ACE MARKETING & PROMOTIONS INC
Form 10-Q
August 09, 2013

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE

SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 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)

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 x No o

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 x No o

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 o	Accelerated Filer o
Accelerated Filer o	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 o No x

As of June 30, 2013, the registrant had a total of 45,383,682 shares of Common Stock outstanding.

ACE MARKETING & PROMOTIONS, INC.

FORM 10-Q QUARTERLY REPORT

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PROMOTIONS, INC.

Condensed Consolidated Balance Sheets

	June 30, 2013 Unaudited	December 31, 2012 Audited
Assets		
Current Assets:		
Cash and cash equivalents	$2,309,902	$362,598
Accounts receivable, net of allowance for doubtful accounts of $20,000 at June 30, 2013 and December 31, 2012, respectively	387,507	444,262
Prepaid expenses and other current assets	424,085	263,575
Total Current Assets	3,121,494	1,070,435
Property and Equipment, net	624,917	748,234
Other Assets	27,501	27,501
Total Assets	$3,773,912	$1,846,170
Liabilities and Stockholders' Equity		
Current Liabilities:		
Accounts payable	$362,772	$348,712
Accrued expenses	112,550	160,098
Convertible Promissory Note	326,535	298,376
	801,857	807,186
Commitments and Contingencies	–	–
Stockholders' Equity:		
Preferred Stock, $.0001 par value; 5,000,000 shares authorized, zero and 220,000 shares issued and outstanding at June 30, 2013 and December 31, 2012 respectively		22
Common stock, $.0001 par value; 100,000,000 shares authorized; 45,407,015 and 30,252,938 shares issued and outstanding at June 30, 2013 and December 31, 2012, respectively	4,541	3,025
Additional paid-in capital	19,356,387	14,485,740
Accumulated deficit	(16,357,372)	(13,418,302)
	3,003,556	1,070,485
Less: Treasury Stock, at cost, 23,334 shares	(31,501)	(31,501)
Total Stockholders' Equity	2,972,055	1,038,984

Total Liabilities and Stockholders' Equity	$3,773,912	$1,846,170

See notes to condensed consolidated financial statements.

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ACE MARKETING &

PROMOTIONS, INC.

Condensed Consolidated Statements of Operations

	Three Months Ended June 30, Unaudited		Six Months Ended June 30, Unaudited	
	2013	2012	2013	2012
Revenues, net	$975,368	$726,381	$1,595,093	$1,243,698
Cost of Revenues	636,622	546,606	1,211,388	966,265
Gross Profit	338,746	179,775	383,705	277,433
Operating Expenses:				
Selling, general and administrative expenses	2,026,558	1,490,249	3,261,959	2,492,088
Total Operating Expenses	2,026,558	1,490,249	3,261,959	2,492,088
Loss from Operations	(1,687,812)	(1,310,474)	(2,878,254)	(2,214,655)
Other Income (Expense):				
Interest expense	(25,100)	(414)	(60,984)	(416)
Beneficial Conversion Feature		(120,254)		(120,254)
Interest income	61	110	168	226
Loss on abandonment of fixed assets		(4,819)		(4,819)
Total Other Income (Expense)	(25,039)	(125,377)	(60,816)	(125,263)
Net Loss	$(1,712,851)	$(1,435,851)	$(2,939,070)	$(2,339,918)
Net Loss Per Common Share:				
Basic	$(0.04)	$(0.06)	$(0.08)	$(0.06)
Weighted Average Common Shares Outstanding:				
Basic	38,920,992	24,990,138	37,504,483	27,508,227

See notes to condensed consolidated financial statements.

ACE MARKETING &

PROMOTIONS, INC.

Consolidated Statement of Stockholders' Equity
For the Years Ended December 31, 2012 and Six Months ended June 30, 2013

	Total Stockholders'	Preferred Stock		Common Stock		Additional Paid-in		Treasury Stock	
	Equity	Shares	Amount	Shares	Amount	Capital	(Deficit)	Shares	Amount
Balance, at December 31, 2011	$1,683,993			23,284,236	$2,328	$10,997,407	$(9,284,241)	23,334	$(31,501)
Stock Purchase	1,752,240			4,208,872	434	1,751,806			
Stock Grant	1,210,911			1,926,496	179	1,210,732			
Stock Purchase Preferred	470,000	470,000	47	–	–	469,953			
Conversion of Preferred Stock		(250,000)	(25)	833,334	84	(59)			
Option Grant	219,647					219,647			
Warrant Grant	50,684					50,684			
Beneficial Conversion Feature	120,254					120,254			
Closing Costs on equity issuance	(334,684)					(334,684)			
Net Loss	(4,134,061)						$(4,134,061)		
Balance, at December 31, 2012	$1,038,984	$220,000	$22	30,252,938	$3,025	$14,485,740	$(13,418,302)	23,334	$(31,501)
Stock Purchase	3,992,316		–	13,280,005	1,338	3,990,978	–	–	–

Offering Costs	(171,817)	–	–			(171,817)	–	–	–
Conversion of preferred stock		(220,000)	(22)	528,000	53	(31)	–	–	–
Option Grant	302,600					302,600			
Stock Grant	651,487			1,346,072	125	651,362	–	–	–
Stock Compensation	97,555					97,555			
Net Loss	(2,939,070)	–	–	–	–	–	(2,939,070)	–	–
Balance, at June 30, 2013	$2,972,055	–	$–	45,407,015	$4,541	$19,356,387	$(16,357,372)	23,334	$(31,501)

See notes to condensed consolidated financial statements.

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ACE MARKETING &

PROMOTIONS, INC.

Condensed Consolidated Statements of Cash Flows		
Six Months Ended June 30,	2013 unaudited	2012 unaudited
Cash Flows from Operating Activities:		
Net loss	$(2,939,070)	$(2,339,918)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	134,607	106,243
Stock-based compensation	1,051,642	960,710
Beneficial Conversion Feature		120,254
Amortization of deferred financing costs	28,159	
Changes in operating assets and liabilities:		
(Increase) decrease in operating assets:		
Accounts receivable	56,755	168,313
Prepaid expenses and other assets	(160,510)	(175,378)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	(33,488)	(163,062)
Total adjustments	1,077,165	1,017,080
Net Cash Used in Operating Activities	(1,861,905)	(1,322,838)
Cash Flows from Investing Activities:		
Acquisition of property and equipment	(11,290)	(206,670)
Net Cash Used in Investing Activities	(11,290)	(206,670)
Cash Flows from Financing Activities:		
Proceeds from Loan		265,525
Proceeds from issuance of stock	3,820,499	1,167,195
Net Cash Provided by Financing Activities	3,820,499	1,432,720
Net Increase (Decrease) in Cash and Cash Equivalents	1,947,304	(96,788)
Cash and Cash Equivalents, beginning of period	362,598	605,563
Cash and Cash Equivalents, end of period	$2,309,902	$508,775
Supplemental Disclosure Information:		
Cash paid for interest	$32,826	$416
Cash paid for taxes	$–	$–

See notes to condensed consolidated financial statements.

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ACE MARKETING & PROMOTIONS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

THREE MONTHS AND SIX MONTHS ENDED JUNE 30, 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 July 22, 2013, the Company filed a Definitive Proxy Statement with the Securities and Exchange Commission. Included in the Proxy Statement and Notice of Meeting schedules for September 10, 2013 is a proposal for stockholders to approve an amendment to the Company’s Certificate of Incorporation to change the name of the Corporation to Mobiquity Technologies, Inc.

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 has three wholly-owned subsidiaries, each focused on driving revenue through the commercialization of one or more propriety technologies developed or acquired by the Company.

The first 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. In the event that the Company's stockholders approve a change in corporate name from Ace Marketing & Promotion, Inc. to Mobiquity Technologies, Inc., then the Company intends to change the name "Ace Marketing Inc." to "Ace Marketing & Promotions, Inc."

The second 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 had 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 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 June 30, 2013 and December 31, 2012, the Condensed Consolidated Statements of Operations for the three months and six months ended June 30, 2013 and 2012 and the Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 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 June 30, 2013, results of operations for the three months and six months ended June 30, 2013 and 2012 and cash flows for the six months ended June 30, 2013 and 2012. All such adjustments are of a normal recurring nature. The results of operations and cash flows for the three months ended June 30, 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 June 30, 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 EQUIVALENTS

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.

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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 June 30, 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 (i) approximately 28,367,000 and 15,830,000 because they are anti-dilutive as a result of a net loss for the three months ended June 30, 2013 and 2012, respectively.

NOTE 4: STOCK 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 six months of 2013, which agreements involve the payment of cash, stock and warrants.

COMPENSATION COSTS

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 June 30, 2013 and 2012 include employee share-based compensation expense totaling approximately $946,000 and $682,000, respectively. The Company's results for the six month periods ended June 30, 2013 and 2012 include employee share-based compensation expense totaling approximately $1,052,000 and $961,000, 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 and six months ended June 30, 2013 and 2012:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Employee stock-based compensation - option grants	$93,769	$112,500	$123,321	$238,500
Employee stock-based compensation - stock grants				
Non-Employee stock-based compensation - option grants	199,393	46,182	229,600	77,364
Non-Employee stock-based compensation - stock grants	616,872	523,721	625,497	644,846
Non-Employee stock-based compensation-stock warrant	35,428		73,224	–
Total	$945,642	$682,403	$1,051,642	$960,710

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 2005 Plan are collectively referred to as the "Plans".) In Proposal No. 3 of the upcoming Special Meeting of Stockholders, stockholders are being asked by management of the Company to approve an increase in the number of shares subject to the 2009 Plan from 4,000,000 shares to 10,000,000 shares.

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 during the three and six months ended June 30, 2013 and 2012 are as follows:

	Three Months Ended		Six Months Ended	
	June 30 2013	2012	June 30 2013	2012
Expected volatility	136.44%	456.67%	119.24%	379.88%
Expected dividend yield		-		-
Risk-free interest rate	.97%	1.92%	1.10%	1.95
Expected term (in years)	5	10	5.67	10

	Share	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding, January 1, 2013	4,575,000	.76	5.81	$ 0
Granted	1,891,430	.38	6.06	122,886
Exercised	–			
Cancelled & Expired	–			
Outstanding, June 30, 2013	6,466,430	.65	4.59	$ 198,936
Options exercisable, June 30, 2013	5,987,263	.67	4.56	$ 198,936

The weighted-average grant-date fair value of options granted during the six months ended June 30, 2013 and 2012 was $.38 and $0.69, respectively.

The aggregate intrinsic value of options outstanding and options exercisable at June 30, 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 $0.43 closing price of the Company's common stock on June 30, 2013.

As of June 30, 2013, the fair value of unamortized compensation cost related to unvested stock option awards was $113,403.

The weighted average assumptions made in calculating the fair value of warrants granted during the three and six months ended June 30, 2013 and 2012 are as follows:

	Three Months Ended June 30 2013	2012	Six Months Ended June 30 2013	2012
Expected volatility	129.19%	0%	57.81%	0%
Expected dividend yield		-		-
Risk-free interest rate	.71%	0%	.74%	0%
Expected term (in years)	5	-	4.29	-

	Share	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding, January 1, 2013	14,319,532	$ .55	1.56	$ –
Granted	7,581,437	$ .49	4.47	31,286
Exercised	–	–		
Cancelled		–		
Outstanding, June 30, 2013	21,900,969	$ .51	2.26	
Warrants exercisable, June 30, 2013	21,900,969	$ .47	2.26	$ 834,502

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 with a non-affiliated entity 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 vested in the second quarter of 2013 together with an additional 71,430 warrants. An additional 71,430 shares and options vest monthly from July through December 2013. In May 2013, the Company entered into an amendment to the consulting agreement to increase the cash fee from $5,000 per month to $6,000 per month, to agree to issue 100,000 shares of restricted Common Stock upon execution of the amendment and performance based options to purchase 250,000 restricted shares of Common Stock exercisable at $.45 per share over a term of two years from the date that the options have been earned (granted). These non-statutory options are granted outside of the Company’s stock option plan.

In the second quarter of 2013, the Company issued 60,000 shares of restricted Common Stock to settle compensation that was owed under an April 2012 consulting agreement.

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 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, the Company undertook a private placement offering on the same terms as those sold to the Legend investors. From February 1 through May 31, 2013, the Company raised $3,016,000 in gross proceeds, including, $300,000 received from investors who previously invested in January 2013 through Legend. The Company compensated Legend pursuant to a tail fee agreement and paid Legend $36,000 in cash compensation and a warrant to purchase 150,000 shares of Common Stock, exercisable at $.50 per share through December 15, 2017. The Company issued to investors a total of approximately 10,053,334 shares of Common Stock and Class BB Warrants to purchase approximately 5,026,667 shares of Common Stock. 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: SEGMENT INFORMATION

Reportable operating segment is determined based on the Company'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 June 30, 2013		
	Ace Marketing & Promotions, Inc.	Mobiquity Networks Inc.	Total
Revenues, net	$881,868	93,500	$975,368
Operating (loss), before interest amortization, depreciation and taxes	(1,240,838)	(379,638)	(1,620,476)
Interest income	61	–	61
Interest (expense)	(25,100)	–	(25,100)
Depreciation and amortization	(19,890)	(47,446)	(67,336)
Net Loss	(1,285,767)	(427,084)	(1,712,851)
Assets at June 30, 2013	3,106,750	667,162	3,773,912

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

NOTE 9: 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 1st thereafter, unless the Employment Agreement is terminated in accordance with its terms on or before December 30th 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.

The Company's Board of Directors approved an amendment to the employment agreements of each of its Co-Chief Executive Officers on May 28, 2013. Pursuant to the employment agreements of Dean L. Julia and Michael D. Trepeta, Co-Chief Executive Officers, each officer is entitled to receive as an annual bonus an amount equal to 5% of pre-tax earnings for the most recently completed fiscal year (before deduction of the amount of such bonuses). On May 28, 2013, the Board approved an amendment to each CEO's employment agreement so that in the event majority control of the Company is acquired in a fiscal year, each officer may choose an annual bonus as described above or to receive an amount equal to 1% of the total consideration paid by the acquirer(s).

NOTE 10: 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 11: 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 shopping visits. 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 may be able 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 12: 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.

On April 12, 2013, the Company obtained an effective Registration Statement covering the resale of up to 5,000,000 shares of Common Stock pursuant to the Equity Facility. In June 2013, the Company issued 50,000 shares of its Common Stock pursuant to the Equity Facility. The Company will receive 95% of the proceeds of sale, less a fee of 5%. It is anticipated that the net proceeds received from the sale of the aforementioned 50,000 shares will be utilized to reduce the $300,000 principal amount outstanding under the Company’s Promissory Note owing to TCA. See “Note 13.”

NOTE 13: 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 14: SUBSEQUENT EVENTS

The Company has evaluated all subsequent events through the filing date of this Form 10-Q for appropriate accounting and disclosures and found that there are none to report.

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 July 22, 2013, the Company filed a Definitive Proxy Statement with the Securities and Exchange Commission. Included in the Proxy Statement and Notice of Meeting schedules for September 10, 2013 is a proposal for stockholders to approve an amendment to the Company’s Certificate of Incorporation to change the name of the Corporation to Mobiquity Technologies, Inc.

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 has three wholly-owned subsidiaries, each focused on driving revenue through the commercialization of one or more propriety technologies developed or acquired by the Company.

The first 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. In the event that the Company's stockholders approve a change in corporate name from Ace Marketing & Promotion, Inc. to Mobiquity Technologies, Inc., then the Company intends to change the name "Ace Marketing Inc." to "Ace Marketing & Promotions, Inc."

The second 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.

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 approximately 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

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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.

Quarter Ended June 30, 2013 vs. June 30, 2012

	Three Months Ended June 30	
	2013	2012
Revenue	$975,368	$726,381
Cost of Revenues	$636,622	$546,606
Gross Profit	$338,746	$179,775
Selling, General and Administrative Expenses	$2,026,558	$1,490,249
(Loss) from Operations	$(1,687,812)	$(1,310,474)

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We generated revenues of $975,368 in the second quarter of 2013 compared to $726,381 in the same three month period ending June 30, 2012. The change in revenues of $248,987 in 2013 compared to 2012 was due to increased efforts of our sales force.

Cost of revenues was $636,622 or 65.3% of revenues in the second quarter of 2013 compared to $546,606 or 75.2% 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 $90,016 in 2013 is related to volume and product mix of the products our customers purchased.

Gross profit was $338,746 in the second quarter of 2013 or 34.7% of net revenues compared to $179,775 in the same three months of 2012 or 24.8% 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 $2,026,558 in the second quarter of 2013 compared to $1,490,249 in the same three months of 2012, an increase of approximately $536.309. Such operating costs include payroll and related expenses, commissions, insurance, rents, professional (consulting) and public awareness fees. The increase in operating expenses in the second quarter of 2013 was primarily due to an increase in professional (consulting) fees of approximately $53,000 associated with the formation and development of Mobiquity Networks and Venn Media and increased salaries of approximately $70,000 for these divisions, along with the increase in commissions of $100,000 and the non-cash stock based compensation costs of $263,000

The 2013 second quarter loss from operations was $(1,687,812) as compared to $(1,310,474) for the comparable period of the prior year, an increased loss of $377,338. 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.

Six Months Ended June 30, 2013 vs. June 30, 2012

	Six Months Ended June 30	
	2013	2012
Revenue	$1,595,093	$1,243,698
Cost of Revenues	$1,211,388	$966,265
Gross Profit	$383,705	$277,433
Selling, General and Administrative Expenses	$3,261,959	$2,492,088
(Loss) from Operations	$(2,878,254)	$(2,214,655)

We generated revenues of $1,595,093 in the first six months of 2013 compared to $1,243,698 in the same six month period ending June 30, 2012. The change in revenues of $351,395 in 2013 compared to 2012 was due to increased efforts of our sales force.

Cost of revenues was $1,211,388 or 75.9% of revenues in the first six months of 2013 compared to $966,265 or 77.7% of revenues in the same six 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 $245,123 in 2013 is related to volume and product mix of the products our customers purchased.

Gross profit was $383,705 in the first six months of 2013 or 24.1% of net revenues compared to $277,433 in the same six months of 2012 or 22.3% 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 $3,261,959 in the first six months of 2013 compared to $2,492,808 in the same six months of 2012, an increase of approximately $769,871 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 six months of 2013 was primarily due to an increase in professional (consulting) fees of approximately $276,000 associated with the formation and development of Mobiquity Networks and Venn Media and increased salaries of approximately $163,000 for these divisions. along with the increase in commissions of $131,000 and the non-cash stock based compensation costs of $91,000 and $34,000 increase in interest costs associated with the convertible promissory note.

The 2013 loss from operations for the six months ended June 30, 2013 was $(2,878,254) as compared to $(2,214,655) for the comparable period of the prior year, an increased loss of $663,599. 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 may be able 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.

In the second quarter of 2013, the Company opened up an office in Barcelona, Spain, specifically related to the research and development of the Mobiquity Networks' product line. The operating costs of this Barcelona facility are approximately $20,000 per month for rent, personnel and other general overhead.

Mobiquity Networks

In February 2012, we announced our plans to have the architecture for our proprietary mobile marketing solutions; "Mall-Offers Wi-Fi" and "malloffers.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 fourth quarter of 2013.

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. Malloffers.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 Mobiquity 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 $2,309,902 at June 30, 2013. Cash used in operating activities for the six months ended June 30, 2013 was $1,861,905. This resulted primarily from a net loss of $2,939,070, offset by stock based compensation of $1,051,642,a decrease in accounts receivable of $56,755 and an increase in prepaid expenses and other assets of $160,510 and a decrease of accounts payable and accrued expenses of $33,488. The Company had an increase in investing activities of $11,290 with the purchase of equipment. Cash flow from financing activities of $3,820,499 resulted from the proceeds from the issuance of the Company's Common Stock and Warrants to purchase additional shares of Common Stock.

The Company had cash and cash equivalents of $508,775 at June 30, 2012. Cash used in operating activities for the six months ended June 30, 2012 was $1,353,251. This resulted primarily from a net loss of $2,339,921, offset by stock based compensation of $920,505 and $120,254 for the Beneficial Conversion Feature, a decrease in accounts receivable of $168,313 and an increase in prepaid expenses and other assets of $170,402 and a decrease of accounts payable and accrued expenses of $163,062. The Company had an increase in investing activities of $206,672 with the purchase of equipment. Cash flow from financing activities of $1,463,135 resulted from the proceeds from the issuance of the Company's Common Stock, Preferred Stock and Warrants to purchase additional shares of Common Stock. The company also acquired a loan in the amount of $350,000, which resulted in net loan proceeds of $265,525.

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 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, the Company undertook a private placement offering on the same terms as those sold to the Legend investors. From

February 1 through May 31, 2013, the Company raised $3,016,000 in gross proceeds, including, $300,000 received from investors who previously invested in January 2013 through Legend. The Company compensated Legend pursuant to a tail fee agreement and paid Legend $36,000 in cash compensation and a warrant to purchase 150,000 shares of Common Stock, exercisable at $.50 per share through December 15, 2017. The Company issued to investors a total of approximately 10,053,334 shares of Common Stock and Class BB Warrants to purchase approximately 5,026,667 shares of Common Stock. 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 June 30, 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 and Description of Underwriting or Other Discounts to Market Price or Convertible Security, Afforded to Purchasers**	**Exemption from Registration Claimed**	**If Option, Warrant or Convertible Security, terms of exercise or conversion**
Jan. –May 2013	Common Stock;	13,220,000 shares	$3,966,000; cash compensation	Rule 506	Warrants exercisable at $.50 per share through

	Class BB Warrants; Placement Agent warrants; and options	and 6,610,000 warrants; 625,000 Placement Agent warrants; 500,000 options granted to counsel in lieu of cash	totaling $150,000 was paid.		December 15, 2017
January 2013	Warrants	600,000 shares (Note: 150,000 warrants vesting quarterly).	Services rendered; no commissions paid	Rule 506	Warrants exercisable at $.30 per share through Jan. 2017
January 2013	Common Stock	673,598 shares	Shares issued pursuant To anti-dilution rights; no additional monies Received by the Company and no commissions paid	Rule 506	Not applicable
January 2013	Common Stock	24,642 shares	Penalty shares; no commissions paid	Rule 506	Not applicable
January 2013	Common Stock	200,000 shares	Services rendered in 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	Section 3(a)(9)	Not applicable
Feb. – June 2013	Common Stock and Options	1,331,430 shares; 500,000 Options (1)	Services rendered; no commissions paid	Rule 506	Options exercisable at $.30 per share through April 11, 2018

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(1) Includes options to purchase 500,000 shares, 71,430 of which have vested at June 30, 2013. Of the 1,331,430 shares, this includes 1,171,430 shares granted in June 2013 pursuant to a consulting contract described under Note

6. The remaining 160,000 shares were granted in connection with public relation and business development services.

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

(c) In the six months ended June 30, 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.

The Company’s Class D Warrants which were set to expire on August 21, 2013 have had their expiration date extended by the Company through June 30, 2014. The Class D Warrants are exercisable at $1.00 per share. The Company’s Class E Warrants, which are exercisable at $.30 per share and which expire at the end of August 2013, have not been extended. Warrant holders desiring to exercise their Warrants before the end of August 2013, should submit the original Warrant to the Company together with the exercise price (i.e. $.30 per share) multiplied by the number of Warrants which are submitted for exercise.

ITEM 6. EXHIBITS.

Exhibit No.	Description
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)
10.14	Amendment to Dean L. Julia's Employment Agreement (16)
10.15	Amendment to Michael D. Trepeta's Employment Agreement (16)
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 (15)
31.2	Co-Principal Executive Officer Rule 13a-14(a)/15d-14(a) Certification (15)
31.3	Principal Financial Officer Rule 13a-14(a)/15d-14(a) Certification (15)
32.1	Co-Principal Executive Officer Section 1350 Certification (15)
32.2	Co-Principal Executive Officer Section 1350 Certification (15)
32.3	Principal Financial Officer Section 1350 Certification (15)
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 (15)
101.CAL	Calculation Linkbase, XBRL Taxonomy Extension Definition (15)
101.DEF	Linkbase, XBRL Taxonomy Extension Labels (15)
101.LAB	Linkbase, XBRL Taxonomy Extension (15)
101.PRE	Presentation Linkbase (15)

(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) Incorporated by reference to the Registrant’s Form 8-K dated June 6, 2013.

(15) Filed herewith.
(16) Incorporated by reference to Form 8-K filed June 6, 2013.

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: August 9, 2013 By: /s/ Dean L. Julia
Dean L. Julia,
Co-Principal Executive Officer

Date: August 9, 2013 By: /s/ Michael D. Trepeta
Michael D. Trepeta,
Co-Principal Executive Officer

Date: August 9, 2013 By: /s/ Sean McDonnell
Sean McDonnell,
Principal Financial Officer