

ACE MARKETING & PROMOTIONS INC
Form 10-K
March 29, 2011

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2010

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 (I.R.S. Employee
incorporation or organization) Identification Number)

457 Rockaway Avenue, Valley Stream, NY 11581
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area (516) 256-7766
code:

Securities registered pursuant to Section 12 (b) None
of the Act:

Securities registered pursuant to Section 12 (g) Common Stock, \$.0001 Par Value
of the Act:

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

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

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

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive data file required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

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

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

As of June 30, 2010, the number of shares held by non-affiliates was approximately 10,100,000 shares. The approximate market value based on the last sale (i.e. \$.40 per share as of June 30, 2010) of the Company's Common Stock was approximately \$4,040,000.

The number of shares outstanding of the Registrant's Common Stock, as of March 4, 2011 was 16,810,925.

FORWARD-LOOKING STATEMENTS

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

PART I

Item 1. Business

Recent Developments

On January 5, 2011, Ace Marketing & Promotions, Inc. ("Ace") formed Mobiquity Networks, Inc. ("Mobiquity") for the purpose of attempting to develop a proximity marketing network and to derive revenues from same. Ace has assigned certain contracts described below (i.e. those contracts with Blue Bite LLC. and Eye Corp Pty Ltd.) pertaining to these start-up operations to Mobiquity, which is seeking to complete a plan of financing of up to \$10,000,000. As of the filing date of this Form 10-K, no funds have been raised by Mobiquity. We can provide no assurances that Mobiquity will be successful in raising financing on terms satisfactory to it, if at all.

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.

Proximity MarketingSM is a marketing tool that delivers messages to any Bluetooth or Wi-Fi enabled device within a 300ft radius from a central terminal. Our technology permits delivery to virtually any mobile device and properly formats each message to ensure that every user receives the best possible experience. Results are fully traceable, giving campaigns a true level of accountability. We offer clients the opportunity to reach millions of consumers with relevant, engaging content which is completely measurable for the advertisers and free for the user. The consumer receives a message requesting approval for transfer and once acceptance is granted, the user can receive a range of rich media content utilized by advertisers for promotional purposes. A Proximity Marketing unit can detect the total number of mobile devices in a specific area and then dynamically present a highly relevant message to consumers. Through this marketing medium, advertisers can track metrics and analytics in a much more targeted way and quantitatively measure the effectiveness of their campaigns.

We have launched Proximity Marketing installations in over 80 locations including malls, restaurants, and coffee shops. We have also executed successful campaigns at retail, music, and sporting events across the country, including: Nascar’s Coke Zero 400, , Best Buy Guitar Hero World Tour launch, Macy’s Thanksgiving Day Parade, NBA & NHL league games, concert tours for Def Leppard, Lonestar, Nickelback and more.

Mobiquity plans to use the net proceeds of the capital raise to expand heavily in the mall retail space and secure a national mall network, utilizing its exclusive agreement with EyeCorp, which provides Mobiquity access to its 300+ mall portfolio as well as execute national campaigns at other retail and event-based locations.

Overview

Ace Marketing & Promotions, Inc. (the “Company” or “Ace”) is a full service promotional marketing company offering a wide array of business solutions. Ace has created Marketing Technology Platforms in 4 Vertical categories to provide a comprehensive range of capabilities for reaching the right client with the right message at the right time. These Vertical are:

1. Branding & Branded Merchandise (Promotional Products)
2. Interactive Solutions (Website development)
3. Direct Relationship Marketing (Database management)
4. Mobile Marketing (Proximity marketing & SMS text)

These solutions within the 4 Verticals include: fulfillment and warehousing, incentives and rewards programs, importing, e-commerce and web design, interactive media, printing and forms management, database management, branded merchandise, interactive media and proximity marketing. Although we offer several business solutions, our core business still remains to be distributing advertising specialties and promotional items manufactured by others to our customers typically with our customers’ logos on them. Several of our customer categories include large corporations, local schools, universities, financial institutions, hospitals and not-for-profit organizations. Our promotional products are a useful, practical, informative, entertaining, and/or decorative item, most often imprinted with the sponsoring advertiser’s name, logo, slogan or message, and typically retained and appreciated by the end recipients who receive them, in many cases free of charge in marketing and communication programs.

Promotional products are also effective for the following:

- dealer/distribution programs;
- co-op programs;
- company stores;
- generating new customers or new accounts;
- nonprofit fundraising; public awareness campaigns;
- promotion of brand awareness and brand loyalty;
- employee incentive programs;
- new product or service introduction; and
- marketing research for survey and focus group participants.

We have the ability to distribute over 500,000 promotional product items ranging from stickers that cost pennies all the way through jewelry, sporting goods, awards, and electronics that cost thousands of dollars per unit. Specific categories of promotional products include:

- Advertising Specialties - build awareness, goodwill and remembrance of the advertiser’s name, product, purpose, advantages or other timely message. These products are generally lower priced goods and are usually distributed for free.
- Business Gifts, Awards and Commemoratives - generally lower priced goods and are given for goodwill, often at trade shows to generate traffic.
- Incentives and Awards - focus on motivation, workplace safety, goal setting and recognition. These are typically higher priced items used in incentive programs to promote employee retention and recognition. They may also be used in recruitment programs as well.
- Premiums - given after a specific behavior has been performed.

The most popular products that we have distributed over the last several years and account for over 50% of our business are as follows:

- Wearables, such as t-shirts, golf shirts and hats.
- Glassware, such as mugs and drinking glasses.
- Writing instruments, such as pens, markers and highlighters.
- Bags, such as tote bags, gift bags and brief cases.

Ace Advantages

Ace presently has over 2000 customer accounts ranging from Fortune 500 companies to local schools and small businesses. We have built our business around the concept of high quality innovative branded merchandise, competitive pricing, and consistently superior customer service. Our operational platform, using top-line technology, is designed for economies of scale and ensures superior relations with major industry suppliers. The platform also provides superior support to an expanding team of experienced, well-connected salespeople who are key to acquiring new business.

The major advantage we hold over most companies in the promotional product industry is the ability to provide integrated business solutions to its customers as trusted advisors. The majority of companies in the promotional product industry offer only branded merchandise, whereas, we offer solutions in:

- Branded Merchandise;
- Importing;
- Incentive / Rewards programs;
- Fulfillment / Warehousing;
- Direct Relationship Marketing / Database Management;
- Printing / Forms Management;
- Website Development / E-commerce;
- Integrated Marketing Solutions;
- Interactive media; and

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Mobile Marketing / Proximity Marketing.

The ability to offer multiple solutions and integrate them is what separates us from the average promotional product distributor. Where nearly all of the competition continues to be viewed as commodity based “order takers”, our solutions based services deepen the relationship with our clients as our sales consultants become trusted advisors and Ace becomes a valued business partner.

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Business Strategy

Ace's growth to date is based on a scalable corporate structure, using top-of-the-line technology, to create advantages over most small distributors by:

- Quickly targeting the best products and prices to meet a client's needs;
- Providing in-house art capabilities for rapidly customizing merchandise;
- Providing fulfillment and warehousing services for inventory or custom programs,
- Providing research, consulting and design services to our customers;
- Offering direct overseas importing for large quantities;
- Providing incentive and reward programs for both customers and employees;
- Providing full service print and forms management solutions;
- Providing full e-commerce solutions, including company stores and website design;
- Managing purchase orders consistently from query to final order;
- Tracking shipments effectively regardless of size or the overseas location of the supplier;
- Offering database management software, which integrates with each service offered and allows the customer the ability to quantify the results of any given marketing campaign or promotion;
- Offering proximity marketing and interactive media services.

In addition, Ace offers a wide array of services not offered by most distributors. These additional services allow our salespeople the opportunity to open new doors and create more sales with both new and old customers. By providing all the necessary back-office support, these efficiencies also free salespersons to focus on selling. The in-house computer system allows access from off-site, enabling sales staff to operate from any location.

Mobile Marketing

In 2008 and 2009, we entered into agreements with Blue Bite, a non-affiliated party to become an authorized distributor, provider and reseller in the United States of mobile advertising solutions, in the Mobile Advertising & Proximity Marketing Industry. To date, we have not generated any significant revenue from this segment of our business.

Management believes that proximity marketing has unlimited marketing possibilities to thousands of different businesses. Proximity marketing is the localized wireless distribution of advertising content associated with a particular place. If we place a proximity transmitting box in a location of an advertiser/business, transmissions (messages) will be sent to and received by cell phones and PDA's equipped with Bluetooth technology within approximately 100 meters of a marketing broadcast. A person receiving the transmission can elect to download the transmission, read the message and potentially act upon the message sent by the advertiser. The message will remain on the cell phone or PDA until proactively removed by the user. The user also has the ability to forward the message

to other users, which generates multiple views over an extended period of time.

Management believes that advertisers are constantly seeking new measurable media channels that can accurately target and engage key consumer segments, and deliver compelling, relevant content that can be enjoyed for what it is, shared with friends, interactively engaged with or commercially acted upon instantaneously. All messages received by the public are free of charge meaning there is no charge on any content a consumer downloads. We will enable our advertising customers to promote their business by sending still images, animated images, audio files, video clips, text files, promotional or discount contents, bar codes, mobile games and java applications and business card files. We can also send live data such as news and sports updates to targeted mobile phones.

Management believes that proximity marketing is completely spam-free and compliant with all applicable governmental regulations. It asks the users if they would like to receive the content. It tracks how many people accept and reject the content, providing the sender with a detailed time and date for every transmission. The system maintains a unique Bluetooth ID assigned to each device, and therefore will not send users the same advertisement more than once, and if rejected will not contact the user again.

The ABI Research report published in January 2008 on mobile marketing refers to the industry as still being in its “wild west” years but forecasts it will settle down and become a \$24 billion slice of the worldwide marketing and advertising pie by 2013. It estimates there was about \$1.8 billion spent in 2007 on all forms of mobile marketing.

We intend to market its proximity boxes as a premiere mobile technology. This will allow us to create a new channel in the mobile marketplace for existing brands and marketers to leverage the inherent strengths of mobile advertising. We plan to leverage the technology to develop niche vertical sites. These services will be scalable for both large and small businesses to monetize high traffic areas. Additionally, the platform shall be dynamically scalable for worldwide partnerships, where a multi-location business will be able to send a different marketing campaign for each demographic.

The Market

There are thousands of different types and styles of promotional products. In many cases, it is even possible to obtain custom items that are not found in any catalog. According to The Counselor – State of the Industry 2009 Survey, which is available online at no cost to the public at www.thecounselor.net, the most popular promotion products sold in 2008 were the following:

- Wearables (which accounts for over 25% of the overall industry revenue);
- Bags
- Headwear
- Desk/office/business accessories;
- Writing instruments;
- Glassware and ceramics;
- Computer-related products
- Health and Safety products;
- Electronics; and Calendars;

According to the Promotional Products Association International, which is available online at no cost to the public at <http://www.ppai.org/inside-ppai/research/Documents/2009SalesVolumeSheet.pdf> promotional product distributor’s sales were \$5.13 billion in 1991, with steady increases in sales until they reached \$17.85 billion in 2000. Promotional Product sales then declined to \$16.55 billion in 2001, \$15.63 billion in 2002, increased to \$16.34 billion in 2003, to \$17.3 billion in 2004, to \$18.8 billion in 2006 and \$19.4 billion in 2007 and then decreased to \$18.1 billion in 2008 and decreased further to \$15.6 billion in 2009. A revitalized economy, increased competition in the marketplace, and a trend toward integrated and targeted marketing strategies had contributed to this growth which ceased with the economic downturn in 2009. Integrated marketing campaigns involve not only advertising, but also sales promotions, internal communications, public relations, and other disciplines. The objectives of integrated marketing are to promote products and services, raise employee awareness, motivate personnel, and increase productivity through a wide array of methods including extensive use of promotional products. Since 2008, the economic downturn in the United States has substantially adversely affected the promotional product industry.

Distributors

According to the Promotional Products Association International, with no single company dominating the market, the promotional products industry is highly fragmented with 21,150 distributors in the industry with revenues of less than \$2.5 million and 857 distributors with revenues of \$2.5 million or more. According to The Counselor – State of the Industry 2010 Survey, the top ten distributors in our industry are believed to have 2009 North American sales of over \$1.6 billion. Staples, Pro Forma Inc., Group II Communications/IMS, BDA, and 4 Imprint were the top five distributors of 2009 with estimated sales of \$360 million, \$234 million, \$207 million, \$198 million and \$165 million, respectively. Nearly 80% of the distributors surveyed are reported to be privately owned family businesses. Management believes that control of sales lies predominantly with the independent sales representatives, as there is little brand recognition at this time.

According to the Promotional Products Association International, the following ranks the top 10 Program Category's for purchasing promotional products in descending order according to the findings of a 2009 study by Louisiana State University and Glenrich Business Studies. Category's were named by distributors according to the volume spent on promotional products by each.

Brand Awareness: Promotion of brand awareness and brand loyalty

Tradeshows: Tradeshow traffic generation

New Customer/Account Generation: Newcustomer or new account generation

Dealer/Distributor Programs: Dealer incentives, co-op programs, company stores

Public Relations: Corporate involvement with community, fundraising, sponsorship, school programs, media relations, Employee Relations & Events: Morale and motivation, corporate/employee events, employee orientation, organizational commitment/corporate identity, corporate communication, employee training (other than safety), employee referral programs

Not-For-Profit Programs: Not-for-profit use for fundraising, public awareness campaigns (health, environment, public safety, etc.)

New Product/Service Introduction: New product or service introduction

Employee Service Awards: Anniversary recognition, service awards, etc.

Customer Referrals: Customer referral incentive programs

Internal Promotions (Incentive; Non-Safety): Sales incentive, TQM/quality programs, productivity, inventory reduction, error reduction, attendance improvement

Supply Chain

Domestic and overseas manufacturers generally sell their promotional product items directly to suppliers. Suppliers sell to distributors like Ace Marketing and distributors sell promotional products to customer users such as large corporations, financial institutions, universities and schools, hospitals, not-for-profit organizations and small businesses. However, manufacturers have the ability to sell their promotional products directly to distributors and customers. Suppliers have the ability to sell promotional products directly to customers who are not distributors.

Whereas the majority of the items are made overseas, often in China, and the suppliers are simply importing from actual manufacturers, we generally consider the supplier as the beginning of the industry supply chain. They choose specified product lines and import blank goods to be warehoused until a distributor orders one of their items with a customer logo on it. The suppliers generally run the risk of inventory exposure and fluctuations in an item's popularity. This is generally why most distributors stick to distributing and not importing. There are situations where importing directly from the manufacturer and thus cutting out the supplier does in fact make sense. Generally, this happens when a distributor has a large quantity order and has enough lead time from the customer to import the item. Since ocean freight from overseas generally takes 30-45 days and manufacturing may take several weeks, this only makes sense when a customer orders far in advance and in large quantity. The benefits of this are outstanding since the margins and cost savings can be substantial. But, in general, the average order in the industry is below \$1,000 and thus the need for individual suppliers to carry specified product lines and hold inventory to fill the need of the average distributor with the average order.

Suppliers

Management believes that while there are an estimated 3,000 suppliers in the industry, most of the promotional products distributors have access to the same suppliers. Currently, we utilize approximately 500 suppliers in our business with only one supplier accounting for about 10% of our purchasing requirements over the last two years. We seek to distinguish ourselves from other distributors by attractive pricing, by sourcing unique items, creating custom products and/or offering superior in house service and customer support through our employees. Most suppliers require us to pay within 30 days of delivery of an order; however, we may not receive our customers' payments in the same time frame. This requires us to have available cash resources to finance most of our customers' orders. The possible lack of available cash resources would limit our ability to take orders from customers, thus limiting our ability to grow. An infusion of additional capital, a line of credit and better payment terms based on volume can enable us to service a broader base of customers. We have never sought to establish a line of credit, although we may seek to establish one with an institutional lender in the future.

Purchasing Trends – Need for Value Added Products and Related Services

Price is no longer the sole motivator of purchasing behavior for our customers. With the availability of similar products from multiple sources, customers are increasingly looking for distributors who provide a tangible value-added to their products. As a result, we provide a broad range of products and related services. Specifically, we provide research and consultancy services, artwork and design services, and fulfillment services to our customers. These services are provided in-house by our current employees. Management believes that by offering these services, we can attempt to attract new customers.

Our Customers – Choosing us as your Right Distributor

Most of our promotional products bear our customers' corporate name and are a reflection of their corporate image. The events they use these items for are of the utmost importance. If they go with another distributor who gives them run of the mill ideas possibly at a lower cost, a poor quality product with inferior quality decoration and/or the goods arrive late, then they quickly realize there should be other factors that determine which distributor they should be working with. We presently have over 500 customer accounts ranging from fortune 500 companies to local schools and small businesses. A customer account is a person who or entity that has purchased promotional products from us in the past on a non-exclusive basis and may or may not purchase from us additional promotional products in the future. No customer has accounted for more than 10% of sales during the past three years. Our customer base grows mainly through business and personal referrals and the efforts of our sales representatives. Generally our customers do not actively seek distributors to bid on their projects. There are many reasons why our customers may work with us over another distributor. The average buyer first believes that price is the sole issue with the lowest

bidding distributor on a project obtaining the business. Once they gain more experience and understand the difficulties in processing and fulfilling an order on time and correctly, they generally analyze the rationale on how they choose a distributor differently. Although pricing is important to our customers, they also count on our dependability, creativity and efficiency. In this regard, we recently agreed to develop an online store for one of the fastest growing privately held hospices in the United States to consolidate the customer's purchasing from us for its multiple locations across the country.

Servicing our Customers

The major advantage we believe we have over most companies in the promotional product industry is the ability to provide integrated business solutions to its customers as trusted advisors. The majority of companies in the promotional product industry offer only branded merchandise, whereas, we offer solutions in:

- Branded Merchandise;
- Importing;
- Incentive / Rewards programs;
- Fulfillment / Warehousing;
- Direct Relationship Marketing / Database Management;
- Printing / Forms Management;
- Website Development / E-commerce;
- Integrated Marketing Solutions;
- Interactive media; and
- Mobile Marketing / Proximity Marketing.

We have built our distribution business around the concept of reliability, quality, innovative and custom promotional products at competitive prices while maintaining a high level of customer service and good relationships with industry suppliers. Our research licensed software technology, that we purchased from an outside vendor and is available for licensing to other distributors in the industry, affords us the ability to locate and purchase industry product in an efficient manner rather than to have to manually research products through hundreds of catalogs and/or reference books. Our in-house art capabilities through our salaried employees make us a “one stop shop” for custom merchandise and provide our customers with comfort in knowing logo modifications will not delay valuable production days on tight turn-around projects. Our in-house art department consists of two employees who work on Apple computers using licensed software programs such as Illustrator, Photoshop and Quark to create new logos or manipulate current ones. These logos are then sent to the supplier who arranges to put them on the product whether internally or through an outside source in one of the following manners:

- silkscreen printing
- embroidery
- hot stamp
- heat transfer
- embossing/debossing
- engraving

Our reliability stems from our own customized and detailed tracking system that we structured and implemented to ensure an order is processed correctly and on time. In general, customers contact us when they have a need for items that have corporate logos. They provide us with general information that helps us determine what products to suggest, including the following:

- The type of event and the targeted audience;
- The number of units that are required and the budget; and