

ACE MARKETING & PROMOTIONS INC
Form 10-K
March 05, 2012

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

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

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011

COMMISSION FILE NUMBER: 000-51160

ACE MARKETING & PROMOTIONS, INC.

(Exact name of Registrant as specified in its charter)

New York 11-3427886
(State of jurisdiction of (I.R.S. Employee
incorporation or organization) Identification Number)

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

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

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

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

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

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

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

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

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

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

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

As of June 30, 2011, the number of shares held by non-affiliates was approximately 17,665,000 shares. The approximate market value based on the last sale (i.e. \$.67 per share as of June 30, 2011) of the Company's Common Stock was approximately \$11,836,000.

The number of shares outstanding of the Registrant's Common Stock, as of March 1, 2012 was 24,369,239.

FORWARD-LOOKING STATEMENTS

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

Item 1. Business

Overview

Ace Marketing & Promotions, Inc. (the "Company" or "Ace"), a New York corporation, is an Integrated Marketing Solutions Company that focuses on four business verticals; Branding & Branded Merchandise, Interactive Solutions, Direct Relationship Marketing and Mobile Marketing.

Ace Marketing has created a comprehensive suite of Integrated Marketing Solutions to Manage and Implement Branding and Marketing Strategies. Ace's proprietary Technology Platform, "AcePlace", is the centerpiece of our implementation strategy. AcePlace eliminates the need for companies to rely on multiple vendors to put their marketing strategies to work.

Ace's implementation philosophy is based on a systematic and data-driven process to identify ideal clients, prospects and branding strategies. Our integrated platforms utilize the ideal delivery methods to strengthen brand awareness and drive effective marketing programs that produce results that can be easily defined and measured.

The Promotional Products Market (Branded)

Global Advertising Specialties Impressions Study (Released at the 2010 ASI Power Summit)

During July and August of 2010, a team conducted in-person interviews with business people in New York, Chicago, Los Angeles, Philadelphia, London, Sydney, Toronto and Montreal metro areas on behalf of ASI regarding promotional products they had received. The purpose of the interviews was to understand where items are kept, frequency of use, why the promotional product was kept and estimate the number of impressions the advertiser makes with the item. In-person interviewers conducted a total of 406 completed surveys.

Further, an online panel survey was conducted among recipients of advertising specialties to augment the sample from the in-person interviews. Combined with the in-person interviews, there was a total of 3,332 completed surveys for

this study. Respondents were asked if they had received any promotional products in the last 12 months.

Conclusions

- **Cost per Impression.** In the U.S., the cost per impression of a promotional product stayed virtually the same from 2008 to 2010, at .005 cents.
 - ü When compared to other forms of media like television or radio, promotional products are very affordable and effective. For a modest investment, a small company can obtain the type of exposure normally reserved for large companies with significant advertising budgets.

 - **Product Usage.** Bags have the highest number of impressions in a month, over 1,000. In fact, over one-third (36%) of those with incomes under \$50,000 own bags.
 - ü Current global awareness of the importance of reusing, rather than throwing away, combined with high end-user needs for cost saving, make bags a better-than-ever way for advertisers to spread their message.
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- **Gender Preferences.** Males are more likely than females to own shirts and caps, while females are more likely to have bags, writing instruments, calendars and health and safety products than males. And as men age, they are even more likely to have received a cap in the last 12 months. As women age, they are more likely to have received writing instruments or calendars.

- ü Knowing the likely recipient of a promotional product is paramount for an advertiser. Decorating items that have special appeal to the end-user will mean the item gets used more often and held longer, extending the product’s life span and increasing the number of impressions it makes.

- **Positive Reinforcement.** Product preferences differ among voters. 75% of Independent voters prefer consumer-branded products – nearly 1.5 times more than Democrats or Republicans. Independents get more promotional T-shirts than either Democrats or Republicans, but are less inclined than Democrats or Republicans to take free pens.

- ü Promotional products are unique during political campaigns in that they primarily emphasize the positive qualities of a candidate, while mass media focuses more on the negative aspects of the opposing candidate. A positive message on a useful product stands above the fray of negative campaign ads.

- **Ability to Identify the Advertiser.** 83% in the U.S. indicated they could identify the advertiser on a promotional item they owned, very similar to 2008 (84%).

- ü Not only do promotional products make impressions to everyone who sees them, but messaging is reinforced every time the item is used, as it is making a contribution to the needs of the owner. No other form of media can allow the advertiser to so closely tie a benefit to the recipient of the message or brand.

- **Ability to Influence User Opinions.** 41% of U.S. respondents indicated their opinion of the advertiser was more favorable after receiving a promotional product. Among those who had not done business with the advertiser already in the U.S., 27% thought it likely they would.

- ü Because the promotional products benefit is so clear to the end-user, they are more aware of the sponsor on the product and they are able to create a positive impression of the sponsor, as they find value in the item each time it is used.

- **Pass Along.** After receiving a promotional product they don’t plan to keep, nearly two-thirds (62%) of respondents in the U.S. indicated that they give the item to someone else. This is up 11 percentage points from two years ago.

- ü Promotional product usefulness goes beyond the person who initially receives the item. Products are frequently passed along to others who might value them more.

Detailed Findings

Types of items owned

The most commonly owned promotional products among U.S. respondents are writing instruments (46%), followed by shirts (38%) and calendars (24%). Calendars climbed from seventh in 2008 to third in 2010. The number of calendars given out was not necessarily higher, but the number kept and subsequently used was higher.

Types of Items Owned

	Rank 2010	Rank 2008
Writing Instruments	1	1
Shirts	2	2
Calendars	3	7

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Bags	4	4
Caps/Headwear	5	3
Desk/Office/Business Accessories	6	6
Food Items	7	n/a
Glassware/Ceramics (includes Mugs)	8	5
Health and Safety Products	9	n/a
Jackets/Hoodies/Sweatshirts/Fleece	10	n/a
Electronics/Computer	11	n/a
Recognition-Awards/Trophies/Plaques	12	10
Automotive	13	n/a

Ace Advantages

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

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

- Branding & Branded Merchandise;
- Interactive Solutions/ Website Development;
- Direct Relationship Marketing; and
- Mobile Marketing / Proximity Marketing.

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

BRANDING & BRANDED MERCHANDISE

Within the Branding vertical Ace has the ability to create the actual brand, in addition to providing all the branded merchandise. This has been the core of the Ace business model since its inception. The current focus within this vertical is to find innovative ways to leverage new technology platforms that drive growth beyond traditional channels.

Ace has invested in the technology and training that few other distributors have accomplished. Our industry leading software allows us to quickly sort through a database of 500,000 items and compile a collection of our customers best options by price, production time, imprint, shape color and size. We’ll email our customers a focused product presentation of items that fit their criteria with all the details. If time allows, we’ll also send our customers samples. It’s how Ace helps our customers achieve the greatest marketing impact within our customers’ budget on projects with even the tightest turn-around.

Whether reinventing a customer’s corporate image or developing a new logo, a strong brand is essential for making a positive first impression. Ace’s experienced sales consultants will help our customers to choose products that achieve the maximum impact. While working within our customer parameters, we simultaneously maintain brand consistency and corporate image. Ace’s in-house Art Department & Creative Teams will incorporate our customers’ logo and branding into a custom format for specific events.

Program Business

Creating Brands, Creating Merchandise, Creating Solutions. Ace’s “Program Business” Solution for branded Merchandise sourcing seeks to achieve:

- Better Services;

- Consistency in Branding to protect Quality, and
- Incredible cost savings when implemented as an aggregated buying program.

Through our solution, we create an Online Company Store, purchase in bulk to achieve economies of scale, negotiate preferred domestic pricing and import directly when order size permits. Ace also provides full-service fulfillment and shipping services.

Importing

Ace utilizes established suppliers carrying the most recognizable brands in the U.S and overseas. By concentrating our orders with the top suppliers-around the world, we attempt to ensure prompt product availability, competitive pricing and failsafe results.

When customers use Ace as their Importing Partner, they get:

- Established relationships with premium factories throughout the world
- Factory Direct Pricing
- Prototyping and Pre-Production Samples
- Overseas Inspection of finished goods
- Letter of intent provided for overseas orders
- Customized product development and design service
- Detailed Import Proposals F.O.B. USA
- Detailed correspondence and foreign translation
- On-site inspections – as needed

Fulfillment & Warehousing

At Ace, we can streamline the supply chain to take advantage of the economies of scale that result from large orders. We can fulfill orders and distribute customers items to one location or multiple locations across the country.

Ace Offers:

- Cost Center Analysis
- Credit Card Authorization
- Drop shipping Inventory World-Wide
- Inventory Storage
- Inventory Consolidation
- Invoice Consolidation
- Mailing Services
- Pick & Pack Services
- Assembly
- Product Fulfillment
- Shipping Manifest
- Customized Reporting

INTERACTIVE SOLUTIONS

Website Development

AcePlace CMS - Ace has developed a proprietary Website Development Platform & Content Management System (CMS) that will quite simply changes the way a customer's presence on the web is designed and managed. The recent addition of database-driven E-Mail, SMS Text & Newsletter capabilities make it a special Client Relationship Management Platform.

Mobile Websites - Increasing numbers of web searches are originating from mobile devices as "smart phones" continue to dominate new phone sales. Most existing websites do not display properly on the much smaller mobile screens, and in many cases, cannot display at all. Search engines like Google give higher priority to WAP sites when the search originates from a mobile device. Having a Mobile Website running in parallel with a primary website solves this problem. Our solution recognizes the type of device (computer or mobile) and directs the information request to the appropriate format. AcePlace is:

- Optimized to display Web content effectively;
- Optimized for search engines used by mobile devices;
- Optimized for easy data-field entry from mobile devices;
- Customized High Quality and Visually pleasing design; and
- Strategically developed to deliver vital content.

E-Commerce

When our customer needs a new web site built from the ground up or a complete overhaul of our customers existing design, we can expand our customers' capabilities to include e-commerce or database management. Our solution provides:

- Retail E-Commerce;
- Online Company Stores;
- Enable customers to sell products and services to their clients and fans; and
- Seamless integration with customer websites.

Email Marketing

Email Marketing is one of the least expensive methods of Ace's customers reaching out to large masses of potential clients. Ace can help our customers develop programs for building their email database, assist with the graphic design of their email templates and even provide a platform for individually personalized emails including variable data fields that can be tracked and reported in real-time. Supporting services include:

- Database Building;
- Easy-to-use Newsletter creation;
- Effective tracking & reporting; and
- Integration with client website.

Reward & Incentive Programs

After potential customers meet with one of our Incentive and Rewards Consultants, Ace will tailor a custom "solution" for our customers' organization that will:

- Fit our customers' Price Point;
- Engage our customers' Target Audience; and
- Deliver Measurable Results.

Ace's custom Incentive Manager solution provides everything our customers needs to run an incentive program for their clients, channel partners, salespeople, and employees. Incentive Manager is award neutral: it can plug into almost any incentive award choices including:

- Brand Name Merchandise;
- Gift Cards;
- Travel Incentives; and
- Debit Cards.

Or, simply link our customers' newly customized Rewards program with any product offered on Amazon! Through our exclusive technology agreement with Atrium Enterprises, we have secured the rights to offer Amazon product through seamless integration bringing award winning fulfillment and distribution along with an unparalleled array of quality product for our customer's Incentive Program.

Interactive Message Video (IMV)

Our interactive message video solution is a great way to engage our customers' audience and build their online database. IMV's bring variable personalization to short, online video presentations. Through progressive tracking programming, names or messages can be variably placed inside existing video, personalizing the video for each

consumer who views it. The variable message looks like it was actually live on set when the video was shot, and moves in real time. IMV's are shot in high definition either on location or in-studio. They are a truly innovative, cutting-edge means of conveying our customers marketing message through entertainment, and to personalize the experience to each prospect with dynamic content without the time or expense of video re-shoots or re-editing. It will seem like we custom-created each video specifically for each client.

IMV's Include:

- A dynamic, personalized, online video designed to uniquely engage consumers, while gathering data to build and enhance our customers targeted consumer database.
- An Integrated Enrollment Page allows individuals to enter personal information and participate in the personalized video experience.
- Consumer's personal information (name, age, sex, phone number, and favorite song) can be dynamically incorporated to personalize the video for them and their favorite store, product, celebrity, and sports team.
- o Personalized data can also be incorporated in the video or to a live action, pre-recorded phone call from their favorite celebrity, artist, athlete.

- Our Customers are immersed into a new and innovative video experience.
- Web based video with flexibility to reside anywhere on the internet
 - o Websites, social media sites and blogs .

RELATIONSHIP MARKETING

Ace utilizes a wealth of direct marketing programs (“DRM”) that integrate flawlessly, resulting in stronger messages and superior results. By blending state-of-the-art technology with innovative, award-winning design, Ace delivers a comprehensive, interactive, and targeted direct marketing system.

Ace’s relationship marketing campaigns embrace data-driven personalization – using customer database information to target the marketing message to every recipient. These integrated programs build brand awareness, customer loyalty, and most importantly, increased response. Relationship marketing is the solution to attract new customers and keep existing ones: target the right group, use the proper combination of print, web, email and video to get a customer’s message across, and track the results.

DRM provides a dynamic, personalized turn-key marketing program for our customers business. DRM targets prospects that are most likely to buy our customers’ products/services, in addition to helping them reconnect with and reacquire their existing customers.

Relationship Marketing:

- Data - First, we’ll help our customers to analyze their customer data to develop an Ideal Customer Profile. Second, we’ll use the Ideal Customer Profile to identify “most likely prospects” within their target market.
- Offer - We’ll help our customers to develop offers that will get the attention of their existing and target customers.
- Delivery - We’ll use multiple delivery methods: Direct Mail, Email, SMS Text & Personal Websites to communicate our customer offer to their target audience.