

ACE MARKETING & PROMOTIONS INC  
Form 10-Q  
May 15, 2013

**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

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**FORM 10-Q**

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

**FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2013**

**COMMISSION FILE NUMBER: 000-51160**

**ACE MARKETING & PROMOTIONS, INC.**

(Exact name of registrant as specified in its charter)

**NEW YORK** **11-3427886**  
(State of jurisdiction of Incorporation) (I.R.S. Employer Identification No.)

**600 OLD COUNTRY ROAD, SUITE 541**

**GARDEN CITY, NY 11530**

(Address of principal executive offices)

**(516) 256-7766**

(Registrant's telephone number)

(Former name, address and fiscal year, if changed since last report)

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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 checkmark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the 12 preceding months (or such shorter period that the registrant was required to submit and post such file).

Yes  No

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

Large Accelerated Filer  Accelerated Filer   
Accelerated Filer  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 March 31, 2013, the registrant had a total of 36,042,253 shares of Common Stock outstanding.

**ACE MARKETING & PROMOTIONS, INC.**

**FORM 10-Q QUARTERLY REPORT**

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**SIGNATURES**

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**ACE MARKETING &  
PROMOTIONS, INC.**

**Condensed Balance Sheets**

|   | March 31,<br>2013<br>Unaudited | December<br>31,<br>2012<br>Audited |
|---|--------------------------------|------------------------------------|
| Assets  |                                |                                    |
| Current Assets:   |                                |                                    |
| Cash and cash equivalents   | \$746,291                      | \$362,598                          |
| Accounts receivable, net of allowance for doubtful accounts of \$20,000 at March 31, 2013 and December 31, 2012   | 303,504                        | 444,262                            |
| Prepaid expenses and other current assets   | 353,912                        | 263,575                            |
| Total Current Assets  | 1,403,707                      | 1,070,435                          |
| Property and Equipment, net   | 685,962                        | 748,234                            |
| Other Assets  | 27,501                         | 27,501                             |
| Total Assets  | \$2,117,170                    | \$1,846,170                        |
| Liabilities and Stockholders' Equity  |                                |                                    |
| Current Liabilities:  |                                |                                    |
| Accounts payable  | \$312,148                      | \$348,712                          |
| Accrued expenses  | 109,122                        | 160,098                            |
| Total Current Liabilities   | 421,270                        | 508,810                            |
| Long Term Liability – Note Payable  | 312,455                        | 298,376                            |
|   | 733,725                        | 807,186                            |
| Commitments and Contingencies   |                                |                                    |
| Stockholders' Equity:   |                                |                                    |
| Preferred Stock, \$.0001 par value; 5,000,000 shares authorized, 0 and 220,000 issued and outstanding at March 31, 2013 and December 31, 2012                                 | 0                              | 22                                 |
| Common stock, \$.0001 par value; 100,000,000 shares authorized; 36,042,253 and 30,252,938 shares issued and outstanding at March 31, 2013 and December 31, 2012, respectively | 3,605                          | 3,025                              |
| Additional paid-in capital  | 16,055,862                     | 14,485,740                         |
| Accumulated deficit   | (14,644,521)                   | (13,418,302)                       |

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|  |             |             |
|--|-------------|-------------|
|  | 1,414,946   | 1,070,485   |
| Less: Treasury Stock, at cost, 23,334 shares | (31,501 )   | (31,501 )   |
| Total Stockholders' Equity                   | 1,383,445   | 1,038,984   |
| Total Liabilities and Stockholders' Equity   | \$2,117,170 | \$1,846,170 |

*See notes to condensed consolidated financial statements.*

**ACE MARKETING &  
PROMOTIONS, INC.**

**Condensed Statements of Operations**

Three Months Ended March 31,

|  | 2013<br>Unaudited | 2012<br>Unaudited |
|--|-------------------|-------------------|
| Revenues, net                                | \$619,725         | \$517,317         |
| Cost of Revenues                             | 456,006           | 419,658           |
| Gross Profit                                 | 163,719           | 97,659            |
| Operating Expenses:                          |                   |                   |
| Selling, general and administrative expenses | 1,354,160         | 1,001,845         |
| Total Operating Expenses                     | 1,354,160         | 1,001,845         |
| Loss from Operations                         | (1,190,441 )      | (904,186 )        |
| Other Income (Expense):                      |                   |                   |
| Interest expense                             | (35,884 )         | -                 |
| Interest income                              | 106               | 116               |
| Total Other Income (Expense)                 | (35,778 )         | 116               |
| Net Loss                                     | \$(1,226,219 )    | \$(904,070 )      |
| Net Loss Per Common Share:                   |                   |                   |
| Basic  | \$(0.04 )         | \$(0.04 )         |
| Weighted Average Common Shares Outstanding:  |                   |                   |
| Basic  | 35,336,834        | 24,340,531        |

*See notes to condensed consolidated financial statements.*

**ACE MARKETING &  
PROMOTIONS, INC.**

**Statement of Stockholders' Equity**

*Year Ended December 31, 2012 and Three Months Ended March 31, 2013*

|   | Total<br>Stockholders'<br>Equity | Preferred Stock<br>Shares | Amount | Common Stock<br>Shares | Amount  | Additional<br>Paid-In<br>Capital | (Deficit)      | Treasury Stock<br>Shares | Amount     |
|---|----------------------------------|---------------------------|--------|------------------------|---------|----------------------------------|----------------|--------------------------|------------|
| Balance, at<br>December 31,<br>2011               | \$1,683,993                      |                           |        | 23,284,236             | \$2,328 | \$10,997,407                     | \$(9,284,241 ) | 23,334                   | \$(31,501) |
| Stock<br>Purchase                                 | 1,752,240                        |                           |        | 4,208,872              | 434     | 1,751,806                        |                |                          |            |
| Stock Grant                                       | 1,210,911                        |                           |        | 1,926,496              | 179     | 1,210,732                        |                |                          |            |
| Stock<br>Purchase                                 | 470,000                          | 470,000                   | 47     | –                      | –       | 469,953                          |                |                          |            |
| Preferred<br>Conversion of<br>Preferred<br>Stock  |                                  | (250,000)                 | (25)   | 833,334                | 84      | (59 )                            |                |                          |            |
| Option Grant                                      | 219,647                          |                           |        |                        |         | 219,647                          |                |                          |            |
| Warrant Grant                                     | 50,684                           |                           |        |                        |         | 50,684                           |                |                          |            |
| Beneficial<br>Conversion                          | 120,254                          |                           |        |                        |         | 120,254                          |                |                          |            |
| Feature<br>Closing Costs<br>on equity<br>issuance | (334,684 )                       |                           |        |                        |         | (334,684 )                       |                |                          |            |
| Net Loss  | (4,134,061)                      |                           |        |                        |         |                                  | \$(4,134,061 ) |                          |            |
| Balance, at<br>December 31,<br>2012               | \$1,038,984                      | \$220,000                 | \$22   | 30,252,938             | \$3,025 | \$14,485,740                     | \$(13,418,302) | 23,334                   | \$(31,501) |
| Stock<br>Purchase                                 | 1,550,317                        | –                         | –      | 5,166,673              | 518     | 1,549,799                        | –              | –                        | –          |
| Offering Costs                                    | (111,817 )                       | –                         | –      |                        |         | (111,817 )                       | –              | –                        | –          |
| Conversion of<br>preferred stock                  |                                  | (220,000)                 | (22)   | 528,000                | 53      | (31 )                            | –              | –                        | –          |
| Stock Grant                                       | 34,625                           |                           |        | 94,642                 | 9       | 34,616                           | –              | –                        | –          |
|   | 97,555                           |                           |        |                        |         | 97,555                           |                |                          |            |

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|                                   |             |   |     |            |         |              |                |        |            |
|-----------------------------------|-------------|---|-----|------------|---------|--------------|----------------|--------|------------|
| Stock<br>Compensation<br>Net Loss | (1,226,219) | – | –   | –          | –       | –            | (1,226,219 )   | –      | –          |
| Balance, at<br>March 31,<br>2013  | \$1,383,445 | – | \$– | 36,042,253 | \$3,605 | \$16,055,862 | \$(14,644,521) | 23,334 | \$(31,501) |

*See notes to condensed consolidated financial statements.*

**ACE MARKETING &  
PROMOTIONS, INC.**

**Condensed Statements of Cash Flows**

Three Months Ended March 31,

|   | 2013<br>Unaudited | 2012<br>Unaudited |
|---|-------------------|-------------------|
| Cash Flows from Operating Activities:                                       |                   |                   |
| Net loss  | \$(1,226,219)     | \$(904,070)       |
| Adjustments to reconcile net loss to net cash used in operating activities: |                   |                   |
| Depreciation and amortization   | 67,272            | 48,349            |
| Stock-based compensation  | 132,180           | 278,307           |
| Amortization of deferred financing costs                                    | 14,079            |                   |
| Changes in operating assets and liabilities:                                |                   |                   |
| (Increase) decrease in operating assets:                                    |                   |                   |
| Accounts receivable   | 140,758           | 247,914           |
| Prepaid expenses and other assets   | (90,337 )         | (53,979 )         |
| (Decrease) Increase in operating liabilities:                               |                   |                   |
| Accounts payable and accrued expenses                                       | (87,540 )         | (160,178)         |
| Total adjustments   | 176,412           | 360,413           |
| Net Cash Used in Operating Activities                                       | (1,049,807)       | (543,657)         |
| Cash Flows from Investing Activities:                                       |                   |                   |
| Acquisition of property and equipment                                       | (5,000 )          | (25,610 )         |
| Net Cash (Used) in Provided by Investing Activities                         | (5,000 )          | (25,610 )         |
| Cash Flows from Financing Activities:                                       |                   |                   |
| Proceeds from issuance of common stock                                      | 1,438,500         | 457,612           |
| Net Cash Provided by Financing Activities                                   | 1,438,500         | 457,612           |
| Net Increase (Decrease) in Cash and Cash Equivalents                        | 383,693           | (111,655)         |
| Cash and Cash Equivalents, beginning of period                              | 362,598           | 605,563           |
| Cash and Cash Equivalents, end of period                                    | \$746,291         | \$493,908         |
| Supplemental Disclosure Information:  |                   |                   |
| Cash paid for interest  | \$21,805          | \$-               |
| Cash paid for taxes   | -                 | -                 |
|   | \$21,805          | \$-               |

*See notes to condensed consolidated financial statements.*

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**ACE MARKETING & PROMOTIONS, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**THREE MONTHS ENDED MARCH 31, 2013 AND 2012**

**(UNAUDITED)**

**NOTE 1: NATURE OF OPERATIONS**

Ace Marketing & Promotions, Inc. (the "Company" or "Ace") 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, which meeting date is currently undetermined.

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 proprietary 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, Inc. 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 Media 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, Inc. (“Mobiquity”), 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. See "Subsequent Events."

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.

**Agreement with Simon Property Group, L.P.**

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 and includes top malls in the Simon Mall portfolio. This new alliance will give 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. New properties to be added to the Mobiquity Networks portfolio will include iconic malls in the top DMA's (designated market area) in the US. These prestigious malls further complement Mobiquity Networks' portfolio of prominent malls including Queens Center Mall in New York City, Northbridge in Chicago, and Santa Monica Place in Los Angeles.

Ace's 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, along with Ace Marketing, 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.

**NOTE 2: SUMMARY OF SELECTED SIGNIFICANT ACCOUNTING POLICIES**

**BASIS OF PRESENTATION**

The accompanying condensed consolidated financial statements and footnotes thereto are unaudited.

The Condensed Consolidated Balance Sheets as of March 31, 2013 and December 31, 2012, the Condensed Consolidated Statements of Operations for the three months ended March 31, 2013 and 2012 and the Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2013 and 2012 have been prepared by us without audit, and in accordance with the requirements of Form 10-Q and, therefore, they do not include all information and footnotes necessary for a fair presentation of financial position, results of operations, and cash flows in conformity with accounting principles generally accepted in the United States of America. In our opinion, the accompanying unaudited condensed consolidated financial statements contain all adjustments necessary to present fairly in all material respects our financial position as of March 31, 2013, results of operations for the three months ended March 31, 2013 and 2012 and cash flows for the three months ended March 31, 2013 and 2012. All such adjustments are of a normal recurring nature. The results of operations and cash flows for the three months ended March 31, 2013 are not necessarily indicative of the results to be expected for the full year. We have evaluated subsequent events through the filing of this Form 10-Q with the SEC, and determined there have not been any events that have occurred that would require adjustments to our unaudited Condensed Financial Statements.

The information contained in this report on Form 10-Q should be read in conjunction with our Form 10-K for our fiscal year ended December 31, 2012.

## ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles 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 the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

## FAIR VALUE OF FINANCIAL INSTRUMENTS

In September 2006, the Financial Accounting Standards Board (FASB) introduced a framework for measuring fair value and expanded required disclosure about fair value measurements of assets and liabilities. The Company adopted the standard for those financial assets and liabilities as of the beginning of the 2008 fiscal year and the impact of adoption was not significant. FASB Accounting Standards Codification (ASC) 820 “*Fair Value Measurements and Disclosures*” (ASC 820) defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principle or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC 820 also establishes a fair value hierarchy that distinguishes between (1) market participant assumptions developed based on market data obtained from independent sources (observable inputs) and (2) an entity’s own assumptions about market participant assumptions developed based on the best information available in the circumstances (unobservable inputs). The fair value hierarchy consists of three broad levels, which gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are described below:

Level 1 - Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, including quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; inputs other than quoted prices that are observable for the asset or liability (e.g., interest rates); and inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 - Inputs that are both significant to the fair value measurement and unobservable.

Fair value estimates discussed herein are based upon certain market assumptions and pertinent information available to management as of March 31, 2013. The respective carrying value of certain on-balance-sheet financial instruments

approximated their fair values due to the short-term nature of these instruments. These financial instruments include accounts receivable, other current assets, accounts payable and accrued expenses. The fair value of the Company's notes payable is estimated based on current rates that would be available for debt of similar terms which is not significantly different from its stated value. The Company applied ASC 820 for all non-financial assets and liabilities measured at fair value on a non-recurring basis.

#### CASH AND CASH EQUIVLENTS

The majority of cash is maintained with a major financial institution in the United States. Deposits with this bank may exceed the amount of insurance provided on such deposits. Generally, these deposits may be redeemed on demand and, therefore, bear minimal risk. The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

#### LONG-LIVED ASSETS

Property and equipment is stated at cost. Depreciation is computed by the straight-line method over estimated useful lives (3-7 years). Intellectual property assets are stated at their fair value acquisition cost. Amortization of intellectual property assets is calculated by the straight line method over their specific life (15 years). Historical costs are reviewed and evaluated for their net realizable value of the assets. The carrying amount of all long-lived assets is evaluated periodically to determine if adjustment to the depreciation and amortization period or the unamortized balance is warranted. Based upon its most recent analysis, the Company believes that no impairment of property and equipment existed at March 31, 2013 and December 31, 2012.

Long-lived assets such as property, equipment and identifiable intangibles are reviewed for impairment whenever facts and circumstances indicate that the carrying value may not be recoverable. When required impairment losses on assets to be held and used are recognized based on the fair value of the asset. The fair value is determined based on estimates of future cash flows, market value of similar assets, if available, or independent appraisals, if required. If the carrying amount of the long-lived asset is not recoverable from its undiscounted cash flows, an impairment loss is recognized for the difference between the carrying amount and fair value of the asset. When fair values are not available, the Company estimates fair value using the expected future cash flows discounted at a rate commensurate with the risk associated with the recovery of the assets. We did not recognize any impairment losses for any periods presented.

## REVENUE RECOGNITION

Revenue is recognized when title and risk of loss transfers to the customer and the earnings process is complete. In general, title passes to our customers upon the customer's receipt of the merchandise. Revenue is recognized on a gross basis since the Company has the risks and rewards of ownership, latitude in selection of vendors and pricing, and bears all credit risk. Advance payments made by customers are included in customer deposits.

## STOCK BASED COMPENSATION

The Company issues restricted stock to consultants and employees for various services. Cost for these transactions are measured at the fair value of the consideration received or the fair value of the equity instruments issued, whichever is more reliably measurable. The value of the common stock is measured at the earlier of (i) the date at which a firm commitment for performance by the counterparty to earn the equity instruments is reached or (ii) the date at which the counterparty's performance is complete. The Company recognized consulting expenses and a corresponding increase to additional paid-in-capital related to stock issued for services. Stock compensation for the periods presented were issued to consultants for past services provided, accordingly, all shares issued are fully vested, and there is no unrecognized compensation associated with these transactions. In May 2008 the Company entered into a consulting agreement for services to be rendered over a five year period. The consulting expense is to be recognized ratably over the requisite service period.

## INCOME TAXES

The Company accounts for income taxes under the liability method. Deferred tax assets and liabilities are recorded based on the differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purpose, referred to as temporary differences. Deferred tax assets and liabilities at the end of each period are determined using the currently enacted tax rates applied to taxable income in the periods in which the deferred tax

assets and liabilities are expected to be settled or realized. The Company currently has a deferred tax asset resulting from net operating losses incurred in prior years. The deferred tax asset is currently off-set by an equal valuation allowance (100%).

#### ACCOUNTING PRONOUNCEMENTS

From time to time, new accounting pronouncements are issued by the FASB or other standard setting bodies that are adopted by the Company as of the specified effective date. Unless otherwise discussed, we believe that the impact of recently issued standards that are not yet effective will not have a material impact on our financial position or results of operations upon adoption.

#### NOTE 3: LOSS PER SHARE

Basic loss per common share is computed by dividing net loss by the weighted average number of shares of common stock outstanding during the period. Dilutive loss per share gives effect to stock options and warrants, which are considered to be dilutive common stock equivalents. Basic loss per common share was computed by dividing net loss by the weighted average number of shares of common stock outstanding. The number of common shares potentially issuable upon the exercise of certain options and warrants that were excluded from the diluted loss per common share calculation was approximately 21,123,000 and 16,600,000 because they are anti-dilutive as a result of a net loss for the three months ended March 31, 2013 and 2012, respectively.

**NOTE 4: STOCK COMPENSATION**

Compensation costs related to share-based payment transactions, including employee stock options, are recognized in the financial statements utilizing the straight line method for the cost of these awards.

The Company's results for the three month periods ended March 31, 2013 and 2012 include employee share-based compensation expense totaling \$132,180 and \$278,307, respectively. Such amounts have been included in the Condensed Consolidated Statements of Operations within selling, general and administrative expenses. No income tax benefit has been recognized in the statement of operations for share-based compensation arrangements due to a history of operating losses.

The following table summarizes stock-based compensation expense for the three months ended March 31, 2013 and 2012:

|   | Three Months Ended<br>March 31, |           |
|---|---------------------------------|-----------|
|   | 2013                            | 2012      |
| Employee stock-based compensation - option grants     | \$29,552                        | \$126,000 |
| Employee stock-based compensation - stock grants      | —                               | —         |
| Non-Employee stock-based compensation - option grants | 30,207                          | 31,182    |
| Non-Employee stock-based compensation - stock grants  | 34,625                          | 121,125   |
| Non-Employee stock-based compensation-stock warrant   | 37,796                          | —         |
| Total   | \$132,180                       | \$278,307 |

**NOTE 5: STOCK OPTION PLAN**

During Fiscal 2005, the Company established, and the stockholders approved, an Employee Benefit and Consulting Services Compensation Plan (the "2005 Plan") for the granting of up to 2,000,000 non-statutory and incentive stock options and stock awards to directors, officers, consultants and key employees of the Company. On June 9, 2005, the Board of Directors amended the Plan to increase the number of stock options and awards to be granted under the Plan to 4,000,000. In October 2009, the Company established and the stockholders approved a 2009 Employee Benefit and Consulting Services Compensation Plan (the "2009 Plan") for granting up to 4,000,000 non-statutory and incentive stock options and awards to directors, officers, consultants and employees of the Company. (The 2005 Plan and the 2009 Plan are collectively referred to as the "Plans".)

All stock options under the Plans are granted at or above the fair market value of the common stock at the grant date. Employee and non-employee stock options vest over varying periods and generally expire either 5 or 10 years from the grant date.

The fair value of options at the date of grant was estimated using the Black-Scholes option pricing model. The fair values of these restricted stock awards are equal to the market value of the Company's stock on the date of grant, after taking into certain discounts. The expected volatility is based upon historical volatility of our stock and other contributing factors. The expected term is based upon observation of actual time elapsed between date of grant and exercise of options for all employees. Previously, such assumptions were determined based on historical data.

The weighted average assumptions made in calculating the fair values of options granted under the Plans during the three months ended March 31, 2013 and 2012 are as follows:

|                          | Three Months<br>Ended<br>March 31,<br>2013      2012 |         |
|--------------------------|--|---------|
| Expected volatility      | 81.80%   | 322.29% |
| Expected dividend yield  | —  | —       |
| Risk-free interest rate  | 1.35%  | 2.03%   |
| Expected term (in years) | 7.14   | 9.92    |

|                                     | Share     | Weighted<br>Average<br>Exercise<br>Price | Weighted<br>Average<br>Remaining<br>Contractual<br>Term | Aggregate<br>Intrinsic<br>Value |
|-------------------------------------|-----------|--|---|---------------------------------|
| Outstanding, January 1, 2013        | 4,575,000 | .76                                      | 5.81  | \$0                             |
| Granted                             | 520,000   | .36                                      | 7.46  |                                 |
| Exercised                           | —         |  |   |                                 |
| Cancelled & Expired                 |           |  |   |                                 |
| Outstanding, March 31, 2013         | 5,095,000 | .72                                      | 4.56  |                                 |
| Options exercisable, March 31, 2013 | 5,095,000 | .72                                      | 4.52  | \$ 138,950                      |

The weighted-average grant-date fair value of options granted during the three months ended March 31, 2013 and 2012 was \$.36 and \$0.63, respectively.

The aggregate intrinsic value of options outstanding and options exercisable at March 31, 2013 is calculated as the difference between the exercise price of the underlying options and the market price of the Company's common stock for the shares that had exercise prices, that were lower than the \$0.45 closing price of the Company's common stock on March 31, 2013.

As of March 31, 2013, the fair value of unamortized compensation cost related to unvested stock option awards was zero.

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The weighted average assumptions made in calculating the fair value of warrants granted during the three months ended March 31, 2013 and 2012 are as follows:

|                          | Three Months<br>Ended<br>March 31,<br>2013      2012 |        |
|--------------------------|--|--------|
| Expected volatility      | 87.00%   | 56.83% |
| Expected dividend yield  | —  | —      |
| Risk-free interest rate  | 1.42%  | 1.07%  |
| Expected term (in years) | 7.89   | 3.00   |

|                                      | Share      | Weighted<br>Average<br>Exercise<br>Price | Weighted<br>Average<br>Remaining<br>Contractual<br>Term | Aggregate<br>Intrinsic<br>Value |
|--------------------------------------|------------|--|---|---------------------------------|
| Outstanding, January 1, 2013         | 12,694,655 | \$ .62                                   | 4.43  | \$ 0                            |
| Granted                              | 3,333,340  | \$ .45                                   | 4.71  |                                 |
| Exercised                            | —          | —  |   |                                 |
| Cancelled                            | —          | —  |   |                                 |
| Outstanding, March 31, 2013          | 16,027,995 | \$ .49                                   | 4.71  |                                 |
| Warrants exercisable, March 31, 2013 | 16,027,995 | \$ .49                                   | 4.71  | \$952,750                       |

#### NOTE 6: CONSULTING AGREEMENTS

For January through June 2012 the Company issued 150,000 shares of common stock for consulting services. Pursuant to an agreement effective June, 2012 the Company agreed to pay the adviser \$10,000 per month plus 100,000 shares per quarter. A total of 200,000 shares of common stock were issued for the last six months of 2012. The advisory agreement was terminated in November 2012 and then a new agreement was entered into pursuant to which the adviser received five year warrants to purchase 125,000 shares of common stock exercisable at \$.35 per share through November, 2017.

In April 2012 the Company entered into various business advisory agreements pursuant to which a total of 535,000 shares were issued in connection with services rendered. In September 2012, an aggregate of 71,040 shares of common stock were returned to the Company for cancellation to settle a dispute between the Company and certain consultants.

In January 2013, the Company entered into a financial consulting agreement pursuant to which the Company over a term of one year is obligated to pay \$10,000 per month as an advisory fee and warrants to purchase 600,000 shares of Common Stock, exercisable over a period of five years through January 2017 at an exercise price of \$.30 per share with 150,000 warrants vested immediately and an additional 150,000 warrants vesting quarterly.

In February 2013, the Company entered into an additional financial consulting agreement for a period of 90 days. Pursuant to said agreement, the Company agreed to pay \$5,000 per month and to issue 100,000 restricted shares of

common stock during the term of the agreement, including 70,000 restricted shares in the first quarter and 30,000 shares in the second quarter of 2013.

In April 2013, the Company entered into a business development and consulting contract for a term commencing in April and expiring December 31, 2013. Pursuant to said agreement, the Company is paying a cash fee of \$5,000 per month, which cash fee may be mutually suspended at any time by the parties. The Company is also required to issue 1,500,000 shares of restricted Common Stock and warrants to purchase 500,000 restricted shares of Common Stock, exercisable at \$.30 per share, over a period of five years. The warrants contain cashless exercise provisions in the event there is not an effective registration statement covering the resale of the underlying shares. Of the 1,500,000 shares, 1,071,430 shares vest in the second quarter of 2013 together with an additional 71,430 warrants. An additional 71,430 shares and warrants vest monthly from July through December 2013.

#### **NOTE 7: PRIVATE PLACEMENT**

In January 2012, the Company received gross proceeds of \$575,000 from the sale of 958,338 shares of Common Stock at a purchase price of \$.60 per share. Rockwell Global Capital LLC acted as Placement Agent of the private placement offering, which also included the sale of Warrants to purchase 191,671 shares of Common Stock, exercisable at \$.60 per share and expiring on January 18, 2016. The Placement Agent received a \$25,000 advisory fee, \$51,750 in commissions and warrants to purchase 95,833 shares identical to the warrants sold to investors in the offering. Exemption is claimed for the sale of securities pursuant to Rule 506 and/or Section 4(2) of the Securities Act of 1933, as amended.

The Company was required to file a Registration Statement with the Securities and Exchange Commission (“SEC”) to register the resale of the shares of Common Stock sold in the private placement offering and the resale of the shares of Common Stock issuable upon exercise of the Class AA Warrants (collectively the “Registerable Shares”). If a Registration Statement covering the Registerable Shares is not filed with the SEC on or before March 15, 2012 or is not declared effective within 120 days of January 30, 2012, the Company was required to pay to each investor as liquidated damages, a payment equal to 1.5% of the aggregate amount invested by such investor in the offering, cumulative for every 30 day period until such Registration Statement has been filed or declared effective or a portion thereof, up to a maximum of 15% per annum. The Company, at its sole discretion, elected to pay the liquidated damage payment in Common Stock totaling an aggregate of 197,860 shares.

In April 2012, the Company received \$270,000 from the exercise of Warrants and issued 900,000 shares of its Common Stock.

Between April 1, 2012 and May 15, 2012, the Company sold 470,000 shares of Series 1 Convertible Preferred Stock at \$1.00 per share. The Series 1 Preferred Stock had certain optional conversion rights and a mandatory conversion right into common stock on March 31, 2013. In November, 2012, the Series 1 preferred stock investors who invested an aggregate of \$250,000 in April 2012 at a \$1 per share agreed to convert their 250,000 preferred shares into an aggregate of 833,334 common shares and warrants to purchase 416,667 shares, which warrants are exercisable at \$.50 per share through December 15, 2017. The remaining 220,000 shares of outstanding Series 1 Preferred Stock automatically converted into 528,000 shares of restricted Common Stock on March 31, 2013.

On July 10, 2012, the Company sold 1,347,201 shares of its Common Stock to various investors at \$.45 per share subject to certain anti-dilution rights for a period of twenty four months. Due to the Company’s November 2012 offering at \$.30 per share as described below, the Company issued an additional 673,598 shares pursuant to the aforementioned anti-dilution rights. The Company received gross proceeds of \$606,240 before offering costs. Each investor received Fixed Price Warrants to purchase 50% of the number of shares of Common Stock purchased in the Offering. The Fixed Price Warrants are exercisable at any time from the date of issuance through July 10, 2017 at an exercise price of \$.55. Each investor also received a Warrant to purchase 20% of the number of shares that were purchased in the Offering (the “Milestone Warrants”). The Milestone Warrants will automatically be exercised without any additional consideration to be paid in the event the Company reports audited gross revenues of less than \$5,000,000 for the period July 1, 2012 through June 30, 2013 unless the volume weighted average price for the Company’s Common Stock exceeds \$1.00 per share for a period of at least 30 trading days prior to January 5, 2013. Exemption from registration for the sale of securities is claimed under Rule 506 of Regulation D promulgated pursuant to Section 4(2) of the Securities Act of 1933, as amended.

In November 2012, the aforementioned Series 1 Preferred Stock investors, who invested an aggregate of \$250,000 in April 2012 together with another Common Stock holder, invested \$301,000 at an offering price of \$.30 per share and received 1,003,334 shares of Common Stock and Warrants to purchase 501,667 shares, exercisable at \$.50 per share through December 15, 2017. Exemption from registration for the sale of securities is claimed under Rule 506 of Regulation D promulgated pursuant to Section 4(2) of the Securities Act of 1933, as amended.

On November 27, 2012, the Company engaged Legend Securities, Inc. to act a Placement Agent in connection with a private placement offering, which offering was completed in January 2013. The Company received gross proceeds of \$950,000 from the completion of said offering, including \$100,000 and \$50,000 from directors of the Company, Thomas Arnost and Sean Trepeta. In connection with this offering, the Company issued to Legend's investors a total of approximately 3,166,670 shares of common stock. For every two shares invested, each investor received a warrant to purchase one share of common stock, exercisable at \$.50 per share through December, 15, 2017. In addition to cash compensation, Legend received warrants to purchase 15% of the number of shares sold in the offering. The Placement Agent warrants are identical to the warrants sold to investors in the offering. After the aforementioned offering, a current stockholder of the Company invested a total of \$60,000 into the Company and in February 2013, another current stockholder of the Company invested \$160,000 into the Company. In both cases, the current stockholders received the same terms as those offered to the Legend Securities investors. In March 2013, the Company continued to raise money on the same terms with investors receiving a share of common stock at \$.30 per share and 50% warrant coverage, with the warrant exercisable at \$.50 per share through December 15, 2017. As a result of these offerings completed in the first quarter of 2013, the Company received gross proceeds of \$1,550,002 to improve its financial condition and for use as general working capital with an emphasis on its Proximity Marketing business. During the quarter ended March 31, 2013, a total of 5,166,673 shares were issued. The Company incurred offering costs of \$111,817. Exemption from registration for the sale of securities is claimed under Rule 506 of Regulation D promulgated pursuant to Section 4(2) of the Securities Act of 1933, as amended.

## **NOTE 8: SHARE BASED COMPENSATION**

### **WARRANTS**

In July 2012 and November 2012 the Company issued to consultants five year warrants to purchase 37,250 shares and 125,000 shares respectively, at exercise prices ranging from \$.35 per share to \$.55 per share.

### **RESTRICTED STOCK GRANTS**

During the past three years, the Company has granted under our 2005 Plan certain employees and consultants restricted stock awards for services for the prior year with vesting to occur after the passage of an additional 12 months. These awards totaled 51,000 Shares for 2009, subject to continued services with the Company through December 31, 2009. These awards totaled 105,000 Shares for 2010 subject to continued services with the Company through December 31, 2010. These awards totaled 45,000 Shares for 2011 subject to continued services with the Company through December 31, 2012.

All stock options under the Plan are granted at or above the fair market value of the common stock at the grant date. Employee and non-employee stock options generally vest over periods ranging from one to three years and generally expire either five or ten years from the grant date.

The Company's Plan is accounted for, in accordance with the recognition and measurement provisions requires compensation costs related to share-based payment transactions, including employee stock options, to be recognized in the financial statements. In addition, the Company adheres to the guidance set forth within Securities and Exchange Commission which provides the staff's views regarding the interaction between certain SEC rules and regulations and provides interpretations with respect to the valuation of share-based payments for public companies.

The fair value of options at the date of grant was estimated using the Black-Scholes option pricing model. The expected volatility is based upon historical volatility of the Company's stock and other contributing factors. The expected term is based upon observation of actual time elapsed between date of grant and exercise of options for all employees. Previously such assumptions were determined based on historical data.

For January through June 2012 the Company issued 150,000 shares of common stock for consulting services. Pursuant to an agreement effective June, 2012 the Company agreed to pay the adviser \$10,000 per month plus 100,000 shares per quarter. A total of 200,000 shares of common stock were issued for the last six months of 2012. The advisory agreement was terminated in November 2012 and then a new agreement was entered into pursuant to which the adviser received five year warrants to purchase 125,000 shares of common stock exercisable at \$.35 per share through November, 2017.

In April 2012 the Company entered into various business advisory agreements pursuant to which a total of 535,000 shares were issued in connection with services rendered. In September 2012, an aggregate of 71,040 shares of common stock were returned to the Company for cancellation to settle a dispute between the Company and certain consultants. See "Note 6" for a description of consulting agreements during 2012 and the first quarter of 2013, which agreements involve the payment of cash, stock and warrants.

**NOTE 9: SEGMENT INFORMATION**

Reportable operating segment is determined based on Ace Marketing & Promotion Inc.'s management approach. The management approach, as defined by accounting standards which have been codified into FASB ASC 280, "Segment Reporting," is based on the way that the chief operating decision-maker organizes the segments within an enterprise for making decisions about resources to be allocated and assessing their performance. Our chief operating decision-makers are our Co-Chief Executive Officers.

While our results of operations are primarily reviewed on a consolidated basis, the chief operating decision-makers also manage the enterprise in two operating segments, namely, (i) Branding & Branded Merchandise (which includes Venn Media) and (ii) Mobil Marketing.

Corporate management defines and reviews segment profitability based on the same allocation methodology as presented in the segment data tables below:

|  | Quarter Ended March 31, 2013 |            |             |
|--|------------------------------|------------|-------------|
|  | Ace                          | Mobiquity  | Total       |
|  | Marketing & Promotions, Inc. | Networks   |             |
| Revenues, net  | \$619,725                    | 0          | \$ 619,725  |
| Operating (loss), before interest amortization, depreciation and taxes | (618,066 )                   | (519,182 ) | (1,137,248) |
| Interest income  | 106                          | -          | 106         |
| Interest (expense)   | (21,805 )                    | -          | (21,805 )   |
| Depreciation and amortization  | (19,826 )                    | (47,446 )  | (67,272 )   |
| Exp Net Loss   | (659,591 )                   | (566,628)  | (1,226,219) |
| Assets at March 31, 2013   | 1,495,717                    | 621,453    | 2,117,170   |

All intersegment sales and expenses have been eliminated from the table above.

**NOTE 10: EMPLOYMENT CONTRACTS**

On March 1, 2005, the Company entered into employment contracts with two of its officers. The employment agreements provide for minimum annual salaries plus bonuses equal to 5% of pre-tax earnings (as defined) and other

perquisites commonly found in such agreements. In addition, pursuant to the employment contracts, the Company granted the officers options to purchase up to an aggregate of 400,000 shares of common stock.

On April 7, 2010, the Board of Directors approved a five-year extension of the employment contract of Dean L. Julia and Michael D. Trepeta to expire on March 1, 2015. The Board approved the continuation of each officer's current salary and scheduled salary increases which will next occur on March 1, 2011. The Board also approved a signing bonus of stock options to purchase 200,000 shares granted to each officer which is fully vested at the date of grant and exercisable at \$.50 per share through April 7, 2020; ten-year stock options to purchase 100,000 shares of Common Stock to be granted to each officer at fair market value on each anniversary date of the contract and extension thereof commencing March 1, 2011; and termination pay of one year base salary based upon the scheduled annual salary of each executive officer for the next contract year plus the amount of bonuses paid or entitled to be paid to the executive for the current fiscal year or the preceding fiscal year, whichever is higher. In the event of termination, the executives will continue to receive all benefits included in the employment agreement through the scheduled expiration date of said employment agreement prior to the acceleration of the termination date thereof.

On August 22, 2007, the Company approved a three year extension of the employment contracts with two of its officers expiring on February 28, 2011. The employment agreements provide for minimum annual salaries with scheduled increases per annum to occur on every anniversary date of the contract and extension commencing on March 1, 2008. A signing bonus of options to purchase 150,000 shares granted to each executive were fully vested at the date of the grant and exercisable at \$1.20 per share through August 22, 2017. Ten year options to purchase 50,000 shares of common stock are to be granted at fair market value on each anniversary date of the contract and extension commencing March 1, 2008. Termination pay of one year base salary based upon the scheduled annual salary of each executive officer for the next contract year, plus the amount of bonuses paid (or entitle to be paid) to the executive for the current fiscal year of the preceding fiscal year, whichever is higher. On April 7, 2010, the Board of Directors approved a five-year extension of the employment contracts of Dean L. Julia and Michael D. Trepeta to expire on March 1, 2015. The Board approved the continuation of each officer's current annual salary and scheduled salary increases. The Board also approved a signing bonus of stock options to purchase 200,000 shares granted to each officer which is fully vested at the date of grant and exercisable at \$.50 per share through April 7, 2020; ten-year stock options to purchase 100,000 shares of Common Stock to be granted to each officer at fair market value on each anniversary date of the contract and extension thereof commencing March 1, 2011.

In July 2012, the Company approved and in January 2013 the Company implemented amending the employment agreements of Messrs. Julia and M. Trepeta to expire on February 28, 2017, subject to an automatic one year renewal on March 1, 2013 and on each March 1<sup>st</sup> thereafter, unless the Employment Agreement is terminated in accordance with its terms on or before December 30<sup>th</sup> of the prior calendar year. In the event of termination without cause, the executives will continue to receive all salary and benefits included in the employment agreement through the scheduled expiration date of said employment agreement prior to the acceleration of the termination date thereof, plus one year termination pay as per the employment amendment of April 2010.

#### **NOTE 11: FACILITIES**

In February 2012, the Company entered into a lease agreement for new executive office space of approximately 4,200 square feet located at 600 Old Country Road, Garden City, NY 11530. The lease agreement is for 63 months commencing May 12, 2012. The annual rent under this office facility for the first year is estimated at \$127,000, including electricity, subject to an annual increase of 3%. In the event of a default in which the Company is evicted from the office space, Ace would be responsible to the landlord for an additional payment of rent of \$160,000 in the first year of the lease, an additional payment of \$106,667 in the second year of the lease and an additional payment of rent of \$53,333 in the third year of the lease. Such additional rent would be payable at the discretion of the Company in cash or in Common Stock of the Company.

#### **NOTE 12: ACQUISITION OF CERTAIN ASSETS OF FUTURLINK**

The Company, through its wholly-owned subsidiary, Mobiquity Networks, operates the largest mall-based proximity marketing network in the United States covering 75 malls and a potential audience of approximately 95 million consumers. 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 approximately \$150,000 (inclusive of legal, travel and miscellaneous closing costs), 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 in excess of \$150,000 per annum.

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.

### **NOTE 13: COMMITTED EQUITY FACILITY AGREEMENT/REGISTRATION RIGHTS AGREEMENT**

On June 12, 2012, Ace Marketing & Promotions, Inc. (the "Company") finalized a committed equity facility (the "Equity Facility") with TCA Global Credit Master Fund, LP, a Cayman Islands limited partnership ("TCA"), whereby the parties entered into as of May 31, 2012 (i) a committed equity facility agreement (the "Equity Agreement") and (ii) a registration rights agreement (the "Registration Rights Agreement").

#### *Committed Equity Facility Agreement*

On June 12, 2012, the Company finalized an Equity Agreement with TCA. Pursuant to the terms of the Equity Agreement, for a period of twenty-four months commencing on the effective date of the Registration Statement (as defined herein), TCA shall commit to purchase up to \$2,000,000 of the Company's common stock (the "Shares"), pursuant to Advances (as defined below), covering the Registrable Securities (as defined below). The purchase price of the Shares under the Equity Agreement is equal to ninety-five percent (95%) of the lowest daily volume weighted average price of the Company's common stock during the five (5) consecutive trading days after the Company delivers to TCA an Advance notice in writing requiring TCA to advance funds (an "Advance") to the Company, subject to the terms of the Equity Agreement.

The "Registrable Securities" include (i) the Shares; and (ii) any securities issued or issuable with respect to the Shares by way of exchange, stock dividend or stock split or in connection with a combination of shares, recapitalization, merger, consolidation or other reorganization or otherwise.

As further consideration for TCA entering into and structuring the Equity Facility, the Company shall pay to TCA a fee by issuing to TCA that number of shares of the Company's common stock that equal a dollar amount of one

hundred thousand dollars (\$100,000) (the “Facility Fee Shares”). In the event the value of the Facility Fee Shares issued to TCA does not equal \$100,000 after a ninth month evaluation date, the Equity Agreement provides for an adjustment provision allowing for necessary action to adjust the number of shares issued. In June 2012, the Company issued 196,078 shares of common stock as the initial Facility Fee Shares. In March 2013, TCA notified Ace that the facility fee of \$100,000 needed to be paid in additional shares or cash. In this respect, the 196,078 shares of Common Stock previously advance by the Company to TCA toward the facility fee were sold by TCA and it realized net proceeds of approximately \$48,000. In March 2013, the Company elected to pay the remaining facility fee in cash.

**NOTE 14: CONVERTIBLE PROMISSORY NOTE**

*Registration Rights Agreement*

On June 12, 2012, the Company finalized the Registration Rights Agreement with TCA. Pursuant to the terms of the Registration Rights Agreement, the Company is obligated to file a registration statement (the “Registration Statement”) with the U.S. Securities and Exchange Commission (the “SEC”) to cover the Registrable Securities. The Company must use its commercially reasonable efforts to cause the Registration Statement to be declared effective by the SEC. The Registration Statement on Form S-1 was filed by the Company with the SEC in March 2013 and was declared effective by the SEC in April 2013.

On June 12, 2012, the Company closed on a security agreement dated as of May 31, 2012 (the "Security Agreement") with TCA related to a \$350,000 convertible promissory note issued by the Company in favor of TCA (the "Convertible Note"), which Convertible Note was funded by TCA on June 12, 2012. The maturity date of the Convertible Note is December 2013, and the Convertible Note bears interest at a rate of twelve percent (12%) per annum. The Convertible Note is convertible into shares of the Company's common stock at a price equal to ninety-five percent (95%) of the average of the lowest daily volume weighted average price of the Company's common stock during the five (5) trading days immediately prior to the date of conversion. The Convertible Note may be prepaid in whole or in part at the Company's option without penalty. The Security Agreement grants to TCA a continuing, first priority security interest in all of the Company's assets, wheresoever located and whether now existing or hereafter arising or acquired. The Company's wholly-owned subsidiary, Mobiquity Networks, Inc., also entered into a similar Security Agreement and Guaranty Agreement.

#### **NOTE 15: SUBSEQUENT EVENTS**

In April 2013, the Company entered into a business development and consulting contract for a term commencing in April and expiring December 31, 2013. Pursuant to said agreement, the Company is paying a cash fee of \$5,000 per month, which cash fee may be mutually suspended at any time by the parties. The Company is also required to issue 1,500,000 shares of restricted Common Stock and warrants to purchase 500,000 restricted shares of Common Stock, exercisable at \$.30 per share, over a period of five years. The warrants contain cashless exercise provisions in the event there is not an effective registration statement covering the resale of the underlying shares. Of the 1,500,000 shares, 1,071,430 shares vest in the second quarter of 2013 together with an additional 71,430 warrants. An additional 71,430 shares and warrants vest monthly from July through December 2013.

Between April 1, 2013 and May 9, 2013, the Company raised gross proceeds of an additional \$1,736,000 from the sale of 5,786,667 shares of Common Stock at an offering price of \$.30 per share. The Company also issued warrants to purchase 2,893,334 shares exercisable at \$.50 per share through December 15, 2017. Exemption from registration for the sale of securities is claimed under Rule 506 of Regulation D promulgated pursuant to Section 4(2) of the Securities Act of 1933, as amended.

The Company has evaluated all subsequent events through the filing date of this Form 10-Q for appropriate accounting and disclosures.



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

### **FORWARD-LOOKING STATEMENTS**

The information contained in this Form 10-Q and documents incorporated herein by reference are intended to update the information contained in the Company's Form 10-K for its fiscal year ended December 31, 2012 which includes our audited financial statements for the year ended December 31, 2012 and such information presumes that readers have access to, and will have read, the "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Risk Factors" and other information contained in such Form 10-K and other Company filings with the Securities and Exchange Commission ("SEC").

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements involve risks and uncertainties, and actual results could be significantly different than those discussed in this Form 10-Q. Certain statements contained in Management's Discussion and Analysis, particularly in "Liquidity and Capital Resources," and elsewhere in this Form 10-Q are forward-looking statements. These statements discuss, among other things, expected growth, future revenues and future performance. Although we believe the expectations expressed in such forward-looking statements are based on reasonable assumptions within the bounds of our knowledge of our business, a number of factors could cause actual results to differ materially from those expressed in any forward-looking statements, whether oral or written, made by us or on our behalf. The forward-looking statements are subject to risks and uncertainties including, without limitation, the following: (a) changes in levels of competition from current competitors and potential new competition, (b) possible loss of customers, and (c) the company's ability to attract and retain key personnel, (d) The Company's ability to manage other risks, uncertainties and factors inherent in the business and otherwise discussed in this 10-Q and in the Company's other filings with the SEC. The foregoing should not be construed as an exhaustive list of all factors that could cause actual results to differ materially from those expressed in forward-looking statements made by us. All forward-looking statements included in this document are made as of the date hereof, based on information available to the Company on the date thereof, and the Company assumes no obligation to update any forward-looking statements.

### ***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.

#### Proximity Marketing

The Company has been raising additional financing as described herein for the Company’s operations and specifically to develop the Company’s Mobiquity proximity marketing division.

The Mobile Marketing advertising medium continues to gain momentum in marketing spending. Technology allows advertisers to target and deliver rich media content to specific locations and times where it is most relevant. It gives advertisers the ability to reach consumers with their message as they are ready to make their purchasing decision.

Ace Marketing & Promotions’ subsidiary Mobiquity Networks provides location-based mobile marketing services via Bluetooth and Wi-Fi that requires no GPS tracking and no need to download an application. Mobiquity utilizes a targeted, location-based approach to reach audiences on their mobile devices when it matters most. Mobiquity employs a combination of leading-edge mobile technologies to deliver virtually any digital media content including images, videos, audio mp3s, maps, games, applications and coupons to mobile phones within targeted geographic locations.

The Company has built an extensive location based mobile marketing mall network which currently enables access to over 96 million mobile customer visits per month while they are shopping. Our network allows brands to engage their potential customers with the right offer at the right place at the right time....when they are about to make a purchasing decision.

Mobiquity currently has over 600 zones throughout 75 malls with over 96 million monthly visits to those malls. These zones create a cloud of coverage so that visitors do not need to go directly to one of these zone access points. Some of our land mark malls include, but are not limited to:

- Roosevelt Field – NY
- The Galleria – Houston
- Lenox Square – Atlanta
- Northbridge – Chicago
- Santa Monica Place – LA
- Copley Place – Boston

Location-Based Mobile Marketing combined with Out-Of-Home Advertising results in strong opt-in rates due to proximity of the Network. Through its subsidiary Mobiquity Networks, Management believes that Ace is the first Location-Based Mobile Marketing Company focused on US shopping malls and has built and controls the only national proximity marketing mall network. An exclusive contract with leading Out-Of-Home advertising company, Eye Corp. will enable Ace to remain a leader in US malls. According to the agreement, Eye Corp. is exclusive to Ace for five years. 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 hundreds of brands.

### **Critical Accounting Policies**

Our discussion and analysis of our financial condition and results of operations are based upon our financial statements, which have been prepared in accordance with generally accepted accounting principles in the United States. The preparation of financial statements requires management to make estimates and disclosures on the date of the financial statements. On an on-going basis, we evaluate our estimates including, but not limited to, those related to revenue recognition. We use authoritative pronouncements, historical experience and other assumptions as the basis for making judgments. Actual results could differ from those estimates. We believe that the following critical accounting policies affect our more significant judgments and estimates in the preparation of our financial statements.

**REVENUE RECOGNITION.** Revenues are recognized when title and risk of loss transfers to the customer and the earnings process is complete. In general, title passes to our customers upon the customer's receipt of the merchandise. Revenue is accounted by reporting revenue gross as a principal versus net as an agent. Revenue is recognized on a gross basis since our company has the risks and rewards of ownership, latitude in selection of vendors and pricing, and bears all credit risk. Our company records all shipping and handling fees billed to customers as revenues, and related costs as cost of goods sold, when incurred.

**ALLOWANCE FOR DOUBTFUL ACCOUNTS.** We are required to make judgments based on historical experience and future expectations, as to the realizability of our accounts receivable. We make these assessments based on the following factors: (a) historical experience, (b) customer concentrations, (c) customer credit worthiness, (d) current economic conditions, and (e) changes in customer payment terms.

**STOCK BASED COMPENSATION.** The Company records compensation expense associated with stock options and other equity-based compensation. Share-based compensation expense is determined based on the grant-date fair value estimated using the Black Scholes method. The Company recognizes compensation expense on a straight-line basis over the requisite service period of the award.

**RESULTS OF OPERATIONS**

The following table sets forth certain selected unaudited condensed statement of operations data for the periods indicated in dollars and as a percentage of total net revenues. The following discussion relates to our results of operations for the periods noted and is not necessarily indicative of the results expected for any other interim period or any future fiscal year. In addition, we note that the period-to-period comparison may not be indicative of future performance.

|  | Three Months Ended |              |
|--|--------------------|--------------|
|  | March 31           |              |
|  | 2013               | 2012         |
| Revenue                                      | \$619,725          | \$517,317    |
| Cost of Revenues                             | \$456,006          | \$419,658    |
| Gross Profit                                 | \$163,719          | \$97,659     |
| Selling, General and Administrative Expenses | \$1,354,160        | \$1,001,845  |
| (Loss) from Operations                       | \$(1,190,441)      | \$(904,186 ) |

We generated revenues of \$619,725 in the first quarter of 2013 compared to \$517,317 in the same three month period ending March 31, 2012. The change in revenues of \$102,408 in 2013 compared to 2012 was due to increased efforts of our sales force.

Cost of revenues was \$456,006 or 73.6% of revenues in the first quarter of 2013 compared to \$419,658 or 81.1% of revenues in the same three months of 2012. Cost of revenues includes purchases and freight costs associated with the shipping of merchandise to our customers. The change in cost of revenues of \$36,348 in 2013 is related to volume and product mix of the products our customers purchased.

Gross profit was \$163,719 in the first quarter of 2013 or 26.4% of net revenues compared to \$97,659 in the same three months of 2012 or 18.9% of revenues. Gross profits will vary period-to-period depending upon a number of factors including the mix of items sold, pricing of the items and the volume of product sold. Also, it is our practice to pass freight costs on to our customers. Reimbursement of freight costs which are included in revenues have lower profit margins than sales of our promotional products and has the effect of reducing our overall gross profit margin on sales of products, particularly on smaller orders.

Selling, general, and administrative expenses were \$1,354,160 in the first quarter of 2013 compared to \$1,001,845 in the same three months of 2012, an increase of approximately \$353,000. Such operating costs include payroll and related expenses, commissions, insurance, rents, professional (consulting) and public awareness fees. The increase in operating expenses in the first quarter of 2013 was primarily due to an increase in professional (consulting) fees of approximately \$223,000 associated with the formation and development of Mobiquity Networks and Venn Media and increased salaries of approximately \$93,000 for these divisions.

The 2013 loss from operations was \$(1,190,441) as compared to \$(904,186) for the comparable period of the prior year, an increased loss of \$286,255. The increase in operating losses is attributable to the increased operating expenses associated with the formation and development of Mobiquity Networks and Venn Media and increased salaries for these divisions as described above.

No benefit for income taxes is provided for in 2013 and 2012 due to the full valuation allowance on the net deferred tax assets. Our ability to be profitable in the future is dependent upon both a turnaround in the United States economy and the successful introduction and usage of our proximity marketing services and Venn Media services by our clients.

### **Recent Developments**

On March 7, 2013, the Company acquired the assets of FuturLink in exchange for \$150,000 (inclusive of legal, travel and other acquisition costs) 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 \$150,000 per annum.

### Mobiquity Networks

In February 2012, we announced our plans to have the architecture for our proprietary mobile marketing solutions; "Mall-Offers Wi-Fi" and "mallooffers.com" completed by the end of the first quarter of 2012 and that we begin to rollout the solutions on our nationwide Mobiquity Network. Although the architecture for "Mall-Offers" is complete, we were unable to begin the rollout due to capital restraints. We do expect to begin the rollout by the beginning of the third quarter of 2013, assuming we have the capital to do so.

Mobiquity Networks is currently operational in 75 malls across the US and has access to approximately 96 million shopper visits per month.

The Mall-Offers Platform will list specials from retailers in each mall throughout the Mobiquity Network. The specials will be accessible on the secured Wi-Fi network that Mobiquity has already installed in each of its 75 malls across the US. Shoppers with smart phones will simply connect to “Mall-Offers Wi-Fi” and browse by either retailer or category on their mobile device. The solution will not require the shopper to download an app and access to Mall Offers will be completely free for the user. Mallooffers.com is a website that aggregates all of the special offers, coupons and discounts offered by all of the participating retailers in all of the malls within the Mobiquity Network. Consumers will have the ability to search for specials by mall, store name or category prior to going to the mall or on their mobile devices. This will help the consumer to choose which mall to visit as well as which store within the mall to purchase their item of interest. The website will also offer consumers the ability to register for special alerts from their favorite stores. The consumer can choose to receive an email or text whenever their favorite store has a special offer.

Our Mall-Offers Platform should help address the mobile marketing industry’s single largest issue, which is delivering relevant offers to consumers at the point of purchase. Management believes that most mall retailers desire to have a mobile marketing strategy but haven’t figured out how to get in front of consumers at the point of sale. The Mall-Offers Platform gives us the ability to offer the hundreds of retailers in each mall within the Mobiquity Network a true mobile marketing solution. Both companies and their sales agencies now realize the implementation of a mobile strategy is now a necessity. The activation needs to go beyond simple banner and pop-up ads on a mobile website or the development of an app. Consumers are seeking relevant content and valuable offers, not ambush advertising. The new Mall Offers Wi-Fi Network will give retailers and company brands access to consumers and consumers’ access to the offers they want to see.

As a result of the foregoing, Management is excited about the sales prospects that it expects to have across our network in the upcoming months.

## **Plan of Operation**

The Company has a history of operating losses. The Company has taken the following steps to seek to obtain profitability, of which there can be no assurances given.

1. The Company has restructured itself into three operating divisions, namely, Ace Marketing, Venn Media and Mobiquity Networks. The Company has announced plans to change its name to Applied Technologies, Inc., subject to stockholder approval.

2. The Company has acquired the assets of FuturLink as described elsewhere herein. This transaction should result in substantial cost savings. In this respect, the Company will be able to install proximity marketing units at a cost savings of between 60-70%. The Company will not have to pay annual licensing fees in excess of \$150,000.
3. The Company has hired internal salespeople to work with advertising agencies and brands to sell advertising on Mobiquity's proximity marketing network.
4. The Company has developed a proprietary website development platform and content management system to increase sales in Venn Media division.
5. The Company has hired additional independent sales representatives to generate additional sales in the Ace division.
6. The Company has entered into several public relation contracts to generate new interest in our publicly traded stock.

Management believes that the foregoing measures should lead to additional sales and increase shareholder value.

The Company anticipates continuing to rely on external financing from sales of its common stock to support its operations until cash flow from operations has a positive impact on operations, although no assurances can be given in this regard.

### **Liquidity and Capital Resources**

The Company had cash and cash equivalents of \$746,291 at March 31, 2013. Cash used in operating activities for the three months ended March 31, 2013 was \$1,049,807. This resulted primarily from a net loss of \$1,226,219, offset by stock based compensation of \$132,180 a decrease in accounts receivable of \$140,758 and an increase in prepaid expenses and other assets of \$90,337 and an increase of accounts payable and accrued expenses of \$87,540. The Company had an increase in investing activities of \$5,000 with the purchase of equipment. Net cash was provided by financing activities of \$1,438,500 from the sale of the Company's Common Stock for the quarter ended March 31, 2013.

The Company had cash and cash equivalents of \$493,908 at March 31, 2012. Cash used in operating activities for the three months ended March 31, 2012 was \$543,657. This resulted primarily from a net loss of \$904,070, offset by stock based compensation of \$278,307 a decrease in accounts receivable of \$247,914 and an increase in prepaid expenses and other assets of \$53,979 and an increase of accounts payable and accrued expenses of \$160,178. The Company had an increase in investing activities of \$25,610 with the purchase of equipment. Net cash was provided by financing activities of \$457,612 from the sale of the Company's Common Stock for the quarter ended March 31, 2012.

Our Company commenced operations in 1998 and was initially funded by our three founders, each of whom has made demand loans to our Company that have been repaid. Since 1999, we have relied primarily on equity financing from outside investors to supplement our cash flow from operations.

We anticipate that our future liquidity requirements will arise from the need to finance our accounts receivable and inventories, hire additional sales persons, capital expenditures and possible acquisitions. The primary sources of funding for such requirements will be cash generated from operations, raising additional capital from the sale of equity or other securities and borrowings under debt facilities which currently do not exist. We believe that we can generate sufficient cash flow from these sources to fund our operations for at least the next twelve months. In the event we should need additional financing, we can provide no assurances that we will be able to obtain financing on terms satisfactory to us, if at all.

### **Recent Financings**

In January 2012, the Company received gross proceeds of \$575,000 from the sale of 958,338 shares of Common Stock at a purchase price of \$.60 per share. Rockwell Global Capital LLC acted as Placement Agent of the private placement offering, which also included the sale of Warrants to purchase 191,671 shares of Common Stock, exercisable at \$.60 per share and expiring on January 18, 2016. The Placement Agent received a \$25,000 advisory fee, \$51,750 in commissions and warrants to purchase 95,833 shares identical to the warrants sold to investors in the

offering. Exemption is claimed for the sale of securities pursuant to Rule 506 and/or Section 4(2) of the Securities Act of 1933, as amended.

The Company was required to file a Registration Statement with the Securities and Exchange Commission (“SEC”) to register the resale of the shares of Common Stock sold in the private placement offering and the resale of the shares of Common Stock issuable upon exercise of the Class AA Warrants (collectively the “Registrable Shares”). If a Registration Statement covering the Registrable Shares is not filed with the SEC on or before March 15, 2012 or is not declared effective within 120 days of January 30, 2012, the Company was required to pay to each investor as liquidated damages, a payment equal to 1.5% of the aggregate amount invested by such investor in the offering, cumulative for every 30 day period until such Registration Statement has been filed or declared effective or a portion thereof, up to a maximum of 15% per annum. The Company, at its sole discretion, elected to pay the liquidated damage payment in Common Stock totaling an aggregate of 197,860 shares.

In April 2012, the Company received \$270,000 from the exercise of Warrants and issued 900,000 shares of its Common Stock.

Between April 1, 2012 and May 15, 2012, the Company sold 470,000 shares of Series 1 Convertible Preferred Stock at \$1.00 per share. The Series 1 Preferred Stock had certain optional conversion rights and a mandatory conversion right into common stock on March 31, 2013. In November, 2012, the Series 1 preferred stock investors who invested an aggregate of \$250,000 in April 2012 at a \$1 per share agreed to convert their 250,000 preferred shares into an aggregate of 833,334 common shares and warrants to purchase 416,667 shares, which warrants are exercisable at \$.50 per share through December 15, 2017. The remaining 220,000 shares of outstanding Series 1 Preferred Stock automatically converted into 528,000 shares of restricted Common Stock on March 31, 2013.

On July 10, 2012, the Company sold 1,347,201 shares of its Common Stock to various investors at \$.45 per share subject to certain anti-dilution rights for a period of twenty four months. Due to the Company's November 2012 offering at \$.30 per share as described below, the Company issued an additional 673,598 shares pursuant to the aforementioned anti-dilution rights. The Company received gross proceeds of \$606,240 before offering costs. Each investor received Fixed Price Warrants to purchase 50% of the number of shares of Common Stock purchased in the Offering. The Fixed Price Warrants are exercisable at any time from the date of issuance through July 10, 2017 at an exercise price of \$.55. Each investor also received a Warrant to purchase 20% of the number of shares that were purchased in the Offering (the "Milestone Warrants"). The Milestone Warrants will automatically be exercised without any additional consideration to be paid in the event the Company reports audited gross revenues of less than \$5,000,000 for the period July 1, 2012 through June 30, 2013 unless the volume weighted average price for the Company's Common Stock exceeds \$1.00 per share for a period of at least 30 trading days prior to January 5, 2013. Exemption from registration for the sale of securities is claimed under Rule 506 of Regulation D promulgated pursuant to Section 4(2) of the Securities Act of 1933, as amended.

In November 2012, the aforementioned Series 1 Preferred Stock investors, who invested an aggregate of \$250,000 in April 2012 together with another Common Stock holder, invested \$301,000 at an offering price of \$.30 per share and received 1,003,334 shares of Common Stock and Warrants to purchase 501,667 shares, exercisable at \$.50 per share through December 15, 2017. Exemption from registration for the sale of securities is claimed under Rule 506 of Regulation D promulgated pursuant to Section 4(2) of the Securities Act of 1933, as amended.

On November 27, 2012, the Company engaged Legend Securities, Inc. to act as Placement Agent in connection with a private placement offering, which offering was completed in January 2013. The Company received gross proceeds of \$950,000 from the completion of said offering, including \$100,000 and \$50,000 from directors of the Company, Thomas Arnost and Sean Trepeta. In connection with this offering, the Company issued to Legend's investors a total of approximately 3,166,670 shares of common stock. For every two shares invested, each investor received a warrant to purchase one share of common stock, exercisable at \$.50 per share through December, 15, 2017. In addition to cash compensation, Legend received warrants to purchase 15% of the number of shares sold in the offering. The Placement Agent warrants are identical to the warrants sold to investors in the offering. After the aforementioned offering, a current stockholder of the Company invested a total of \$60,000 into the Company and in February 2013, another

current stockholder of the Company invested \$160,000 into the Company. In both cases, the current stockholders received the same terms as those offered to the Legend Securities investors. In March 2013, the Company continued to raise money on the same terms with investors receiving a share of common stock at \$.30 per share and 50% warrant coverage, with the warrant exercisable at \$.50 per share through December 15, 2017. As a result of these offerings completed between January 1 and May 9, 2013, the Company received gross proceeds of approximately \$3,291,000 to improve its financial condition and for use as general working capital with an emphasis on its Proximity Marketing business. Exemption from registration for the sale of securities is claimed under Rule 506 of Regulation D promulgated pursuant to Section 4(2) of the Securities Act of 1933, as amended.

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Market risk is the risk of loss arising from adverse changes in market rates and prices, such as interest rates, foreign currency exchange rates and commodity prices. Our primary exposure to market risk is interest rate risk associated with our short term money market investments. The Company does not have any financial instruments held for trading or other speculative purposes and does not invest in derivative financial instruments, interest rate swaps or other investments that alter interest rate exposure. The Company does not have any credit facilities with variable interest rates.

### **ITEM 4. CONTROLS AND PROCEDURES**

We maintain disclosure controls and procedures, which are designed to ensure that information required to be disclosed in the reports we file or submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to our management, including our CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure.

Under the supervision and with the participation of our management, including our CEO and CFO, an evaluation was performed on the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this quarterly report. Based on that evaluation, our management, including our CEO and CFO, concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report.

There were no changes in the Company's internal controls over financial reporting during the most recently completed fiscal quarter that have materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting.



**PART II. OTHER INFORMATION****ITEM 1. LEGAL PROCEEDINGS.**

As of the filing date of this Form 10-Q, we are not a party to any pending legal proceedings.

**ITEM 1A. RISK FACTORS**

As a Smaller Reporting Company as defined Rule 12b-2 of the Exchange Act and in item 10(f)(1) of Regulation S-K, we are electing scaled disclosure reporting obligations and therefore are not required to provide the information requested by this Item 1A.

**ITEM 2. CHANGES IN SECURITIES.**

(a) From January 1, 2013 through March 31, 2013, we had no sales or issuances of unregistered common stock, except we made sales or issuances of unregistered securities listed in the table below:

| Date of Sale         | Title of Security   | Number Sold         | Consideration Received<br>and Description of<br>Underwriting or Other              |  | Exemption<br>from<br>Registration<br>Claimed | If Option, Warrant<br>or Convertible<br>Security, terms of<br>exercise or<br>conversion |
|----------------------|---------------------|---------------------|--|--|--|---|
|                      |                     |                     | Discounts to Market<br>Price or Convertible<br>Security, Afforded to<br>Purchasers |  |  |   |
| Jan. – March<br>2013 | Common<br>Stock and | 5,166,673<br>shares | \$1,200,000; cash<br>compensation  |  | Rule 506                                     | Warrants exercisable at<br>\$.50  |

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|                   |                   |   |  |                 |   |
|-------------------|-------------------|---|--|-----------------|---|
|                   | Class BB Warrants | and 2,583,335 warrants                      | totaling \$150,000 was paid.   |                 | per share through December 15, 2017                       |
|                   |                   | 600,000 shares                              |  |                 |   |
| January 2013      | Warrants          | (Note: 150,000 warrants vesting quarterly). | Services rendered; no commissions paid   | Rule 506        | Warrants exercisable at \$.30 per share through Jan. 2017 |
|                   |                   |   | Shares issued pursuant   |                 |   |
| January 2013      | Common Stock      | 673,598 shares                              | To anti-dilution rights; no additional monies  | Rule 506        | Not applicable  |
| January 2013      | Common Stock      | 24,642 shares                               | Received by the Company and no commissions paid<br>Penalty shares; no commissions paid<br>Services rendered in | Rule 506        | Not applicable  |
| January 2013      | Common Stock      | 200,000 shares                              | the fourth quarter of 2012, but issued in Jan. 2013  | Rule 506        | Not applicable  |
| March 2013        | Common Stock      | 528,000 shares                              | Preferred Stock conversion; no commissions paid<br>Services rendered;  | Section 3(a)(9) | Not applicable  |
| Feb. - March 2013 | Common Stock      | 70,000 shares                               | no commissions paid  | Rule 506        | Not applicable  |

(b) Rule 463 of the Securities Act is not applicable to the Company.

(c) In the three months ended March 31, 2013, there were no repurchases by the Company of its Common Stock.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES.**

Not applicable.

**ITEM 4. MINE SAFETY DISCLOSURES.**

Not applicable.

**ITEM 5. OTHER INFORMATION.**

Not applicable.

**ITEM 6. EXHIBITS.**

| <u>Exhibit<br/>No.</u> | <u>Description</u>  |
|------------------------|---|
| 3.1                    | Certificate of Incorporation filed March 26, 1998 (1)                                     |
| 3.2                    | Amendment to Certificate of Incorporation filed June 10, 1999 (1)                         |
| 3.3                    | Amendment to Certificate of Incorporation approved by stockholders on February 9, 2005(1) |
| 3.4                    | Amendment to Certificate of Incorporation dated September 11, 2008 (11)                   |
| 3.5                    | Amendment to Certificate of Incorporation dated October 7, 2009 (11)                      |
| 3.6                    | Amendment to Certificate of Incorporation dated May 18, 2012 (11)                         |
| 3.7                    | Amended By-Laws (1)   |
| 10.1                   | Employment Agreement - Michael Trepeta (2)  |
| 10.2                   | Employment Agreement - Dean Julia (2)   |
| 10.3                   | Amendments to Employment Agreement - Michael Trepeta (5)(7)                               |
| 10.4                   | Amendments to Employment Agreement - Dean L. Julia (5)(7)                                 |
| 10.5                   | Joint Venture Agreement with Atrium Enterprises Ltd. (6)                                  |
| 10.6                   | Agreement with Aon Consulting (6)   |
| 10.7                   | Amendment to Exhibits 10.3 and 10.4 dated April 7, 2010 (10)                              |
| 10.8                   | Office Lease for Garden City, NY (11)   |
| 10.9                   | Amendment to Employment Agreement – Dean L. Julia (11)                                    |
| 10.10                  | Amendment to Employment Agreement – Michael D. Trepeta (11)                               |
| 10.11                  | Convertible Promissory Note (12)  |

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- 10.12 Registration Rights Agreement dated June 12, 2012 by and between the Company and TCA (13)
- 10.13 Equity Agreement dated June 12, 2012 by and between the Company and TCA (13)
- 11.1 Statement re: Computation of per share earnings. See Statement of Operations and Notes to Financial Statements
- 14.1 Code of Ethics/Code of Conduct (5)
- 31.1 Co-Principal Executive Officer Rule 13a-14(a)/15d-14(a) Certification (14)
- 31.2 Co-Principal Executive Officer Rule 13a-14(a)/15d-14(a) Certification (14)
- 31.3 Principal Financial Officer Rule 13a-14(a)/15d-14(a) Certification (14)
- 32.1 Co-Principal Executive Officer Section 1350 Certification (14)
- 32.2 Co-Principal Executive Officer Section 1350 Certification (14)
- 32.3 Principal Financial Officer Section 1350 Certification (14)
- 99.1 2005 Employee Benefit and Consulting Services Compensation Plan(2)
- 99.2 Form of Class A Warrant (2)
- 99.3 Form of Class B Warrant (2)

- 99.4 Amendment to 2005 Plan (4)
- 99.5 Form of Class C Warrant (8)
- 99.6 2009 Employee Benefit and Consulting Services Compensation Plan (3)
- 99.7 Form of Class D Warrant (3)
- 99.8 Form or Class E Warrant(9)
- 99.9 Form of Class F Warrant (9)
- 99.10 Form of Class G Warrant (9)
- 99.11 Form of Class H Warrant (9)
- 99.12 Form of Class AA Warrant (11)
- 99.13 Form of Class BB Warrant (11)
- 101.SCH Document, XBRL Taxonomy Extension (14)
- 101.CAL Calculation Linkbase, XBRL Taxonomy Extension Definition (14)
- 101.DEF Linkbase, XBRL Taxonomy Extension Labels (14)
- 101.LAB Linkbase, XBRL Taxonomy Extension (14)
- 101.PRE Presentation Linkbase (14)

- (1) Incorporated by reference to Registrant's Registration Statement on Form 10-SB as filed with the Commission on February 10, 2005.
- (2) Incorporated by reference to Registrant's Registration Statement on Form 10-SB/A filed with the Commission March 18, 2005.
- (3) Incorporated by reference to Form 10-K filed for the fiscal year ended December 31, 2009.
- (4) Incorporated by reference to the Registrant's Form 10-QSB/A filed with the Commission on August 18, 2005.
- (5) Incorporated by reference to the Registrant's Form 10-KSB for its fiscal year ended December 31, 2005.
- (6) Incorporated by reference to the Registrant's Form 10-KSB for its fiscal year ended December 31, 2006.
- (7) Incorporated by reference to the Registrant's Form 8-K dated September 21, 2007.
- (8) Incorporated by reference to the Registrant's Form 10-QSB for its quarter ended September 30, 2006.
- (9) Incorporated by reference to the Registrant's Form 10-K for its fiscal year ended December 31, 2010.
- (10) Incorporated by reference to the Registrant's Form 10-Q for the quarter ended June 30, 2011.
- (11) Incorporated by reference to the Registrant's Form 10-K for its fiscal year ended December 31, 2012.
- (12) Incorporated by reference to the Registrant's Form 8-K dated June 14, 2012.
- (13) Incorporated by reference to the Registrant's Form 8-K dated June 15, 2012
- (14) Filed herewith.

**SIGNATURES**

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

**ACE MARKETING & PROMOTIONS, INC.**

Date: May 15, 2013 By: /s/ Dean L. Julia  
Dean L. Julia,  
Co-Principal Executive Officer

Date: May 15, 2013 By: /s/ Michael D. Trepeta  
Michael D. Trepeta,  
Co-Principal Executive Officer

Date: May 15, 2013 By: /s/ Sean McDonnell  
Sean McDonnell,  
Principal Financial Officer

