assets and funds, such as personal charges on company credit cards, payments for cell phones for family members, reimbursement for personal travel and other expenses which did not relate to XA in any way, and transactions between XA and parties owned by these former employees who did not disclose their interests in them. The Company and XA plan to complete the investigation, including recovering e-mails deleted by the former employees, and to vigorously pursue any and all amounts wrongfully taken from XA.

## **RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2014**

Gross revenues decreased from \$1,048,407 for the three months ended September 30, 2013 to \$120,058 for the three months ended September 30, 2014. The decrease in revenues was mainly due to the departure of certain personnel of and clients our subsidiary XA. After June 30, 2014, and the filing of the Company's Quarterly Report for the three months ended June 30, 2014, the Company became aware of wrongful acts by its former employees as set forth above.

Cost of revenue decreased from \$722,819 for the three months ended September 30, 2013 to \$64,203 for the three months ended September 30, 2014. The decrease in cost of revenue was due to the decrease in revenues of XA.

Operating expenses decreased from \$1,448,677 for the three months ended September 30, 2013 to \$692,822 for the three months ended September 30, 2014. The decrease in operating expenses is due to the decrease in revenues and costs of goods sold of XA.

Net loss increased from \$115,799 for the three months ended September 30, 2013 compared to a net loss of \$450,890 for the three months ended September 30, 2014. The increase in net loss is due to the increase of the operating loss and decrease of Other Income from \$400,270 and \$284,471, respectively, during the three months ended September 30, 2013 to \$572,764 and \$121,874, respectively, during the three months ended September 30, 2014. During the three months ended September 30, 2014, the net effect of the total realized and unrealized gains and losses of marketable securities was a total gain of \$168,434 as compared to a loss of \$45,800, during the three months ended September 30, 2013. Other non-cash charges included in Other Income during the three months ended September 30, 2014 consist of \$31,627 in derivative expense and \$5,550 of effective interest expense, in connection with the Convertible Promissory Note sold by the Company as compared to a \$153,096 gain on derivative liability and gain of \$183,332 for the extinguishment of debt, during the 3 months ended September 30, 2014.

## **RESULTS OF OPERATIONS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2014**

Gross revenues increased from \$6,441,216 for the nine months ended September 30, 2013 to \$7,646,532 for the nine months ended September 30, 2014. The increase in revenues was mainly due to the NBC Upfront Project having generated increased revenues in 2014 as compared to 2013 for XA.

Cost of revenue increased from \$4,526,627 for the nine months ended September 30, 2013 to \$6,312,846 for the nine months ended September 30, 2014. The increase in cost of goods sold was due to the increase in revenues of XA.

Operating expenses increased from \$6,599,658 for the nine months ended September 30, 2013 to \$9,220,728 for the nine months ended September 30, 2014. The increase in operating expenses is due to the increase in revenues of our subsidiary XA and research and development expenses of Good Gaming. In addition, the Company incurred non-cash charges of \$619,627, \$120,813 and \$87,500 in connection with the issuance of warrants issued to our Chief Executive Officer, shares of common stock issued to former directors and a consultant and costs affiliated with the acquisition of Good Gaming, Inc., respectively.

Net income decreased from \$2,070,484 for the nine months ended September 30, 2013 to a net loss of \$1,618,697 for the nine months ended September 30, 2014. The decrease in earnings is due to the differences of realized and unrealized gains of marketable securities incurred during the nine months ended September 30, 2014 and September 30, 2013 and the non-cash charges incurred in our operating expenses.

The table below reflects the Company's results of operations by entity for the nine months ended September 30, 2014

	<b>XA</b>	<b>Good Gaming</b>	<b>CMG Holdings Group</b>	<b>Totals</b>
Revenue	\$7,646,532	\$—	\$—	\$7,646,532
Operating expenses	7,840,673	140,550	1,239,505	9,220,728
Operating Income (Loss)	(194,141 )	(140,550)	(1,239,505)	(1,574,196)
Other Income (Expense)	(11,200 )	—	(33,301 )	(44,501 )
Net Income (Loss)	\$(205,341 )	\$(140,550)	\$(1,272,806)	\$(1,618,697)

## **LIQUIDITY AND CAPITAL RESOURCES**

As of September 30, 2014, the Company's cash on hand was \$145,853. Cash used in operating activities for the nine months ended September 30, 2014 was \$1,227,805, as compared to \$11,939 for the nine months ended September 30, 2013. The Company recorded net loss of 1,618,697 for the nine months ended September 30, 2014 as compared to net income of \$2,070,484 for the nine months ended September 30, 2013.

Cash from investing activities for the nine months ended September 30, 2014 was \$832,070 as compared to cash from or used in investing activities of \$0 for the nine months ended September 30, 2013. The increase in cash from investing activities is due to the sales of shares of common stock of Audio Eye by the company during the nine months ended September 30, 2014. During the nine months ended September 30, 2014, the Company purchased computer equipment in the amount of \$18,400 for its subsidiary, Good Gaming, Inc.

Cash provided by financing activities for the nine months ended September 30, 2014 was \$65,000, as compared to \$52,000 provided for the nine months ended September 30, 2013. On September 30, 2014, the Company sold a convertible promissory Note (the "Note") in private placements to Iconic Holdings LLC. The principal amount of the

Note is \$55,000 The Note is convertible, at the holder's option, into shares of our common stock, generally at 70% of the lowest trading price of our common stock, for the prior 20 trading days. The Note bears interest at 10% annum, can be repaid at any time prior to maturity with a prepayment penalty of 10% of the principal amount paid, is due on September 30, 2015 and contain customary events of default and provide for increased interest rates in the event of default. We did not pay a placement agent or other fees and the Note was issued with an original issue discount of \$5,000. Net proceeds to the Company was \$50,000. The Note does not require us to register the shares of our common stock underlying their conversion.

The Company anticipates that it will need approximately \$1,250,000 to fund operations over the next 12 months. The Company anticipates that during the three months ended March 31, 2015, the Company will generate sufficient revenues in its two subsidiaries to fund the operations. For the three months ended December 31, 2014, the Company has sold three Convertible Promissory Notes to raise the required capital. In addition, the Company anticipates that revenue generated will fund a portion of such cash requirements. There is no assurance that the Company will be successful in raising the amounts required to fund operations or generate sufficient revenue to fund its operation. In the event that the Company is unable to fund the operation it will not be able to continue as a going concern.

#### **ITEM 4 - CONTROLS AND PROCEDURES**

##### **EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES**

In view of the events described under “Recent Events” above, the Company’s Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of the Company’s disclosure controls and internal controls. Based upon such evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that, as of September 30, 2014, the Company’s disclosure controls and procedures were not effective due to the identification of material weaknesses in our internal controls over financial reporting which allowed for theft of Company funds, assets and services.

A material weakness is a deficiency, or a combination of control deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the Company’s annual or interim financial statements will not be prevented or detected on a timely basis. At any time, if it appears that any control can be implemented to continue to mitigate such weaknesses, it is immediately implemented. As soon as our finances allow, we will hire sufficient accounting staff and implement appropriate procedures for monitoring and review of work performed by our Chief Accounting Officer. It is the Company’s position that the weaknesses in internal controls mentioned above and listed below allowed the former employees and the former XA Chief Executive Officer to commit wrongful acts in XA which led to theft of Company funds and property, including the Company’s customer base and the entry by the Company into non-arm’s length transactions to its detriment.

In performing this assessment, management has identified the following material weaknesses:

There is a lack of segregation of duties necessary for a good system of internal control due to insufficient accounting staff due to the size of the Company

Lack of a formal review process that includes multiple levels of reviews

Employees and management lack the qualifications and training to fulfill their assigned accounting and reporting functions

Inadequate design of controls over significant accounts and processes

Inadequate documentation of the components of internal control in general

Failure in the operating effectiveness over controls related to valuing and recording equity based payments to employees and non-employees

Failure in the operating effectiveness over controls related to valuing and recording debt instruments including those with conversion options and the related embedded derivative liabilities

Failure in the operating effectiveness over controls related to recording revenue and expense transactions in the proper period

Failure in the operating effectiveness over controls related to evaluating and recording related party transactions

#### **CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING**

No change in the Company's internal control over financial reporting occurred during the period ended September 30, 2014, that materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

## **PART II OTHER INFORMATION**

### **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.

In October, 2014, Ronald Burkhardt, XA,s former Executive Chairman and a current member of the Company’s Board of Directors filed a lawsuit in the Supreme Court of the State of New York, County of New York, alleging breach of his employment contract and seeking approximately \$695,000 in damages. The Company believes that Mr. Burkhardt’s claim is without merit and plans to vigorously defend the lawsuit.

### **ITEM 1A – RISK FACTORS**

The Company 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**

On October 1, 2014 the Company sold a Convertible Debenture in the principal amount of \$114,000 to Typenex Co-Investment, LLC. The principal amount includes an Original Issue Discount in the amount of \$10,000 and investor fees in the amount of \$4,000. Total net proceeds to the Company were \$100,000. The Debenture bears interest at an annum rate of 10% and is payable in 5 equal installments that can be paid in cash or share of the Company’s common stock. The number of shares to be issued for installment payments made in the form of shares of the Company’s common stock, shall be calculated at 70% of the average of the three closing prices in the 20 trading days prior to the date of conversion, of the Company’s common stock. The Note’s maturity date is August 1, 2015.

On October 10, 2014 the Company sold a Convertible Debenture in the principal amount of \$115,000 to KBM Investments LLC. The principal amount includes an Original Issue Discount in the amount of \$11,000 and investor fees in the amount of \$4,000. Total net proceeds to the Company were \$100,000. The Debenture bears interest at an annum rate of 8% and can be repaid at any time prior to the date of maturity. The prepayment penalty for such prepayment ranges from 8% to 25% of the principal amount paid. On the 181<sup>st</sup> day from the date of the Note, the Note



is convertible into shares of the Company's common stock. The rate of such conversion is 75% of the lowest 3 trading prices of the Company's common stock during the ten trading days prior to the conversion date. The Note's maturity date is October 8, 2015.

Except as disclosed above, all unregistered sales of the Company's securities have been disclosed on the Company's current reports on Form 8-K.

**ITEM 3 – DEFAULT UPON SENIOR SECURITIES**

**None.**

**ITEM 4 – MINE SAFETY DISCLOSURES**

**None.**

**ITEM 5 – OTHER INFORMATION**

**None.**

**ITEM 6 – EXHIBITS**

<b>Exhibit Number</b>	<b>Description of Exhibit</b>	<b>Filing Reference</b>
31.01	Certification of Principal Executive Officer Pursuant to Rule 13a-14.	Filed herewith.
31.02	Certification of Principal Financial Officer Pursuant to Rule 13a-14.	Filed herewith.
32.01	CEO and CFO Certification Pursuant to Section 906 of the Sarbanes-Oxley Act.	Filed herewith.
101.INS	XBRL Instance Document.	
101.SCH	XBRL Taxonomy Extension Schema Document.	
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.	
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document	
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.	
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document	

\* The XBRL-related information in Exhibits 101 to this Quarterly Report on Form 10-Q shall not be deemed “filed” or a part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, and is not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liabilities of those sections.

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant caused this report to be signed on its behalf by the undersigned, there unto duly authorized.

**CMG HOLDINGS GROUP, INC.**

Dated: November 19, 2014 **By: /s/ Glenn Laken**  
Glenn Laken

Chief Executive Officer and Chief Accounting Officer