

ACE MARKETING & PROMOTIONS INC
Form 10-K
March 15, 2013

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2012

COMMISSION FILE NUMBER: 000-51160

ACE MARKETING & PROMOTIONS, INC.

(Exact name of Registrant as specified in its charter)

New York (State of jurisdiction of incorporation or organization)	11-3427886 (I.R.S. Employee Identification Number)
600 Old Country Road, STE 541, Garden City, NY (Address of principal executive offices)	11530 (Zip Code)
Registrant's telephone number, including area code:	(516) 256-7766
Securities registered pursuant to Section 12 (b) of the Act:	None
Securities registered pursuant to Section 12 (g) of the Act:	Common Stock, \$.0001 Par Value

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes ☐ No ☒

Check whether the Registrant is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. ☐

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 if disclosure of delinquent filers in response to Item 405 of Regulation S-K is not contained in this form, and no disclosure will be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in part III of this Form 10-K or any amendment to this Form 10-K ☐.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company as defined by Rule 12b-2 of the Exchange Act: smaller reporting company ☒.

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

As of June 30, 2012, the number of shares held by non-affiliates was approximately 22,722,000 shares. The approximate market value based on the last sale (i.e. \$.59 per share as of June 30, 2012) of the Company's Common Stock was approximately \$13,406,000.

The number of shares outstanding of the Registrant's Common Stock, as of March 7, 2013 was 34,230,252.

FORWARD-LOOKING STATEMENTS

We believe this annual report contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are subject to risks and uncertainties and are based on the beliefs and assumptions of our management, based on information currently available to our management. When we use words such as "believes," "expects," "anticipates," "intends," "plans," "estimates," "should," "likely" or similar expressions, we are making forward-looking statements. Forward-looking statements include information concerning our possible or assumed future results of operations set forth under "Business" and/or "Management's Discussion and Analysis of Financial Condition and Results of Operations." Forward-looking statements are not guarantees of performance. They involve risks, uncertainties and assumptions. Our future results and stockholder values may differ materially from those expressed in the forward-looking statements. Many of the factors that will determine these results and values are beyond our ability to control or predict. Stockholders are cautioned not to put undue reliance on any forward-looking statements. For those statements, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. For a discussion of some of the factors that may cause actual results to differ materially from those suggested by the forward-looking statements, please read carefully the information under "Risk Factors." In addition to the Risk Factors and other important factors discussed elsewhere in this annual report, you should understand that other risks and uncertainties and our public announcements and filings under the Securities Exchange Act of 1934, as amended could affect our future results and could cause results to differ materially from those suggested by the forward-looking statements.

Item 1. Business

Overview

Ace Marketing & Promotions, Inc. (the "Company," "Ace," "we" or "our"), a New York corporation is a business and technology development company focusing on brand marketing, advanced integrated marketing platforms, mobile marketing, social networks, website development and digital media.

Corporate Developments

On January 28, 2013, the Company announced that the Board of Directors has proposed to change the Company's name to "Applied Marketing Technologies Inc.", subject to the shareholders' approval at the upcoming shareholder meeting.

The Company's corporate strategy is to position itself as a business and technology development company focusing on advanced integrated marketing platforms, mobile marketing, social networks, and digital media. The proposed new

name will better reflect the Company's evolved mission, diversified operations and commitment to developing innovative marketing technology solutions. The Company also formed two new wholly-owned subsidiaries to go along with its existing subsidiary (Mobiquity Networks, Inc.), each focused on driving new revenue through the commercialization of one or more propriety technologies developed or acquired by the Company.

The first new subsidiary is Ace Marketing, Inc. ("AMI"), an Integrated Marketing Company focused on marketing process analysis and technology-based growth acceleration strategies. AMI offers Brand Analysis & Development, Website Analysis & Development, Database Analysis & Building, and Integrated Marketing Campaigns using: direct mail, email marketing, mobile marketing, promotional products and other mediums that help its clients connect with their customers and acquire new business. Additionally, AMI will utilize our proprietary back-office business process management platform dubbed "Axxion". The Company created this platform to ensure efficient business process scalability. Axxion will be the cornerstone of a planned growth strategy focused on acquisition and an aggressive sales team expansion.

The second new subsidiary is Venn Media, created to commercialize a proprietary Web Development Platform (with CMS as defined below) engineered to revolutionize the way websites are developed and maintained. The Venn Media platform drastically reduces the programming and coding required to deliver outstanding functionality, and delivers a Content Management System ("CMS") that puts the control of content back into the Clients' hands. More importantly, the Venn CMS allows clients to manage their Branded Merchandise/Company Store, In-House Database, E-mail and SMS Text marketing communication from a single platform. Over 75 projects have already been built and successfully launched on Venn Media's version one platform. Version two, which is already in development, with advanced social media integration is scheduled to be launched later in fiscal 2013.

The third subsidiary is Mobiquity Networks, a leading provider of hyper-local mobile marketing solutions. Mobiquity is continuing to attempt to build one of the nation's largest Proximity Marketing networks. Proximity Marketing is a location-based marketing tool that delivers rich digital content to any Bluetooth or Wi-Fi enabled device within a 300ft radius of a central terminal. Mobiquity's technology permits delivery to virtually any mobile device and properly formats each message to ensure that every user receives the best possible experience. Results are fully trackable, giving campaigns full performance accountability. Mobiquity offers brands the opportunity to reach millions of consumers with relevant, engaging content that is 100% free to the end user. The Mobiquity network is the largest mall-based network of its kind. It is currently installed in 75 malls across the US, covering each of the top 10 designated marketing areas "DMA's"), and has the ability to reach approximately 96 million shopping visits per month.

The Company has been licensing the U.S. rights to its proximity marketing units from FuturLink, SA, a pioneer in the field of location-based mobile marketing and purchasing its inventory directly from FuturLink. These proximity marketing units were developed by FuturLink with innovative platforms utilizing Bluetooth, Wi-Fi, QR (Quick Response codes) and NFC (Near Field Communications) to create, manage and deploy mobile marketing campaigns. On March 7, 2013, the Company acquired the assets of FuturLink in exchange for an undisclosed amount of cash, which cash was paid from the Company's current working capital. These assets include, without limitation, the FuturLink technology (patents and source codes), trademark(s) and access point (proximity marketing) component parts.

As the technology owner, the Company realized immediate cost savings and will leverage the hardware and software included in its purchase to expand its mall-based footprint in the United States. The acquisition of FuturLink's technology and corresponding patents provides the Company with vertical integration and provides it with flexibility and autonomy. By owning the technology, the Company has the ability to do the following:

- Increase download speed for both Bluetooth and Wi-Fi,
- Add customer dashboard for real-time reporting of campaign statistics,
- Implementation of a rewards program to increase download loyalty,
- Ability to deliver apps directly via Bluetooth and Wi-Fi
- Reduce cost of proximity marketing units by approximately 60-70% and
- Eliminate the payment of licensing fees to FuturLink of approximately \$175,000 per annum.

It is the Company's intention to continue its established relationship with Blue Bite, to maintain the proximity marketing network and to enhance the FuturLink platform capabilities through the integration of additional mobile solutions.

The acquisition of assets of FuturLink's assets did not result in the acquisition of a significant subsidiary as defined under Article 1(w) of Regulation S-X.

Ace Advantages

Ace is an integrated marketing company focused on working with clients to grow their business. Ace offers brand analysis and development, website analysis and development, database analysis and building, and integrated marketing campaigns using: direct mail, email marketing, mobile marketing, promotional products and other mediums that help our clients connect with their customers and acquire new business.

Ace has created a four-step process supported by marketing technology platforms to provide a comprehensive range of capabilities with the goal of having the right client utilize the right message at the right time.

The “Ace Process”

§	Brand analysis and development,
§	Website analysis and development,
§	Watabase analysis and building, and
§	Integrated marketing campaigns.

BRAND ANALYSIS & DEVELOPMENT

Ace’s clients have one chance to make a first impression. Our clients’ brand image creates that impression, and reinforces that message each time their customer interacts with our client’s brands. Our creative department can help each client design a branding strategy for its business that creates the image and lasting impression that each of our clients need. Adding a client’s brand to promotional merchandise is a subtle, yet effective way to drive repeat impressions and awareness of a client’s brand. Well-placed branded merchandise often stays in front of customers for many years, and can offer the lowest cost per impression marketing available today. To achieve the highest level of brand control and innovative style, we can work with each client’s team to create custom merchandise to perfectly reflect the image a client wants to project to its customers. We work with a proven team of domestic and international designers and product manufactures to ensure that each client’s custom products deliver the style and performance within the required cost-structure.

In creating a strong brand, our team must be able to answer each of the following questions:

§	Brand Analysis: Does it send the right message our client’s want?
§	Brand Creation: Have we achieved a professional look?
§	Brand Consistency: Is our client marketing consistent across all mediums?

WEBSITE ANALYSIS & DEVELOPMENT

Ace believes that each client’s business is judged by its website, and if its prospects can’t find our client online, it’s like our client does not exist at all. A recent study by BIA/Kelsey indicates that 97% of consumers go online to research products and services. If they’re not finding the company during their searches, there’s no doubt about it: companies are likely losing a substantial amount of business.

Ace has created a proprietary web development platform (AcePlace CMS) that is changing the way websites are developed and maintained. Our platform drastically reduces the programming and coding required to deliver

outstanding functionality, and delivers a content management system that puts the control back into our clients' hands. More importantly, with AcePlace, each client can manage its own branded merchandise/company store, its own in-house database, e-mail, and text marketing communication from a single platform.

Ace's keys to creating a strong web presence are as follows:

- § Create a strong brand image;
- § Utilize a content management system (CMS);
- § Use AcePlace as a client's central marketing tool; and
- § Make sure our client's website is optimized for mobile devices.

DATABASE ANALYSIS & BUILDING

Ace works with each client's existing database(s) to ensure that each client has the most accurate and up-to-date information for its clients including (but not limited to) physical addresses, email addresses and phone numbers. Ace also "Models" the demographic and psychographic characteristics of the customers/clients in its database. Ace utilizes this information to learn even more about each client's existing customers. Ace can create a demographic/psychographic profile of each client's ideal customer base. This highly-targeted knowledge can be utilized to accurately identify high-probability prospects in each client's market area. Ace makes the most of each client's data by performing the following tasks with the help of our clients:

- § Data Cleaning & Appending: We make sure that our client's data and information are accurate.
- § Data Modeling: We determine statistically speaking which customers should be utilizing our client's products and services?
- § Acquisition Modeling: Then, based on the results of the data modeling, we project who else our clients should be targeting?

INTEGRATED MARKETING CAMPAIGNS

The most effective way to increase the response rate and rate of return on investment of each client's marketing program is to deliver personalized messages that are targeted to the right audience as determined through advanced database management. Each client's message must then be delivered utilizing the most effective medium for the intended customer. Ace provides integrated platforms that deliver the right message to the right client using the right delivery method.

Each multi-channel marketing capabilities include the following:

§	Branded merchandise;
§	Direct mail marketing;
§	E-Mail marketing; and
§	Mobile marketing.

Mobiquity Networks

Mobiquity Networks is a leading provider of location-based mobile marketing solutions. Mobiquity has built one of the nation's largest proximity marketing networks in shopping malls across the United States. Proximity Marketing is a solution that delivers content to any Bluetooth or Wi-Fi enabled device within a 300ft radius from a central terminal. Mobiquity's technology permits delivery to virtually any mobile device and properly formats each message to ensure that every user receives the best possible experience. Results are fully traceable, giving campaigns a true level of accountability. Mobiquity offers brands the opportunity to reach millions of consumers with relevant, engaging content which is completely measurable for the advertisers and free for the user. A proximity marketing unit can detect the total number of mobile devices in a specific area and then dynamically present a highly relevant offer to consumers. The consumer receives an opt in request for the specific campaign and once acceptance is granted, the user can receive a range of rich media content utilized by advertisers for promotional purposes. Through this marketing medium, advertisers can track metrics and analytics in a much more targeted way and quantitatively measure the effectiveness of their campaigns. Our proximity marketing campaigns interact with people when they are present in shopping malls. Our proximity marketing advantages include the following:

Ace uses location-based mobile marketing within the shopping mall to truly interact with each client's desired demographic when it counts. Ace delivers rich digital content such as movie trailers, wallpapers, and coupons via Bluetooth and WiFi directly to the mobile devices of each client's target audience without any cost to the end-user.

The mobile device has become an integral part of everyday life spanning all demographics. The ability to reach consumers at such a personal level increases the effectiveness of marketing campaigns. The experience starts in the mall but can be extended by the users. The user can easily share the content with others around the world, further extending the reach of a campaign.

Our technology permits delivery to virtually any mobile device and properly formats each message to ensure that every user receives the best possible experience. Results are fully trackable giving campaigns a true level of accountability.

Mobiquity Networks platform uses Bluetooth and WiFi to ensure the broadest reach possible and they are:

- § Compatible with over 1,800 unique mobile devices;
- § Compatible with smartphones (iPhone, Android, Palm, HTC) as well as non-smartphones;
- § Do not need to download an additional application; and
- § The message content is free for each end-user.

How It Works

Relevant & Engaging Content

Delivering the right content in the right context to a mobile phone is a powerful method to personally influence individuals.

We have the ability to deliver a variety of rich media at no cost to the consumer based

on location or time of day, including the following:

§	Videos: Movie Trailers, Exclusive Videos, Commercials;
§	Coupons: Discounts and offers for current and prospective customers;
§	Images: Album Covers, Action Shots, Wallpapers ;
§	Games: Mobile games (partial free play, purchase full game);
§	Ringtones: Mp3's, Voice Tones, Soundtracks;
§	Applications: Mobile applications (partial free, purchase full); and
§	Calendar Appointments: Reminders.

Our technology can simultaneously transmit multiple pieces of content during one campaign (e.g. video and a coupon) utilizing our technology. In our proximity marketing networks,

§	We can deliver virtually any digital file that is viewable on mobile device,
§	Most common types of content are videos, images, ring-tones, coupons, animated gifts, and
§	We keep all files as small as possible without compromising quality to ensure quick delivery and sufficient memory
§	on mobile device (400 – 750 Kb).

Life of the Digital File

Each of our client's digital content becomes an extension of the engagement, provides shoppers with the ability to share the experience and has advantages over other forms of advertising:

§	Mobile content is timeless advertising
§	Downloaded files remain on the phone until removed by the user
§	One download often equates to multiple views over time
§	Wallpaper for instance will be viewed numerous times per day) providing residual value for the advertiser
§	Digital Files can be shared across social networks
§	

Fans spread content quickly around the world via e-mail, MMS, (i.e. multi-media messaging services) and social networking sites like Facebook, Twitter and MySpace resulting in additional downloads and exposure at no additional cost to the advertiser.

Understanding Bluetooth and WiFi

§ Bluetooth is a universal communications protocol primarily designed for low power consumption enabling devices to communicate with each other when they are in range. Bluetooth has the following characteristics:

§ Devices do not have to be in line of sight (transmission range of up to 300ft);

§ Popular devices include mobile phones, laptops, smart-phones, headsets, video-game controllers;

§ Bluetooth is the most common method of wireless data transmission; and

§ Bluetooth saturation and consumer adoption grew exponentially as a result of hands-free driving legislation.

§ Bluetooth and WiFi are most feasible and cost-effective method of delivering media to mobile devices which are

§ FCC compliant,

§ Not considered SPAM advertising, and

§ An effective method of delivering numerous types of digital media.

§ WiFi allows for compatibility with additional handsets via HTML web browsing and

§ WiFi is the only way to communicate with Apple's iPhone (Bluetooth not capable of file transfer),

§ Apple has sold over an estimated 40 million iPhones to date, and

§ Newer more advanced models are integrating WiFi (Blackberry Bold, Google G1).

§ WiFi has important complements to Bluetooth inasmuch as WiFi has

§ Interactive browsing of content ,

§ Allows users to choose the content they want (push vs. pull).

§ Fast transmission speeds, and

§ Strong signal enables longer transmission range.

§ WiFi usage is familiar to consumers

§ Most users have a pre-existing knowledge base and experience connecting to and utilizing WiFi networks (short learning curve).

§ There is a high prevalence and rapid growth of Bluetooth and WiFi.
 § Billionth Bluetooth device was reportedly shipped in November 2006.
 § According to a 2008 Millward Brown study, consumer awareness of Bluetooth and WiFi is at an all-time high.
 § By 2010, Bluetooth and WiFi will be present in over 90% and 30% of mobile handsets in the U.S., respectively.
 § Bluetooth SIG has predicted that 10 billion Bluetooth devices will ship by 2011.
 § WiFi gaining traction with mobile carriers as it reduces strain on network bandwidth.

Advantages of Bluetooth and WiFi over other Media

The following are advantages of Bluetooth and WiFi over other media:

§ Free for end-user and can offer more complete content than other forms of mobile marketing; and
 § Compatible with over 1,800 types of mobile phones.
 § *Robust tracking*
 § Unparalleled out-of-home advertising tracking;
 § Ability to track number of users who have been targeted (impressions);
 § Ability to report number of shoppers who accept/reject campaign;
 § *Rapidly growing consumer acceptance;*
 § Consistent campaign opt-in rates of over 40% and positive engagement rates of over 80%; and
 § Inherent value in the download itself.
 § *Flexibility and targeting*
 § Best geo-targeting available and ability to change hierarchy and timing of advertisement transmissions;
 § Ability to transmit any type of media (images, videos, ringtones, mp3s, coupons, applications, games and more);
 § Maintains user response history to prevent duplicate transmissions and retarget users with personalized campaigns;
 § *Timeless advertising;*
 § Media remains in device until proactively removed by user (multiple views); and
 § Advertisement can be spread exponentially around the world via Bluetooth, Email, SMS, MMS (“Demographic sorting”).

Mobiquity’s network is currently in 75 malls representing over 96 million visits per month. Fifty of the malls that Mobiquity currently operates are owned by Simon Property Group. The remaining 25 mall locations are owned by Macerich. Simon Property Group and Macerich are two of the largest mall operators in the U.S.

For the exclusive use of Bluetooth throughout the common areas of their top 50 malls until December, 2015, the Company paid Simon Property Group a one-time \$250,000 rights fee and pays \$1,000 per month per mall. The agreement with Simon also allows for non-exclusive use of Wi-Fi.

The Company is currently installed in 25 Macerich malls throughout the US. Macerich currently has 76 shopping malls in the US and had over 650 million shopping visits in 2010. Expanding throughout the Macerich mall portfolio is under Management consideration.

Growth Strategy

Location-Based Mobile Marketing combined with Out-Of-Home Advertising results in strong opt-in rates due to proximity of the Network. Management believes that we have the first Location-Based Mobile Marketing Company focused on US shopping malls and we have built and control the only national proximity marketing mall network. Our exclusive five-year contract executed in June 2010 with leading Out-Of-Home advertising company, Eye Corp. enables us to remain a leader in US malls. Eye Corp. is a subsidiary of Ten Network Holdings, a public company with its headquarters in Australia. Eye Corp. has an exclusive agreement with Simon Malls to manage their non-digital assets in all mall properties and has a full-time sales force that maintains relationships with several hundred brands.

Agreement with Simon Property Group, L.P.

In April 2011, we signed an exclusive rights agreement with Simon Property Group to create a location-based mobile marketing network called **Mobiquity Networks**. The 50 mall agreement runs through December of 2015 and includes top malls in the Simon Property Group's mall portfolio. This alliance provides advertisers the opportunity to reach millions of mall visitors per month with mobile digital content and offers when they are most receptive to advertising messages.

In connection with Eye Corp., Mobiquity Networks will deliver digital content and offers to shoppers on their mobile devices through Eye Corp's extensive mall advertising network. Eye Corp and Mobiquity Networks have an exclusive agreement to build a location-based mobile marketing network throughout Eye Corp's Mall Advertising network.

Our location-based mobile advertising medium is designed to reach on-the-go shoppers via their mobile devices with free rich media content delivered using Bluetooth or Wi-Fi. This advertising medium offers extremely targeted messaging engineered to engage and influence shoppers as they move about the mall environment. Eye Corp. and our company will jointly create mobile marketing programs for existing clients in conjunction with their already active in mall advertising programs. Mobiquity Networks proximity marketing units will be strategically positioned in shopping malls near entrances, anchor stores, escalators and other high-traffic, and high dwell-time areas. Mobiquity Networks proximity marketing unit placement takes advantage of the opportunity to provide a reminder to consumers and touch them just before making a purchase decision. These units generate high awareness and brand recognition at the right time and place. When combined with the impact of other visual advertising mediums (in mall assets) or as a stand-alone medium, Mobiquity Networks is a great mobile solution to promote a brand on a local or national level.

Our Distribution and Marketing Strategy

Key elements of our distribution and marketing strategy are as follows:

We have created a suite of solutions for one stop shopping. With our suite of solutions in place, Ace now offer its clients and potential clients the ability to work smarter in addressing their marketing needs by leveraging technology platforms. The services and technology platforms assembled provide our clients with an exceptional mix of solutions for reaching their customers in ways that were previously impossible. Clients have the ability to choose a single § marketing or a complete package of solutions working together seamlessly. By offering the entire suite of solutions, the need for multiple vendors has been eliminated, and Ace can be a single source provider of brand marketing, advanced integrated marketing platforms, mobile marketing, social networks, website development and digital media.

We have partnered with leading companies for our proximity marketing business. We have partnered with Blue Bite LLC. (“Blue Bite”), a premier provider of Proximity Marketing hardware and software solutions, and Eye Corp Pty Ltd., (“EyeCorp”) an out-of-home media company which operates the largest mall advertising display network in the United States, to roll-out an expansive network which comprises of retail, dining, transportation, sporting, music, § and other high traffic venues. As a result of such relationships, in April 2011, we were able to enter into an exclusive rights agreement with the Simon Property Group to create a location-based mobile marketing network in top malls across the United States in the Simon mall portfolio. This alliance provides advertisers the opportunity to reach millions of mall visitors a month with mobile digital content and offers when they are most receptive to advertising messages.

§ *Creating awareness of our products, services and facilities.* Our revenues are derived from existing customers and new customers through word of mouth recommendations, attendance at trade shows, our sales representatives and advertising and promotion in trade journals.

Our company was built as a platform with significant growth potential. Scalability is the key and we have separate departments with defined roles which will help our salesperson to sell and facilitate our growth. In many other § distributorships, the salesperson is often responsible for everything from answering phones, doing all their own research, processing orders, billing, tracking and collections. At our Company, we provide full support to our staff to ensure that our salespersons are focused on selling. Our proprietary technology (Axxion Platform) allows us the ability to pick up salespeople from any location in the United States.

Providing generous incentives to our sales people to increase performance levels. We offer competitive commissions in addition to back office support and research assistance to allow our independent sales § representatives to optimize their sales time and to provide them with adequate incentives to sell promotional products to our customers rather than for our competitors. We also offer a stock option program for additional incentives.

Provide research, consulting, design and fulfillment services to our customers to increase profitability. We design promotional products for our customers and provide consulting services in connection therewith. We utilize licensed research software technology and order entry systems in conjunction to our own proprietary software that enables us to provide the best services to our customers in the timeliest fashion possible.

Sales and Marketing

Our revenues for brand marketing, advanced integrated marketing platforms, mobile marketing, social networks, website development and digital media. are derived from existing customers and new customers through word of mouth recommendations, attendance at trade shows, our sales representatives and advertising and promotion in trade journals. Our Ace Marketing website is utilized for multiple purposes, including providing information to potential customers who want to learn about us and research our available product line. With the exception of our two executive officers, our sales representatives receive commissions and are not paid a salary. They work at their own location(s) or at our facility and may sell products on behalf of other companies. We encourage our sales representatives to sell promotional products for us on the basis of sales incentives which include competitive commissions and appropriate sales support and research which are provided in-house by our employees. Our revenues for mobile marketing are derived through our relationship with Eye Corp. and our own sales marketing representatives. Eye Corp. has an exclusive agreement with Simon Malls to manage their non-digital assets in all mall properties and has a full-time sales force which maintains relationships with over 800 brands. The sales team of Eye Corp. will be paid a commission on any Mobiquity proximity products and sales.

Competition

Our website development and digital media divisions compete against thousands of small, medium and large companies throughout the United States. We can provide no assurances that our business will be able to compete in these business divisions against other companies that may have more financial resources and greater experience than the Company.

With respect to our branding and branded merchandise (promotional products vertical), while our competition in this business vertical is extensive with over 20,000 distributors, we believe that there are no companies that dominate the market in which we operate. Our Company competes within the industry on the basis of service, competitive prices, personnel relationships and competitive commissions to our sales representatives to sell promotional products for us rather than our competitors. Competitors' advantages over us may include better financing, greater experience, lower margins and better personal relationships than us.

According to the Promotional Products Association International, with no single company dominating the market, the promotional products industry is highly fragmented with 21,150 distributors in the industry with revenues of less than \$2.5 million and 864 distributors with revenues of \$2.5 million or more. According to The Counselor – State of the Industry 2011 Survey, the top ten distributors in our industry are believed to have 2010 North American sales of over \$2 billion. Staples, Pro Forma Inc., BDA, Group II Communications/IMS, and 4 Imprint were the top five distributors of 2010 with estimated sales of \$364 million, \$269 million, \$256 million, \$223 million and \$190 million, respectively. Nearly 80% of the distributors surveyed are reported to be privately owned family businesses. Management believes that control of sales lies predominantly with the independent sales representatives, as there is little brand recognition at this time.

We believe that in the promotional products industry, sales people typically have a large amount of autonomy and control the relationships with their customers. This works both for and against us. To avoid losing customers, we must provide the appropriate incentives to keep sales people. At the same time, while there can be no assurances, management believes our company will be able to obtain new customers by luring sales people away from competitors. The offering of stock incentives and health care benefits are ways to retain sales people, especially in an industry where these types of benefits are rare.

Employees

As of February 12, 2013, we had 15 full time employees, including a chief financial officer, three additional executive officers who provide in-house sales, and eight support staff employees, who also provide sales. We also utilize eight sales representatives of which four are employees who provide services on an exclusive basis and four additional persons who provide services to us on a non-exclusive basis as independent consultants.

Item 1.A. Risk Factors

YOU SHOULD CAREFULLY CONSIDER THE FOLLOWING RISK FACTORS, IN ADDITION TO THE OTHER INFORMATION PRESENTED IN THIS FORM 10-K, IN EVALUATING US AND OUR BUSINESS. ANY OF THE FOLLOWING RISKS, AS WELL AS OTHER RISKS AND UNCERTAINTIES, COULD HARM OUR BUSINESS AND FINANCIAL RESULTS AND CAUSE THE VALUE OF OUR SECURITIES TO DECLINE, WHICH IN TURN COULD CAUSE YOU TO LOSE ALL OR PART OF YOUR INVESTMENT.

RISKS RELATING TO OUR BUSINESS

History of operating losses. Since we went public in 2005, we have experienced a continued history of operating losses. For the years ended December 31, 2012, 2011, and 2010 we incurred a net loss of \$4,134,061, \$2,209,508 and \$1,762,256, respectively. Our operating losses for the past three years are attributable to the general state of the economy, the retooling of our mobile marketing campaign with the purchase of our proximity marketing boxes and

substantial non-cash based compensation. We can provide no assurances that our operations will be profitable in the future. During the fiscal years ended December 31, 2012, 2011 and 2010, we have completed equity financings totaling \$1,887,556, \$2,222,727 and \$1,364,800, respectively. We can provide no assurances that we will be able to continue to raise additional financing to supplement our liquidity and capital resource needs on terms satisfactory to us if at all.

The Company entered into a Convertible Promissory Note which is secured by all the assets of the Company. An uncured default under the Note could materially adversely affect the Company's liquidity and capital resources. On June 12, 2012, we entered into a Secured Convertible Promissory Note due December 12, 2013 in the amount of \$350,000 with TCA Global Credit Master Fund L.P., which Note had an effective date of May 31, 2012. This Note is secured by all the assets of the Company. While the Note is outstanding, in the event the Company is in default under any terms of the Note or the other Transaction Agreements, including, without limitation, the Equity Agreement and Registration Rights Agreement described elsewhere herein, TCA could call the Note and refuse to honor the provisions under the Company's Equity Agreement. A default under the Note or other Transaction Documents, which is not cured within any permitted cure period specified in said agreements, could cause the Company to have to immediately retire the TCA Secured Note at a time when it would not be advantageous to the Company and could materially adversely affect the Company's liquidity and capital resources. We can provide no assurances that the Company will be able to meet its obligations under the Note and the other Transaction Documents.

Our proximity marketing business is new, unproven and the establishment of this business may not result in sufficient revenues and profitability to justify the expenditures thereof. Also there are no assurances that we will be able to successfully compete in the proximity marketing business. In 2008, we became an authorized distributor, provider and reseller in the United States of mobile advertising solutions, in the mobile advertising and proximity marketing industry. As of the filing date of this Form 10-K, we have not generated significant revenue from this new and unproven segment of our business. A primary business focus of Ace is to attempt to place our proximity marketing units into businesses on a local, regional and potentially on a national scale, and to then generate revenues through advertisers seeking new measurable media channels that can accurately target and engage key consumer segments and deliver compelling relevant content that can be enjoyed for what it is, shared with friends, interactively engage with or commercially acted upon instantaneously. It is our intent to enable advertisers to promote their business by sending animated images, audio files, video clips, text files, promotional or discount contents, bar codes, mobile games and java applications and business card files. We can also send live data such as news and sports updates to targeted mobile phones. The ABI Research report published in January 2008 on mobile marketing refers to the industry as still being in its "wild west" years but forecasts it will settle down and become a \$24 billion slice of the worldwide marketing and advertising pie by 2013. It estimates there was about \$1.8 billion spent in 2007 on all forms of mobile marketing. While Management intends to market the proximity boxes as a premier mobile technology, we can provide no assurances that Ace will successfully establish a local, regional and/or national network containing its proximity marketing boxes or that sufficient advertising revenues and profits (if any) will result to justify the expenditures thereof. We also can provide no assurances that we will be able to compete with large and small competitors that are in (or may enter) the Proximity Marketing industry with substantially larger resources and management experience.

Dependence upon our agreements with our business partners, Blue Bite LLC and Eye Corp. Pty Ltd. to execute on our proximity marketing plans as well as our dependence upon our agreement with Simon Property Group, L.L.P. We have partnered with Blue Bite LLC. ("Blue Bite"), a premier provider of Proximity Marketing hardware and software solutions, and Eye Corp Pty Ltd., ("EyeCorp") an out-of-home media company which operates the largest mall advertising display network in the United States, to roll-out an expansive network which comprises of retail, dining, transportation, sporting, music, and other high traffic venues. In April 2011, we signed an exclusive rights agreement with a Top Mall Developer (the "Simon Property Group") to create a location-based mobile marketing network called Mobiquity Networks. The 50 mall agreement runs through December of 2015. We are dependent upon our agreements with Blue Bite, Eye Corp. and Simon Property Group to execute on the development of our Proximity

Marketing business and to attempt to achieve profitable operations. We can provide no assurances that our operations will be profitable.

We cannot predict our future capital needs and we may not be able to secure additional financing. As of the filing date of this Form 10-K, we continue to need to raise additional financing to support our Proximity Marketing operations and for general business operations. We can provide no assurances that additional equity or debt financings will be available to us on mutually satisfactory terms, if at all. Such additional financings may involve substantial dilution of our stockholders or may require that we relinquish rights to certain of our technologies or products. In addition, we may experience operational difficulties and delays due to working capital restrictions. Failure to secure additional financing on favorable terms could have severe adverse consequences to us.

The promotional products distribution industry is highly competitive and we may not be able to compete successfully. We compete with over 20,000 distributor companies. Some of our competitors have greater financial and other resources than we do which could allow them to compete more successfully. Most of our promotional products are available from several sources and our customers tend to have relationships with several distributors. Competitors could obtain exclusive rights to market particular products which we would then be unable to market and may provide business solutions related to promotional products competitive with those provided by us. Industry consolidation among promotional products distributors, the unavailability of products, whether due to our inability to gain access to products or interruptions in supply from manufacturers, or the emergence of new competitors could also increase competition. In the future, we may be unable to compete successfully and competitive pressures may reduce our revenues.

We experience fluctuations in quarterly earnings. As a result, we may fail to meet or exceed the expectations of securities analysts and investors, which could cause our stock price to decline. Our business has been subject to seasonal and other quarterly fluctuations. Net sales and operating profits generally have been higher in the third and fourth quarters, particularly in the months of September through November, due to the timing of sales of promotional products and year-end promotions. Net sales and operating profits have been lower in the first quarter, primarily due to increased sales in the prior two quarters. Quarterly results may also be adversely affected by a variety of other factors, including:

- costs of developing new promotions and services;
- costs related to acquisitions of businesses;
- the timing and amount of sales and marketing expenditures;
- general economic conditions, as well as those specific to the promotional product industry; and
- our success in establishing additional business relationships.

Any change in one or more of these or other factors could cause our annual or quarterly operating results to fluctuate. If our operating results do not meet market expectations, our stock price may decline in the event a market should develop.

Because we do not manufacture the promotional products we distribute, we are dependent upon third parties for the manufacture and supply of our promotional products. We obtain all of our promotional products from third-party suppliers, both domestically and overseas primarily in China. We submit purchase orders to our suppliers who are not committed to supply products to us. Therefore, suppliers may be unable to provide the products we need in the quantities we request. Because we lack control of the actual production of the promotional products we sell, we may be subject to delays caused by interruption in production based on conditions outside of our control. In the event that any of our third-party suppliers were to become unable or unwilling to continue to provide the products in required volumes, we would need to identify and obtain acceptable replacement sources on a timely cost effective basis. There is no guarantee that we will be able to obtain such alternative sources of supply on a timely basis, if at all. An extended interruption in the supply of our products would have an adverse effect on our results of operations, which most likely would adversely affect the value of our common stock.

We may not be able to expand through internal growth and meet changes in the industry. Our plans for internal growth include hiring in-house sales representatives from our competitors and offering stock incentives and generous commissions to keep them. Additionally, we have room for growth by building direct relationships with advertising agencies and major corporations. Because of potential industry changes, our products and promotions must continue to evolve to meet changes in the industry. Our future expansion plans may not be successful due to competition, competitive pressures and changes in the industry.

Our limited cash resources and lack of a line of credit may restrict our expansion opportunities. An economic issue that can limit our growth is lack of extensive cash resources and lack of a working capital line of credit. Any lack of cash resources would limit our ability to take orders from customers and to place Proximity Marketing Units in malls across the country. We can provide no assurances that we will obtain additional resources and/or an adequate line of credit in the future, if at all.

Our revenues depend on our relationships with capable independent sales personnel over whom we have no control as well as key customers, vendors and manufacturers of the products we distribute. Our future operating

results depend on our ability to maintain satisfactory relationships with qualified independent Sales personnel as well as key customers, vendors and manufacturers. We are dependent upon our independent sales representatives to sell our products and services and do not have any direct control over these third parties. If we fail to maintain our existing relationships with our independent sales representatives, key customers, vendors and manufacturers or fail to acquire new relationships with such key persons in the future, our business may suffer.

Our future performance is materially dependent upon our management and their ability to manage our growth. Our future success is substantially dependent upon the efforts and abilities of members of our existing management, particularly Dean L. Julia, Co-Chief Executive Officer, Michael Trepeta, Co-Chief Executive Officer and Sean Trepeta, President of Mobiquity Networks. The loss of the services of these persons could have a material adverse effect on our business. As of the filing date of this Form 10-K, we have employment agreements with each of Messrs. Julia and M. Trepeta which expire on February 28, 2018 and renew on March 1st of each calendar year for an additional year unless the executive's employment agreement is terminated on or before December 30th of the prior calendar year. However, we lack "key man" life insurance policies on any of our officers or employees. Competition for additional qualified management is intense, and we may be unable to attract and retain additional key personnel. The number of management personnel is currently limited and they may be unable to manage our expansion successfully and the failure to do so could have a material adverse effect on our business, results of operations and financial condition.

RISKS RELATING TO AN INVESTMENT IN OUR COMMON STOCK

We lack an established trading market for our common stock, and you may be unable to sell your common stock at attractive prices or at all. There is currently a limited trading market for our common stock in the OTC electronic bulletin board under the symbol "AMKT." There can be no assurances given that an established public market will be obtained for our common stock or that any public market will last. The trading price of the common stock depends on many factors, including:

- costs of developing new promotions and services;
- costs related to acquisitions of businesses;
- the timing and amount of sales and marketing expenditures;
- general economic conditions, as well as those specific to the promotional product industry; and
- our success in establishing additional business relationships.

As a result, we cannot assure you that you will be able to sell your common stock at attractive prices or at all.

The market price for our common stock may be highly volatile. The market price for our common stock may be highly volatile. A variety of factors may have a significant impact on the market price of our common stock, including:

- the publication of earnings estimates or other research reports and speculation in the press or investment community;
- changes in our industry and competitors;
- our financial condition, results of operations and prospects;
- any future issuances of our common stock, which may include primary offerings for cash, and the grant or exercise of stock options from time to time;
- general market and economic conditions; and