FLEXIBLE SOLUTIONS INTERNATIONAL INC
Form 10QSB
November 14, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-QSB

(Mark one)

ý Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended September 30, 2007.

o Transition Report Under Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from _________________ to _________________.

Commission File Number 000-29649

FLEXIBLE SOLUTIONS INTERNATIONAL, INC.
(Name of Small Business Issuer as Specified in Its Charter)

Nevada (State of Incorporation)	**91-1922863** (IRS Employer Identification No.)
615 Discovery Street **Victoria, British Columbia, CANADA** (Address of Principal Executive Offices)	**V8T 5G4** (Zip Code)

(250) 477-9969
(Issuer's Telephone Number, Including Area Code)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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 **ý** No **o**

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes **o** No **ý**

APPLICABLE ONLY TO CORPORATE ISSUERS

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: The Company had 14,157,567 shares of Common Stock, par value $0.001 per share, outstanding as of November 12, 2007.

Transitional Small Business Disclosure Format (check one): Yes **o** No **ý**

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This document contains “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. All statements other than statements of historical fact are “forward-looking statements” for the purposes of the federal and state securities laws, including, but not limited to any projections of earnings, revenue or other financials items; any statements of the plans, strategies and objectives of management for future operations; any statements concerning proposed new services or developments; any statements regarding future economic conditions or performance; any statements regarding future economic conditions or performance; any statements of belief; and any statements of assumptions underlying any of the foregoing.

Forward-looking statements may include the words “may,” “could,” “will,” “estimate,” “intend,” “continue,” “believe,” “e “anticipate” or other similar words. These forward-looking statements present our estimates and assumptions only as of the date of this report. Except for our ongoing obligation to disclose material information as required by the federal securities laws, we do not intend, and undertake no obligation, to update any forward-looking statement.

Although we believe that the expectations reflected in any of our forward-looking statements are reasonable, actual results could differ materially from those projected or assumed in any of our forward-looking statements. Our future financial condition and results of operations, as well as any forward-looking statements, are subject to change and inherent risks and uncertainties. The factors impacting these risks and uncertainties include but are not limited to:

- Increased competitive pressures from existing competitors and new entrants;
- Increases in interest rate or our cost of borrowing or a default under any material debt agreement;
- Deterioration in general or regional economic conditions;
- Adverse state or federal legislation or regulation that increases the costs of compliance, or adverse findings by a regulator with respect to existing operations;
- Loss of customers or sales weakness;
- Inability to achieve future sales levels or other operating results;
- The unavailability of funds for capital expenditures; and
- Operational inefficiencies in distribution or other systems.

For a detailed description of these and other factors that could cause actual results to differ materially from those expressed in any forward-looking statement, please see “Risk Factors” in our Annual Report on Form 10-KSB for the year ended December 31, 2006.

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PART I **FINANCIAL INFORMATION**

Item 1. **Financial Statements.**

FLEXIBLE SOLUTIONS INTERNATIONAL, INC.
CONSOLIDATED BALANCE SHEETS
At September 30, 2007
(U.S. Dollars)

	September 30, 2007 (Unaudited)	December 31, 2006
Assets		
Current		
Cash and cash equivalents	$ 4,209,185	$ 450,759
Accounts receivable	909,861	1,319,575
Inventory	2,289,619	1,904,315
Prepaid expenses	135,777	124,360
	7,544,442	3,799,009
Property, equipment and leaseholds	3,552,938	4,100,553
Patents	222,944	169,758
Investment	369,000	369,000
Long term deposits	47,838	47,220
	$ 11,737,162	$ 8,485,540
Liabilities		
Current		
Accounts payable and accrued liabilities	$ 239,571	$ 423,030
Deferred revenue	9,734	20,559
	249,305	443,589
Stockholders' Equity		
Capital stock		
Authorized		
50,000,000 Common shares with a par value of $0.001 each		
1,000,000 Preferred shares with a par value of $0.01 each		
Issued and outstanding		
14,157,567 (2006: 13,058,427) common shares	14,158	13,058
Capital in excess of par value	15,953,775	12,370,418
Other comprehensive income	393,107	131,002
Deficit	(4,873,183)	(4,472,527)
Total Stockholders' Equity	11,487,857	8,041,951
Total Liabilities and Stockholders' Equity	$ 11,737,162	$ 8,485,540

Commitments, Contingencies and Subsequent events (Notes 12, 13 & 14)

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FLEXIBLE SOLUTIONS INTERNATIONAL, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
For the Nine Months Ended September 30, 2007 and 2006
(U.S. Dollars -- Unaudited)

	Nine Months Ended September 30, 2007		2006	
Sales	$	5,730,432	$	6,672,791
Cost of sales		3,637,590		4,425,543
Gross profit		2,092,842		2,427,248
Operating expenses				
Wages		800,436		851,744
Administrative salaries and benefits		376,080		475,982
Advertising and promotion		41,771		35,834
Investor relations and transfer agent fee		252,083		146,009
Office and miscellaneous		135,375		127,706
Insurance		167,979		161,050
Interest expense		2,874		1,974
Rent		170,218		176,978
Consulting		188,490		290,859
Professional fees		131,509		212,438
Travel		98,063		78,217
Telecommunications		27,280		24,442
Shipping		31,301		33,835
Research		78,785		102,059
Commissions		88,533		130,196
Bad debt expense (recovery)		2,061		190
Currency exchange		69,549		5,277
Utilities		14,897		13,258
		2,677,284		2,868,048
Income (loss) before other items and income tax		(584,442)		(440,800)
Registration rights penalty		-		(326,710)
Other expenses		(15,051)		-
Other income		195,442		-
Interest income		3,396		2,684
Income (loss) before income tax		(400,656)		(764,826)
Income tax (recovery)		-		(127,079)
Net income (loss)		(400,656)		(637,747)
Net income (loss) per share (basic and diluted)	$	(0.03)	$	(0.05)
Weighted average number of common shares		13,656,633		12,984,028

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FLEXIBLE SOLUTIONS INTERNATIONAL, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Nine Months Ended September 30, 2007 and 2006
(U.S. Dollars -- Unaudited)

	Nine Months Ended September 30,			
	2007		2006	
Operating activities				
Net income (loss)	$	(400,655)	$	(637,747)
Stock compensation expense		419,975		641,358
Depreciation		386,214		447,894
		405,534		451,505
Changes in non-cash working capital items:				
(Increase) Decrease in accounts receivable		369,214		(484,950)
(Increase) Decrease in inventory		(385,304)		356,426
(Increase) Decrease in prepaid expenses		(11,417)		(32,313)
Increase (Decrease) in accounts payable		(142,958)		(407,699)
Increase (Decrease) in deferred revenue		(10,825)		-
Increase (Decrease) in income taxes		-		28,918
Cash provided by (used in) operating activities		224,244		(88,113)
Investing activities				
Long term deposits		(618)		-
Investments		-		-
Loan receivable		-		(1,157)
Development of patents		(53,186)		(10,704)
Acquisition of property and equipment		161,401		(41,193)
Cash provided by (used in) investing activities		107,597		(53,054)
Financing activities				
Proceeds from issuance of common stock		3,164,481		(24,809)
Cash provided by financing activities		3,164,481		(24,809)
Effect of exchange rate changes on cash		262,104		58,109
Inflow (outflow) of cash		3,758,426		(107,867)
Cash and cash equivalents, beginning		450,759		526,292
Cash and cash equivalents, ending	$	4,209,185	$	418,425
Supplemental disclosure of cash flow information:				
Registration rights penalty		-		(326,710)
Interest paid	$	2,874	$	2,684

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FLEXIBLE SOLUTIONS INTERNATIONAL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Period Ended September 30, 2007
(U.S. Dollars)

1. Basis of Presentation.

These unaudited consolidated financial statements of Flexible Solutions International, Inc (the "Company") have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information. These financial statements are condensed and do not include all disclosures required for annual financial statements. The organization and business of the Company, accounting policies followed by the Company and other information are contained in the notes to the Company's audited consolidated financial statements filed as part of the Company's December 31, 2006 Annual Report on Form 10-KSB. This quarterly report should be read in conjunction with such annual report.

In the opinion of the Company's management, these consolidated financial statements reflect all adjustments necessary to present fairly the Company's consolidated financial position at September 30, 2007, and the consolidated results of operations and the consolidated statements of cash flows for the nine months ended September 30, 2007 and 2006. The results of operations for the nine months ended September 30, 2007 are not necessarily indicative of the results to be expected for the entire fiscal year.

These consolidated financial statements include the accounts of Flexible Solutions International, Inc. (the "Company"), and its wholly-owned subsidiaries Flexible Solutions, Ltd. ("Flexible Ltd."), NanoChem Solutions Inc., WaterSavr Global Solutions Inc., NanoDetect Technologies Inc. and Seahorse Systems Inc. All inter-company balances and transactions have been eliminated. The parent company was incorporated May 12, 1998 in the State of Nevada and had no operations until June 30, 1998 as described further below.

Flexible Solutions International, Inc. and its subsidiaries develop, manufactures and markets specialty chemicals which slow down the evaporation of water. The companies primary product, HEAT$AVR®, is marketed for use in swimming pools and spas where its use, by slowing the evaporation of water, allows the water to retain a higher temperature for a longer period of time and thereby reduces the energy required to maintain the desired temperature of the water in the pool. Another product, WATER$AVR®, is marketed for water conservation in irrigation canals, aquaculture, and reservoirs where its use slows down water loss due to evaporation. In addition to the water conservation products, the Company also manufacturers and markets water-soluble chemicals utilizing thermal polyaspartate biopolymers (hereinafter referred to as "TPAs"), which are beta-proteins manufactured from the common biological amino acid, L-aspartic. TPAs can be formulated to prevent corrosion and scaling in water piping within the petroleum, chemical, utility and mining industries. TPAs are also used as proteins to enhance fertilizers in improving crop yields and as additives for household laundry detergents, consumer care products and pesticides.

On May 2, 2002, the Company established WaterSavr Global Solutions Inc. through the issuance of 100 shares of common stock from WaterSavr Global Solutions Inc. to the Company.

On February 7, 2005, the Company established Nano Detect Technologies Inc. through the issuance of 1,000 shares of common stock from Nano Detect Technologies Inc. to the Company.

On June 21, 2005, the Company established Seahorse Systems Inc. through the issuance of 1,000 shares of common stock from Seahorse Systems Inc. to the Company.

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Pursuant to a purchase agreement dated May 26, 2004, the Company acquired the assets of Donlar Corporation ("Donlar") on June 9, 2004 and created a new company, NanoChem Solutions Inc. as the operating entity for such assets. The purchase price of the transaction was $6,150,000 with consideration being a combination of cash and debt. Under the purchase agreement and as part of the consideration, the Company issued a promissory note bearing interest at 4% to Donlar's largest creditor to satisfy $3,150,000 of the purchase price. This note was paid June 2, 2005 and upon payment, all former Donlar assets that were pledged as security were released from their mortgage. The remainder of the consideration given was cash.

The following table summarizes the estimated fair value of the assets acquired at the date of acquisition (at June 9, 2004):

Current assets	$	1,126,805
Property and equipment		5,023,195
	$	6,150,000
Acquisition costs assigned to property and equipment		314,724
Total assets acquired	$	6,464,724

There was no goodwill or other intangible assets accept certain patents recorded at nil fair value, acquired as a result of the acquisition. The acquisition costs assigned to property and equipment include all direct costs incurred by the Company to purchase the Donlar assets. These costs include due diligence fees paid to outside parties investigating and identifying the assets, legal costs directly attributable to the purchase of the assets, plus applicable transfer taxes. These costs have been assigned to the individual assets based on their proportional fair values and will be amortized based on the rates associated with the related assets.

2. Significant Accounting Policies.

These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States applicable to a going concern and reflect the policies outlined below.

(a) *Cash and Cash Equivalents.*

The Company considers all highly liquid investments purchased with an original or remaining maturity of less than three months at the date of purchase to be cash equivalents. Cash and cash equivalents are maintained with several financial institutions.

(b) *Inventories and Cost of Sales*

The Company has three major classes of inventory: finished goods, works in progress, raw materials and supplies. In all classes, inventory is valued at the lower of cost and market. Cost is determined on a first-in, first-out basis. Cost of sales includes all expenditures incurred in bringing the goods to the point of sale. Inventorial costs and costs of sales include direct costs of the raw material, inbound freight charges, warehousing costs, handling costs (receiving and purchasing) and utilities and overhead expenses related to the Company's manufacturing and processing facilities.

In 2004, the FASB issued SFAS No. 151, "Inventory Costs", to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs and wasted material. This standard requires that such items be recognized as current-period charges. The standard also establishes the concept of "normal capacity" and requires the allocation of fixed production overhead to inventory based on the normal capacity of the production facilities. Any unallocated overhead must be recognized as an expense in the period incurred. This standard is effective for inventory costs incurred starting January 1, 2006. The adoption of this standard did not have a material impact on its financial position, results of operations or cash flows for 2006 or 2007.

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(c) *Allowance for Doubtful Accounts*

The Company provides an allowance for doubtful accounts when management estimates collectibility to uncertain. Accounts receivable are continually reviewed to determine which, if any, accounts are doubtful of collection. In making the determination of the appropriate allowance amount, the Company considers current economic and industry conditions, relationships with each significant customer, overall customer credit-worthiness and historical experience.

(d) *Property, Equipment and Leaseholds.*

The following assets are recorded at cost and depreciated using the following methods using the following annual rates:

Computer hardware	30% Declining balance
Furniture and fixtures	20% Declining balance
Manufacturing equipment	20% Declining balance
Office equipment	20% Declining balance
Building	10% Declining balance
Leasehold improvements	Straight-line over lease term

Depreciation is recorded at half for the year the assets are first purchase. Property and equipment are written down to net realizable value when management determines there has been a change in circumstances which indicates its carrying amount may not be recoverable. No write-downs have been necessary to date.

(e) *Impairment of Long-Lived Assets.*

In accordance with SFAS No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets”, the Company reviews long-lived assets, including, but not limited to, property and equipment, patents and other assets, for impairment annually or whenever events or changes in circumstances indicate the carrying amounts of assets may not be recoverable. The carrying value of long-lived assets is assessed for impairment by evaluating operating performance and future undiscounted cash flows of the underlying assets. If the sum of the expected future cash flows of an asset, is less than its carrying value, an impairment measurement is indicated. Impairment charges are recorded to the extent that an asset’s carrying value exceeds its fair value. Accordingly, actual results could vary significantly from such estimates. There were no impairment charges during the periods presented.

(f) *Investments.*

Investment in corporations subject to significant influence and investments in partnerships are recorded using the equity method of accounting. On this basis, the Company’s share of income and losses of the corporations and partnerships is included in earnings and the Company’s investment therein adjusted by a like amount. Dividends received from these entities reduce the investment accounts. Portfolio investments not subject to significant influence are recorded using the cost method.

The fair value of a cost method investment is not estimated if there are no identified events or changes in circumstances that may have a significant adverse effect on the fair value of the investment.

The Company currently does not have any investments that require use of the equity method of accounting.

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(g) *Foreign Currency.*

The functional currency of one of the subsidiaries is the Canadian Dollar. The translation of the Canadian Dollar to the reporting currency of the U.S. Dollar is performed for assets and liabilities using exchange rates in effect at the balance sheet date. Revenue and expense transactions are translated using average exchange rates prevailing during the year. Translation adjustments arising on conversion of the financial statements from the Company's functional currency, Canadian Dollars, into the reporting currency, U.S. Dollars, are excluded from the determination of loss and are disclosed as other comprehensive income (loss) in stockholders' equity.

Foreign exchange gains and losses relating to transactions not denominated in the applicable local currency are included in the operating loss if realized during the year and in comprehensive income if they remain unrealized at the end of the year.

(h) *Revenue Recognition.*

Revenue from product sales is recognized at the time the product is shipped since title and risk of loss is transferred to the purchaser upon delivery to the carrier. Shipments are made F.O.B. shipping point. The Company recognizes revenue when there is persuasive evidence of an arrangement, delivery has occurred, the fee is fixed or determinable, collectibility is reasonably assured and there are no significant remaining performance obligations. When significant post-delivery obligations exist, revenue is deferred until such obligations are fulfilled. To date there have been no such significant post-delivery obligations.

Provisions are made at the time the related revenue is recognized for estimated product returns. Since the Company's inception, product returns have been insignificant; therefore no provision has been established for estimated product returns.

(i) *Stock Issued in Exchange for Services.*

The valuation of the Company's common stock issued in exchange for services is valued at an estimated fair market value as determined by officers and directors of the Company based upon trading prices of the Company's common stock on the dates of the stock transactions. The corresponding expense of the services rendered is recognized over the period that the services are performed.

(j) *Stock-based Compensation.*

In December 2004, the Financial Accounting Standards Board ("FASB") issued revised SFAS No. 123(R), *Share-Based Payment*, which replaces SFAS No. 123, "*Accounting for Stock-Based Compensation*", which superseded APB Opinion No. 25, "*Accounting for Stock Issued to Employees*". FAS No. 123(R) requires the cost of all share-based payment transactions to be recognized in an entity's financial statements, establishes fair value as the measurement objective and requires entities to apply a fair-value-based measurement method in accounting for share-based payment transactions. SFAS No. 123(R) applies to all awards granted, modified, repurchased or cancelled after July 1, 2005, and unvested portions of previously issued and outstanding awards. The Company adopted this statement for its first quarter starting January 1, 2006 and will continue to evaluate the impact of adopting this statement.

Prior to 2006, the Company adopted the disclosure provisions of SFAS No. 123 for stock options granted to employees and directors. The Company disclosed on a supplemental basis, the pro-forma effect of accounting for stock options awarded to employees and directors, as if the fair value based method had been applied, using the Black-Scholes option-pricing model. The Company has always recognized the fair value of options granted to consultants.

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(k) *Comprehensive Income.*

Other comprehensive income refers to revenues, expenses, gains and losses that under generally accepted accounting principles are included in comprehensive income, but are excluded from net income as these amounts are recorded directly as an adjustment to stockholders' equity. The Company's other comprehensive income is primarily comprised of unrealized foreign exchange gains and losses.

(l) *Income (Loss) Per Share.*

Income (loss) per share is calculated by dividing net income (loss) by the weighted average number of shares outstanding. Diluted loss per share is computed by giving effect to all potential dilutive options that were outstanding during the year. For the periods ended June 30, 2007, 2006 and 2005, all outstanding options were anti-dilutive.

(m) *Use of Estimates.*

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and would impact the results of operations and cash flows.

(n) *Financial Instruments.*

The fair market value of the Company's financial instruments comprising cash, short-term investment, accounts receivable, income tax recoverable, loan receivable, accounts payable and accrued liabilities and amounts due to shareholders were estimated to approximate their carrying values due to immediate or short-term maturity of these financial instruments. The Company maintains cash balances at financial institutions which at times, exceed federally insured amounts. The Company has not experienced any material losses in such accounts.

The Company is exposed to foreign exchange and interest rate risk to the extent that market value rate fluctuations materially differ from financial assets and liabilities, subject to fixed long-term rates.

The Company is exposed to credit-related losses in the event of non-performance by counterparties to the financial instruments. Credit exposure is minimized by dealing with only credit worthy counterparties. Accounts receivable for the four primary customers totals $648,538 (68%) as at September 30, 2007 (2006 - $757,828 or 61%).

(o) *Contingencies*

Certain conditions may exist as of the date the financial statements are issued, which may result in a loss to the Company but which will only be resolved when one or more future events occur or fail to occur. The Company's management and its legal counsel assess such contingent liabilities, and such assessment inherently involves an exercise of judgment. In assessing loss contingencies related to legal proceedings that are pending against the Company or unasserted claims that may result in such proceedings, the Company's legal counsel evaluates the perceived merits of any legal proceedings or unasserted claims as well as the perceived merits of the amount of relief sought or expected to be sought therein.

If the assessment of a contingency indicates that it is probable that a material loss has been incurred and the amount of the liability can be estimated, the estimated liability would be accrued in the Company's financial statements. If the assessment indicates that a potentially material loss contingency is not probable but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss if determinable and material, would be disclosed.

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Loss contingencies considered remote are generally not disclosed unless they involve guarantees, in which case the guarantees would be disclosed.

3. Inventories

	2007	2006
Completed goods	$ 1,455,191	$ 970,780
Works in progress	230,082	397,995
Raw materials	604,346	535,540
	$ 2,289,619	$ 1,904,315

4. Property, Plant & equipment

	2007 Cost	Accumulated Depreciation	2007 Net
Buildings	$ 3,145,010	$ 906,215	$ 2,238,795
Computer hardware	69,644	45,143	24,501
Furniture and fixtures	20,797	11,336	9,461
Office equipment	32,593	21,193	11,400
Manufacturing equipment	2,266,187	1,211,112	1,055,075
Trailer	2,308	1,787	521
Leasehold improvements	45,814	34,510	11,304
Trade show booth	8,644	5,856	2,788
Land	199,093	—	199,093
	$ 5,790,090	$ 2,237,152	$ 3,552,938

	2006 Cost	Accumulated Depreciation	2006 Net
Buildings	$ 3,144,259	$ 724,752	$ 2,419,507
Computer hardware	60,576	34,200	26,376
Furniture and fixtures	18,576	8,608	9,968
Office equipment	29,533	17,488	12,045
Manufacturing equipment	2,207,781	990,959	1,216,822
Trailer	1,991	1,411	580
Leasehold improvements	39,517	25,551	13,966
Trade show booth	7,456	4,353	3,103
Land	398,186	—	398,186
	$ 5,907,875	$ 1,807,322	$ 4,100,553

5. Patents

In fiscal 2005, the Company started the patent process for additional WATER$AVR® products. Patents associated with these costs were granted in 2006 and they have been amortized over their legal life of 17 years.

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Of the patents costs listed below, $73,828 are not subject to amortization as of yet, as the patents are still in the process of being approved.

		2007 Cost		Accumulated Amortization		2007 Net
Patents	$	233,692	$	10,748	$	222,944

		2006 Cost		Accumulated Amortization		2006 Net
Patents	$	172,938	$	3,180	$	169,758

6. Investments

		2007		2006
Tatko Inc.	$	271,000	$	271,000
Air-Water Interface Delivery and Detection Inc.		98,000		98,000
	$	369,000	$	369,000

On May 31, 2003, the Company acquired an option to purchase a 20% interest in the outstanding shares of Tatko Inc. ("Tatko") for consideration of the issuance of 100,000 shares of the Company's common stock. The option to purchase the shares of Tatko expires on May 31, 2008. The cost of the investment has been accounted for based on the fair market value of the Company's common stock on May 31, 2003. For further information on this option, see Contingencies (Note 13) below.

In 2005, NanoDetect purchased 32.7 shares of equity in Air Water Interface Delivery and Detection Inc. ("AWD") for a total cost of $98,000. This investment represents only 3.3% of the issued and outstanding shares of AWD and, accordingly, will be accounted for under the cost method.

7. Long Term Deposits

The Company has reclassified certain security deposits to better reflect there long term nature. Long term deposits consist of damage deposits held by landlords and security deposits held by various vendors.

		2007		2006
Long term deposits	$	47,838	$	47,220

8. Stock Options

The Company adopted a stock option plan ("Plan"). The purpose of this Plan is to provide additional incentives to key employees, officers, directors and consultants of the Company and its subsidiaries in order to help attract and retain the best available personnel for positions of responsibility and otherwise promoting the success of the business activities. It is intended that options issued under this Plan constitute non-qualified stock options. The general terms of awards under the option plan are that 100% of the options granted will vest the year following the grant. The maximum term of options granted is 5 years.

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The Company may issue stock options and stock bonuses for shares of its common stock to provide incentives to directors, key employees and other persons who contribute to the success of the Company. The exercise price of all incentive options are issued for not less than fair market value at the date of grant.

The following table summarizes the Company's stock option activity for the years ended December 31, 2005 and 2006 and the period ended September 30, 2007:

	Number of shares		Exercise price per share		Weighted average exercise price
Balance, December 31, 2004	1,241,740	$	1.00 - $4.60	$	2.87
Granted	30,000	$	3.58 - $4.40	$	4.17
Exercised	(162,000)	$	1.40	$	1.40
Cancelled or expired	(49,000)	$	3.00 - $4.25	$	3.52
Balance, December 31, 2005	1,060,740	$	1.40 - $4.60	$	3.44
Granted	1,191,000	$	3.25 - $3.60	$	3.25
Exercised	(46,000)	$	1.40	$	1.40
Cancelled or expired	(79,000)	$	1.40 - $4.25	$	2.46
Balance, December 31, 2006	2,126,740	$	1.40 – 4.55	$	3.44
Granted	235,700	$	1.50 – 3.60	$	2.35
Exercised	(163,000)	$	1.50 – 3.25	$	1.77
Cancelled or expired	(124,000)	$	3.00 – 4.40	$	3.59
Balance, September 30, 2007	2,075,440	$	3.00 - 4.55	$	3.46

In December 2004, the Financial Accounting Standards Board ("FASB") issued revised FAS No. 123(R), *Share-Based Payment*, which replaces FAS No. 123, *Accounting for Stock-Based Compensation*, which superseded APB Opinion No. 25, *Accounting for Stock Issued to Employees*. FAS No. 123(R) requires the cost of all share-based payment transactions to be recognized in an entity's financial statements, establishes fair value as the measurement objective and requires entities to apply a fair-value-based measurement method in accounting for share-based payment transactions. FAS No. 123(R) applies to all awards granted, modified, repurchased or cancelled after July 1, 2005, and unvested portions of previously issued and outstanding awards. The Company adopted this statement for its first quarter starting January 1, 2006 and will continue to evaluate the impact of adopting this statement.

Prior to 2006, the Company applied APB Opinion No. 25 and related interpretations in accounting for stock options granted to its employees and, accordingly, stock compensation expense of nil was recognized as wages expense in 2005 and 2004.

The fair value of each option grant is calculated using the following weighted average assumptions:

		2007		2006
Expected life – years		5.0		5.0
Interest rate		4.69%		3.85%
Volatility		52%		52.0%
Dividend yield		—%		—%
Weighted average fair value of options granted	$	1.35	$	1.69

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During the nine months ended September 30, 2007, the Company granted 150,000 stock options to Mr. Grant as a part of the litigation settlement made January 3, 2007. As the options were previously granted and expensed in 2001, no expense was recorded in this period related to this transaction. During the same period, the Company granted 50,700 options to consultants and has applied FAS No. 123(R) using the Black-Scholes option-pricing model, which resulted in additional expenses of $58,259 during the nine months ended September 30, 2007. Options granted in previous quarters but not yet vested realized expenses of $140,031 for outsiders and $229,411 for employees for the nine months ended September 30, 2007. During the three months ended September 30, 2007, the Company granted 35,000 stock options to employees, which resulted in additional expenses of $5,004 for the period. During the same period, the company cancelled 25,000 stock options written to employees and this resulted in a recoup of $12,730 in expenses.

During the nine months ended September 30, 2006, the Company granted 440,000 options to purchase common stock to outsiders and has applied FAS No. 123(R) using the Black-Scholes option-pricing model, which resulted in additional expenses of $104,451 this quarter (recorded as consulting and investor relations expense), for a total of $263,494 recognized year to date. During the period ended March 31, 2006, the Company granted 675,000 options to employees, resulting in an additional $125,955 in wages and administrative expenses in each quarter ended March 31, 2006, June 30, 2006 and September 30, 2006.

9. Warrants

On April 14, 2005, the Company announced that it had raised $3,375,000 pursuant to a private placement of up to 1,800,000 shares of its common stock. The investors collectively purchased 900,000 shares of the Company's common stock at a per share purchase price of $3.75, together with warrants to purchase up to 900,000 additional shares of the Company's common stock. The warrants have a four-year term and are immediately exercisable at a price of $4.50 per share.

On June 8, 2005, the Company announced that it had raised an additional $327,750 pursuant to a private placement of up to 174,800 shares of its common stock. An investor purchased 87,400 shares of the Company's common stock at a per share price of $3.75, together with a warrant to purchase up to 87,400 additional shares of the Company's common stock. The warrant has a four-year term and is immediately exercisable at a price of $4.50 per share.

In May 2007 the Company closed a $3,042,455 private placement with select institutional investors. The terms are 936,140 units with each unit consisting of one share at $3.25 and one half warrant with a three year term and a strike price of $4.50 per share. The Company also issued 21,970 warrants with the same terms for investment banking services related to this transaction.

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The following table summarizes the Company's warrant option activity for the year period ended September 30, 2007:

Number of shares

Insofar as indemnification for liabilities arising under the Securities Act of 1933 (the "Act" or "Securities Act") may be permitted to directors, officers or persons controlling us pursuant to the foregoing provisions, or otherwise, we have been advised that in the opinion of the SEC, such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable.

LEGAL MATTERS

The validity of the shares of our common stock offered by the Selling Stock Holders has been passed upon by the law firm of Morse & Morse, PLLC, 1400 Old Country Road, Suite 302, Westbury, NY 11590.

EXPERTS

The consolidated financial statements of Mobiqutiy Technologies, Inc. as of December 31, 2013, appearing in the prospectus and registration statement have been audited by Peter Messineo & Co., CPAs LLC, an independent registered public accounting firm, as set forth in their report thereon appearing elsewhere herein, and are included in reliance upon such report on the authority of such firm as experts in accounting and auditing.

The consolidated financial statements of Ace Marketing & Promotions, Inc. as of December 31, 2012, appearing in the prospectus and registration statement have been audited by DKM Certified Public Accountants, an independent registered public accounting firm, as set forth in their report thereon appearing elsewhere herein, and are included in reliance upon such report on the authority of such firm as experts in accounting and auditing.

ADDITIONAL INFORMATION

We have filed a registration statement on Form S-1 under the Securities Act of 1933, as amended, relating to the shares of common stock being offered by this prospectus, and reference is made to such registration statement. This prospectus constitutes the prospectus of Mobiquity Technologies, Inc. filed as part of the registration statement, and it does not contain all information in the registration statement, as certain portions have been omitted in accordance with the rules and regulations of the SEC.

We are subject to the informational requirements of the Securities Exchange Act of 1934, which requires us to file reports, proxy statements and other information with the SEC. Such reports, proxy statements and other information may be inspected at public reference facilities of the SEC at 100 F Street, N.E., Washington D.C. 20549. Copies of such material can be obtained from the Public Reference Section of the SEC at 100 F Street, N.E., Washington, D.C. 20549 at prescribed rates. Because we file documents electronically with the SEC, you may also obtain this information by visiting the SEC's Internet website at http://www.sec.gov.

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MOBIQUITY TECHNOLOGIES, INC.

FORMERLY KNOWN AS ACE MARKETING & PROMOTIONS, INC.

CONTENTS

Messineo & Co., CPAs LLC

2471 N McMullen Booth Road, Suite. 302

Clearwater, FL 33759-1362

T: (518) 530-1122

F: (727) 674-0511

Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders

Mobiquity Technologies, Inc.

(formerly known as Ace Marketing & Promotions, Inc.)

Garden City, NY

We have audited the accompanying consolidated balance sheet of Mobiquity Technologies, Inc. (formerly known as Ace Marketing & Promotions, Inc.) (the "Company") for the year ended December 31, 2013 and the related consolidated statements of operations, stockholders' equity and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Mobiquity Technologies, Inc. (formerly known as Ace Marketing & Promotions, Inc.) as of December 31, 2013 and the results of its consolidated operations and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Messineo & Co., CPAs, LLC

Clearwater, Florida

March 3, 2014

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DKM Certified Public Accountants

2451 N. McMullen Booth Road, Suite 308

Clearwater Florida 33759-1362

727.444.0931

www.dkmcpas.com

Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders

Mobiquity Technologies, Inc.

(formerly known as Ace Marketing & Promotions, Inc.)

Garden City, NY

We have audited the accompanying consolidated balance sheet of Mobiquity Technologies, Inc. (formerly known as Ace Marketing & Promotions, Inc.) (the "Company") for the year ended December 31, 2012 and the related consolidated statements of operations, stockholders' equity and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Ace Marketing & Promotions, Inc. as of December 31, 2012 and the results of its consolidated operations and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

DKM Certified Public Accountants

Clearwater, Florida

February 18, 2013

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MOBIQUITY

TECHNOLOGIES, INC.

Consolidated Balance Sheets December 31,	2013	2012
Assets		
Current Assets:		
Cash and cash equivalents	$1,740,989	$362,598
Accounts receivable, net of allowance for doubtful accounts of $30,000 and $20,000 as of December 31, 2013 and 2012, respectively	**433,856**	444,262
Inventory	109,073	92,615
Prepaid expenses and other current assets	141,921	170,960
Total Current Assets	2,425,839	1,070,435
Property and equipment, net of accumulated depreciation of $596,035 and $378,190 as of December 31, 2013 and 2012, respectively	466,772	581,567
Intangible assets, net of accumulated amortization of $153,416 and $83,333 as of December 31, 2013 and 2012, respectively	301,784	166,667
Other Assets	34,109	27,501
Total Assets	$3,228,504	$1,846,170
Liabilities and Stockholders' Equity		
Current Liabilities:		
Accounts payable	$485,401	$348,712
Accrued expenses	177,943	160,098
Convertible promissory note	322,000	298,376
Total Current Liabilities	985,344	807,186
Commitments and Contingencies	–	–
Stockholders' Equity:		
Preferred Stock, $.0001 par value; 5,000,000 shares authorized, zero and	**–**	22

220,000 shares issued and outstanding at December 31, 2013 and December 31, 2012 respectively		
Common stock, $.0001 par value; 200,000,000 and 100,000,000 shares authorized; 52,402,247 and 30,252,938 shares issued and outstanding at 2013 and 2012, respectively	**5,240**	3,025
Additional paid-in capital	21,948,920	14,485,740
Stock subscription receivable	(175,000)	–
Accumulated other comprehensive income (loss)	1,268	–
Accumulated deficit	(19,505,767)	(13,418,302)
	2,274,661	1,070,485
Less: Treasury Stock, at cost, 23,334 shares	(31,501)	(31,501)
Total Stockholders' Equity	2,243,160	1,038,984
Total Liabilities and Stockholders' Equity	$3,228,504	$1,846,170

See auditor's report and notes to the consolidated financial statements.

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MOBIQUITY

TECHNOLOGIES, INC.

Consolidated Statements of Operations Years Ended December 31,	2013	2012
Revenues, net	$3,157,532	$2,890,652
Cost of Revenues	2,353,095	2,170,265
Gross Profit	804,437	720,387
Operating Expenses:		
Selling, general and administrative expenses	6,665,082	4,667,122
Total Operating Expenses	6,665,082	4,667,122
Loss from Operations	(5,860,645)	(3,946,735)
Other Income (Expense):		
Interest expense	(227,094)	(182,943)
Interest income	274	436
Loss on abandonment of fixed assets		(4,819)
Total Other Income (Expense)	(226,820)	(187,326)
Net Loss	$(6,087,465)	$(4,134,061)
Net Loss Per Common Share:		
Basic	$(0.13)	$(0.16)
Weighted Average Common Shares Outstanding:		
Basic	42,438,849	26,216,795

See auditor's report and notes to the consolidated financial statements.

MOBIQUITY

TECHNOLOGIES, INC.

Consolidated Statement of Stockholders' Equity

Years Ended December 31,

	Total Stockholders'	Preferred Stock		Common Stock	
	Equity	Shares	Amount	Shares	Amount
Balance, at December 31, 2011	$1,683,993			23,284,236	$2,328
Stock Purchase	1,752,240			4,208,872	434
Stock Grant	1,210,911			1,926,496	179
Stock Purchase Preferred	470,000	470,000	47	–	–
Conversion of Preferred Stock	–	(250,000)	(25)	833,334	84
Option Grant	219,647				
Warrant Grant	50,684				
Beneficial Conversion Feature	120,254				
Closing Costs on equity issuance	(334,684)				
Net Loss	(4,134,061)				
Balance, at December 31, 2012	$1,038,984	$220,000	$22	30,252,938	$3,025
Stock Purchase	5,562,816	–	–	19,125,006	1,913

Offering costs	(182,184)	–	–	–	–
Stock Grant	1,048,091	–	–	2,402,969	240
Option Grant	716,983	–	–	–	–
Warrant Grant	–	–	–	–	–
Stock Cancel	–	–	–	–	–
Conversion of preferred stock	–	(220,000)	(22)	528,000	53
Conversion of debt	28,000	–	–	93,334	9
Beneficial Conversion Feature	116,667	–	–	–	–
Net Loss	(6,086,197)	–	–	–	–
Balance, at December 31, 2013	$2,243,160	–	$–	52,402,247	$5,240

See auditor's report and notes to the consolidated financial statements.

MOBIQUITY

TECHNOLOGIES, INC.

Consolidated Statements of Cash Flows Years Ended December 31,	2013	2012
Cash Flows from Operating Activities:		
Net loss	$(6,087,465)	$(4,134,061)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	289,289	233,825
Stock-based compensation	1,765,074	1,481,242
Beneficial conversion feature	116,667	120,254
Amortization of deferred financing costs	51,624	32,851
Loss on sale of assets		4,819
Changes in operating assets and liabilities:		
(Increase) decrease in operating assets:		
Accounts receivable	10,406	90,662
Inventory	(16,458)	8,077
Prepaid expenses and other assets	22,431	51,233
Increase (decrease) in operating liabilities:		
Accounts payable	136,689	(51,211)
Accrued expenses	17,845	38,276
Increase (decrease) in foreign assets and liabilities, currency translation	1,268	–
Total adjustments	2,394,835	2,010,028
Net Cash Used in Operating Activities	(3,692,630)	(2,124,033)
Cash Flows from Investing Activities:		
Purchase of property and equipment	(104,411)	(272,013)
Acquisition of intellectual property	(205,200)	
Net Cash Used in Investing Activities	(309,611)	(272,013)
Cash Flows from Financing Activities:		
Proceeds from Loan	–	265,525
Principal payments on Loan	–	–
Proceeds from issuance of stock	5,380,632	1,887,556
Net Cash Provided by Financing Activities	5,380,632	2,153,081
Net Increase (Decrease) in Cash and Cash Equivalents	1,378,391	(242,965)
Cash and Cash Equivalents, beginning of period	362,598	605,563
Cash and Cash Equivalents, end of period	$1,740,989	$362,598

Supplemental Disclosure Information:		
Cash paid for interest	$58,803	$62,689
Cash paid for taxes	$–	$–
Non-cash Disclosures:		
Financing and extinguishment of debt	$350,000	$–
Exchanged debt for common shares	$28,000	$–

See auditor's report and notes to the consolidated financial statements.

MOBIQUITY TECHNOLOGIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2013 AND 2012

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NATURE OF OPERATIONS –

On September 10, 2013, Mobiquity Technologies, Inc. changed its name from Ace Marketing & Promotions, Inc. (the "Company" or "Mobiquity").

Mobiquity Technologies, Inc. is an advertising technology (Ad Tech) company focusing on connecting Fans (consumers) and Brands through a single platform utilizing Online, Social and Mobile. Mobiquity leverages leading edge mobile technologies including Bluetooth (Push & Beacon BLE), Wi-Fi, NFC (Near Field Communications) and QR (Quick Response) code and employs propriety devices through retail environments to build physical networks. Assets are managed in a single platform creating a new class of consumer engagement and data intelligence.

Mobiquity Technologies has developed and acquired a number of innovative marketing technologies, spanning location-based mobile marketing, mobile customer data analytics, web content and customer relationship management, that it will continue to leverage through its two wholly-owned U.S. subsidiaries: Mobiquity Networks and Ace Marketing & Promotions and Mobiquity Wireless SLU, a company incorporated in Spain.

Ace Marketing, Inc., which recently changed its name to its parent corporation’s old name, namely, Ace Marketing & Promotions, Inc. (“AMI”), is 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

Mobiquity Networks, Inc. is a leading provider of hyper-local mobile marketing solutions. Mobiquity is continuing to attempt to build one of the nation's largest Location-Based Mobile Marketing networks. Location-Based Mobile Marketing is a mobile marketing tool that delivers rich digital content to any Bluetooth or Wi-Fi enabled device within a 300ft radius of a central terminal. Our technology permits delivery to virtually any mobile device and properly formats each message to ensure that every user receives the best possible experience. Results are fully trackable, giving campaigns full performance accountability. We offer 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 Bluetooth network of its kind. It is currently installed in 100 malls across the US, covering each of the top 10 designated marketing areas (“DMA’s”), and has the ability to reach approximately 120 million shopping visits per month.

Mobiquity Wireless SLU is a corporation incorporated in Spain. This corporation has an office in Spain to support our U.S. operations. See “Note 2” below regarding “Acquisition of Assets of FuturLink.”

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 utilizing Bluetooth technology called **Mobiquity Networks**. In August 2013, we amended the original agreement to now provide for a 75 mall agreement by the end of 2013, which contract runs through December 31, 2017 and includes top malls in the Simon Mall portfolio. Through our partnership agreement with Eye Corp., we also are located in 25 Macerich malls. These agreements provide advertisers the opportunity to reach millions of mall visitors per month with mobile content and offers when they are most receptive to advertising messages.

Our Location-Based Mobile advertising medium is designed to reach on-the-go shoppers via their mobile devices with free rich media content delivered using Bluetooth or Wi-Fi. This advertising medium offers extremely targeted messaging engineered to engage and influence shoppers as they move about the mall environment.

Mobiquity Networks Mobi-units will be strategically positioned in shopping malls near entrances, anchor stores, escalators and other high-traffic, and high dwell-time areas. Mobiquity Networks Mobi-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.

PRINCIPLES OF CONSOLIDATION - The accompanying consolidated financial statements include the accounts of Mobiquity Technologies, Inc., formerly known as Ace Marketing & Promotions, Inc., and its wholly owned subsidiaries, Mobiquity Networks, Inc., Ace Marketing, Inc., (which has had its name changed to Ace Marketing & Promotions, Inc. and Mobiquity Wireless S.L.U.). All intercompany accounts and transactions have been eliminated in consolidation.

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 - Effective January 1, 2008, the Company adopted FASB ASC 820, “Fair Value Measurements and Disclosures” (“ASC 820”), for assets and liabilities measured at fair value on a recurring basis. ASC 820 establishes a common definition for fair value to be applied to existing generally accepted accounting principles that require the use of fair value measurements, and establishes a framework for measuring fair value and expands disclosure about such fair value measurements. The adoption of ASC 820 did not have an impact on the Company’s financial position or operating results, but did expand certain disclosures.

ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Additionally, ASC 820 requires the use of valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. These inputs are prioritized below:

Level 1:	Observable inputs such as quoted market prices in active markets for identical assets or liabilities
Level 2:	Observable market-based inputs or unobservable inputs that are corroborated by market data
Level 3:	Unobservable inputs for which there is little or no market data, which require the use of the reporting entity’s own assumptions.

Cash and cash equivalents include money market securities that are considered to be highly liquid and easily tradable as of December 31, 2013 and 2012. These securities are valued using inputs observable in active markets for identical securities and are therefore classified as Level 1 within our fair value hierarchy.

The carrying amounts of financial instruments, including accounts receivable, accounts payable and accrued liabilities, and promissory note, approximated fair value as of December 31, 2013 and 2012 , because of the relatively short-term maturity of these instruments and their market interest rates.

RECLASSIFICATIONS - Certain amounts in the prior period financial statements have been reclassified to conform to the current period presentation. These reclassifications had no effect on reported losses.

CASH AND CASH EQUIVALENTS - The Company considers all highly liquid debt instruments with a maturity of three months or less, as well as bank money market accounts, to be cash equivalents.

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CONCENTRATION OF CREDIT RISK - Financial instruments, which potentially subject the Company to concentrations of credit risk, consist principally of trade receivables and cash and cash equivalents.

Concentration of credit risk with respect to trade receivables is generally diversified due to the large number of entities comprising the Company's customer base and their dispersion across geographic areas principally within the United States. The Company routinely addresses the financial strength of its customers and, as a consequence, believes that its receivable credit risk exposure is limited.

The Company places its temporary cash investments with high credit quality financial institutions. At times, the Company maintains bank account balances, which exceed FDIC limits. The Company has not experienced any losses in such accounts and believes that it is not exposed to any significant credit risk on cash. Management does not believe significant credit risk exists at December 31, 2013 and 2012.

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.

The Company records all shipping and handling fees billed to customers as revenues and related costs as cost of goods sold, when incurred.

Additional source of revenue, derived from emails/texts directly to consumers are recognized under contractual arrangements. Revenue from this advertising method is recognized at the time of service provided.

ALLOWANCE FOR DOUBTFUL ACCOUNTS - Management must make estimates of the uncollectability of accounts receivable.

Management specifically analyzes accounts receivable and analyzes historical bad debts, customer concentrations, customer credit-worthiness, current economic trends and changes in customer payment terms when evaluating the adequacy of the allowance for doubtful accounts.

INVENTORY – Inventory is recorded at cost (First In, First Out) and is comprised of finished goods. The Company maintains an inventory on hand for its largest customer's frequent order items. All items held are branded for the customer, therefore are not available for public distribution. The Company has an agreement with this customer, for cost recovery, if vendor relationship is terminated. There has been no reserves placed on inventory, based on this arrangement.

PROPERTY AND EQUIPMENT - Property and equipment are stated at cost. Depreciation is provided using the straight-line method over the estimated useful lives of the related assets. Leasehold improvements are being amortized using the straight-line method over the estimated useful lives of the related assets or the remaining term of the lease. The costs of additions and improvements, which substantially extend the useful life of a particular asset, are capitalized. Repair and maintenance costs are charged to expense. When assets are sold or otherwise disposed of, the cost and related accumulated depreciation are removed from the account and the gain or loss on disposition is reflected in operating income.

LONG LIVED ASSETS - 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.

WEBSITE TECHNOLOGY - Website technology developed during the year was capitalized for the period of development and testing. Expenditures during the planning stage and after implementation have been expensed in accordance with ASC985.

ADVERTISING COSTS - Advertising costs are expensed as incurred. For the years ended December 31, 2013 and 2012 there were advertising costs of $3,840 and $1,404, respectively.

ACCOUNTING FOR STOCK BASED COMPENSATION. Stock based compensation cost is measured at the grant date fair value of the award and is recognized as expense over the requisite service period. The Company uses the Black-Sholes option-pricing model to determine fair value of the awards, which involves certain subjective assumptions. These assumptions include estimating the length of time employees will retain their vested stock options before exercising them (“expected term”), the estimated volatility of the Company’s common stock price over the expected term (“volatility”) and the number of options for which vesting requirements will not be completed (“forfeitures”). Changes in the subjective assumptions can materially affect estimates of fair value stock-based compensation, and the related amount recognized on the consolidated statements of operations. Refer to Note 8 “Stock Option Plans” in the Notes to Consolidated Financial Statements in this report for a more detailed discussion.

BENEFICIAL CONVERSIONS - Debt instruments that contain a beneficial conversion feature are recorded as deemed interest to the holders of the convertible debt instruments. The beneficial conversion is calculated as the difference between the fair value of the underlying common stock less the proceeds that have been received for the debt instrument limited to the value received. The beneficial conversion amount is recorded as interest expense and an increase to additional paid-in-capital. The beneficial conversion has been fully accreted to the face value of the original loan and interest expense has been recognized.

FOREIGN CURRENCY TRANSLATIONS - The Company’s functional and reporting currency is the U.S. dollar. We own a subsidiary in Europe. Our subsidiary’s functional currency is the EURO. All transactions initiated in EUROs are translated into U.S. dollars in accordance with ASC 830-30, *"Translation of Financial Statements,"* as follows:

(i) Monetary assets and liabilities at the rate of exchange in effect at the balance sheet date.
(ii) Fixed assets and equity transactions at historical rates.
(iii) Revenue and expense items at the average rate of exchange prevailing during the period.

Adjustments arising from such translations are deferred until realization and are included as a separate component of stockholders' equity as a component of comprehensive income or loss. Therefore, translation adjustments are not included in determining net income (loss) but reported as other comprehensive income.

No significant realized exchange gains or losses were recorded since March 7, 2013 (date of acquisition of subsidiary) to December 31, 2013.

INCOME TAXES - Deferred income taxes are recognized for temporary differences between financial statement and income tax basis of assets and liabilities for which income tax or tax benefits are expected to be realized in future years. A valuation allowance is established to reduce deferred tax assets, if it is more likely than not, that all or some portion of such deferred tax assets will not be realized. The effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date.

NET INCOME PER SHARE - Basic net income per share is computed by dividing income available to common shareholders by the weighted-average number of common shares outstanding. Diluted earnings per share reflect, in periods in which they have a dilutive effect, the impact of common shares issuable upon exercise of stock options. The number of common shares potentially issuable upon the exercise of certain options and warrants that were excluded from the diluted loss per common share calculation was approximately 26,185,000 and 18,895,000 because they are anti-dilutive, as a result of a net loss for the years ended December 31, 2013 and 2012, respectively.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

We have reviewed the FASB issued Accounting Standards Update ("ASU") accounting pronouncements and interpretations thereof that have effectiveness dates during the periods reported and in future periods. The Company has carefully considered the new pronouncements that alter previous generally accepted accounting principles and does not believe that any new or modified principles will have a material impact on the corporation's reported financial position or operations in the near term. The applicability of any standard is subject to the formal review of our financial management and certain standards are under consideration.

NOTE 2: PROPERTY AND EQUIPMENT

Property and equipment, net, consist of the following at December 31:

	USEFUL LIVES	2013	2012
Furniture and Fixtures	5 years	$1,060,084	$955,673
Leasehold Improvements	5 years	4,084	4,084
		1,064,168	959,757
Less Accumulated Depreciation		596,035	378,190
		$466,772	$581,567

Depreciation expense for the years ended December 31, 2013 and 2012 was $219,206 and $183,825, respectively.

NOTE 3: INTANGIBLE ASSETS

Intangible assets, net, consist of the following at December 31:

	USEFUL LIVES	2013	2012

Contractual license	5 years	$250,000	$250,000
Acquisition of intellectual property (FuturLink)	5 years	160,200	–
Website technology development	5 years	45,000	–
		455,200	250,000
Less Accumulated Depreciation		153,416	83,333
		$301,784	$166,667

Future amortization, for the years ending December 31, is as follows:

2013	$91,040
2014	91,040
2015	57,707
2016	41,040
2017	20,957
thereafter	–
	301,784

Amortization expense for the years ended December 31, 2013 and 2012 was $70,083 and $50,000, respectively.

Acquisition of Assets of FuturLink

On March 7, 2013, the Company acquired the assets of FuturLink at a cost of approximately $160,200, 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. At the time of acquisition, FuturLink's assets were minimal; the purchase price was apportioned to the intellectual property received in exchange. The Company changed its name to Mobility Networks upon acquisition and is a consolidated component of these financial statements.

NOTE 4: CONVERTIBLE PROMISSORY NOTE

On June 12, 2012, the Company closed on a security agreement (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 was 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 granted 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. On December 12, 2013, TCA sold its entire interest in the Company's $350,000 secured promissory note to Thomas Arnost, a director of the Company, at face value. Mr. Arnost entered into an amendment to the note to extend the maturity date of the note to June 12, 2014, subject to his right to declare the note due and payable at any time in his sole discretion. Also, the interest rate was raised from 12% per annum to 15% and the conversion price of the shares issuable upon conversion of the note was fixed at $.30 per share. The aforementioned note is convertible at the sole discretion of the noteholder. The noteholder immediately converted $28,000 into 93,334 shares of common stock in December 2013. The balance on the note is $322,000 as of December 31, 2013 and interest accrued in the amount of $2,158, included in accrued expense.

The Company evaluated the terms of the new note in accordance with ASC Topic No. 815 - 40, *Derivatives and Hedging - Contracts in Entity's Own Stock*. The Company determined that the conversion feature did not meet the definition of a liability and therefore did not bifurcate the conversion feature and account for it as a separate derivative liability. The Company evaluated the conversion feature for a beneficial conversion feature. The effective conversion price was compared to the market price on the date of the note and was deemed to be less than the market value of underlying common stock at the inception of the note. Therefore, the Company recognized a beneficial conversion feature in the amount of $116,667. The beneficial conversion feature was recorded as an increase in additional paid-in capital and recognized interest expense in the period.

NOTE 5: INCOME TAXES

The provision for income taxes for the years ended December 31, 2013 and 2012 is summarized as follows:

	2013	2012
Current:		
Federal	$ –	–
State	–	–
	–	–
Deferred:		
Federal	–	–
State	–	–
	$ –	$ –

The Company has federal and state net operating loss carry forwards of approximately $12,235,000, which can be used to reduce future taxable income through 2030. The Company is open for tax years for the years ended 2008 through present.

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The tax effects of temporary differences which give rise to deferred tax assets (liabilities) are summarized as follows:

	YEARS ENDED DECEMBER 31,	
	2013	2012
Deferred Tax Assets:		
Net operating loss carry-forwards	$6,698,000	$4,446,000
Stock based compensation	2,605,000	1,939,000
Beneficial Conversion Feature	46,000	46,000
Allowance for doubtful accounts	8,000	8,000
Deferred Tax Assets	9,357,000	6,439,000
Less Valuation Allowance	9,357,000	6,439,000
Net Deferred Tax Asset	$–	$–

A reconciliation of the federal statutory rate to the Company's effective tax rate is as follows:

	YEARS ENDED DECEMBER 31,	
	2013	2012
Federal Statutory Tax Rate	34.00 %	34.00 %
State Taxes, net of Federal benefit	6.00 %	6.00 %
Change in Valuation Allowance	(40.00%)	(40.00%)
Total Tax Expense	0.00 %	0.00 %

NOTE 6: STOCKHOLDERS’ EQUITY

On January 30, 2012, the Company’s private placement offering was terminated. Rockwell Global Capital LLC acted as Placement Agent. 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. The private placement offering 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 is 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 (subject to a 60 day extension in the event the SEC is performing a full review of the Registration Statement), the Company shall 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. As of December 31, 2012, the Registration Statement has not been filed and the Company has elected to issue the maximum liquidation damages for a period of one year of 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 pursuant to an ongoing plan of financing. The Series 1 Preferred Stock had the following rights, preferences and privileges:

- Automatic Conversion into Common Stock. Each Preferred Share shall automatically convert on March 31, 2013 into shares of the Company's Common Stock (the "Common Shares") based on a conversion price of the lower of $.60 per share or an amount equal to 90% of the average closing sales price for the Company's Common Stock on the OTC Bulletin Board (or Pink Sheets) for the 20 trading days immediately preceding March 31, 2013, with a floor of $.45 per share. The number of shares of Common Stock issuable pursuant to the automatic conversion ranges from a minimum of 366,666 shares to a maximum of 488,888 shares.
- Optional Conversion into Common Stock. Commencing July 1, 2012, each Preferred Share shall at the option of the holder become convertible into Common Shares based on a conversion price of the lower of $.60 per share or 85% of the average closing sales price for the Company's Common Stock on the OTC Bulletin Board (or Pink Sheets) for the 20 trading days immediately preceding the Conversion Date, with a floor of $.45 per share. The number of shares of Common Stock issuable pursuant to the optional conversion ranges from a minimum of 366,666 shares to a maximum of 488,888 shares.
- Conversion Premium. Upon calculation of the number of Common Shares, the Preferred Shareholder is entitled to receive upon conversion of Series 1 Preferred Stock into Common Stock; the investor will receive an additional 8% premium. Accordingly, once the number of Common Shares is determined based upon the automatic conversion or optional conversion formulas set forth above, the investor will have that number of Common Stock multiplied by 1.08 (i.e. 108%) to determine the actual number of Common Shares to be issued upon conversion.
- Voting. The Preferred Shares shall have no voting rights until converted into Common Shares, except as otherwise required by applicable state law.
- Dividends. The Preferred Shares shall have no dividend rights until converted into Common Shares, except as otherwise required by applicable state law.
- Liquidation Preference. The Preferred Shares shall have no liquidation preference and shall be treated the same as a holder of Common Shares.
- Call Option. The Company may call the Preferred Shares for redemption at a price of $1.08 per share at any time on or after July 1,

2012, subject to the investor's right of conversion upon no less than 10 days prior written notice of redemption to each Preferred Shareholder, which notice may only be provided to the holders so long as the Company completes a financing or series of financings totaling at least $2 million in gross proceeds (excluding monies raised from the sale of the Series 1 Preferred Stock).

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 provided that they would 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. In August 2013, the Company issued 258,327 shares of Common Stock pursuant to the Milestone Warrants without any cash consolidation being paid. 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 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 identical to the warrants which were sold to the Legend investors described below. 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.

In November 2012, the aforementioned Series 1 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.

During 2013, the Company raised $5,562,816 in gross proceeds from the sale of its Common Stock at $.30 per share and a subscription for an additional $175,000, which was received in January 2014. Pursuant to said offering, the Company sold 19,125,006 shares of its Common Stock and Class BB Warrants to purchase 9,562,503 shares of Common Stock exercisable at $.50 per share through December 15, 2017. A total of $182,184 was incurred for offering costs, including $150,000 of commissions paid to a licensed member of FINRA together with Warrants to purchase 625,000 shares. Exemption from registration for the sale of the aforementioned securities is claimed under Rule 506 of Regulation D promulgated pursuant to Section 4(2) of the Securities Act of 1933, as amended. Thomas Arnost, Sean Trepeta, and Sean McDonnell, officers and/or directors of the Company, purchased $200,000, $90,000 and $50,000, respectively, of securities pursuant to said offering.

NOTE 7: SHARE-BASED COMPENSATION

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.

In January 2013, the Company issued to consultants, warrants to purchase 600,000 shares exercisable at $.30 per share through January 2017. In June 2013, the Company issued to consultants, options to purchase 500,000 shares exercisable at $.30 per share through April 11, 2018.

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.

In June, 2011, the Company hired an advisor to provide investor awareness and business advisory services at a cost of $10,000 per month and 25,000 shares of restricted stock. 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.

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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.

For the year 2013, the Company issued an aggregate of 2,402,969 shares in connection with business advisory services, at a fair market value of $1,048,091.

NOTE 8: STOCK COMPENSATION

The Company's results for the years ended December 31, 2013 and 2012 include employee share-based compensation expense totaling $1,765,074 and $1,481,242, respectively. Such amounts have been included in the 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 years ended December 31, 2013 and 2012:

	Years Ended December 31,	
	2013	2012
Employee stock based compensation-option grants	$258,511	$238,500
Employee stock based compensation-stock grants	–	13,500
Non-Employee stock based compensation-option grants	347,138	297,011
Non-Employee stock based compensation-stock grants	1,048,091	881,547
Non-Employee stock based compensation-stock warrant	111,334	50,684
	$1,765,074	$1,481,242

NOTE 9: STOCK OPTION PLANS

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. During Fiscal 2009, the Company established a plan of long-term stock-based compensation incentives for selected Eligible Participants of the Company covering 4,000,000 shares. This plan was adopted by the Board of Directors and approved by stockholders in October 2009 and shall be known as the 2009 Employee Benefit and Consulting Services Compensation Plan (the "2009 Plan"). In September 2013, the Company's stockholders approved an increase in the number of shares covered by the 2009 Plan to 10,000,000. (The 2005 and 2009 Plans are collectively referred to as the "Plans" and the Company has a combined 14,000,000 shares available for issuance under the Plans.)

All stock options under the Plans are granted at or above the fair market value of the common stock at the grant date. Employee and non-employee stock options vest over varying periods and generally expire either 5 or 10 years from the grant date. The fair value of options at the date of grant was estimated using the Black-Scholes option pricing model. For option grants, the Company will take into consideration payments subject to the provisions of ASC 718 "Stock Compensation", previously Revised SFAS No. 123 "Share-Based Payment" ("SFAS 123 (R)"). 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 years ended December 31, 2013 and 2012 are as follows:

	Years Ended December 31, 2013	2012
Expected volatility	134.99%	303.1%
Expected dividend yield	–	–
Risk-free interest rate	2.7 %	1.06 %
Expected term (in years)	5.45	6.65

	Share	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding, January 1, 2013	4,575,000	$ .76	4.36	27,000
Granted	2,470,000	$ .38	6.44	
Exercised	–	–		
Cancelled / Expired	–	–		
Outstanding, December 31, 2013	7,045,000	$ .49	4.52	314,750
Options exercisable, December 31, 2013	7,045,000	$ .49	4.52	–

The weighted-average grant-date fair value of options granted during the years ended December 31, 2013 and 2012 was $.41 and $0.54, respectively.

The aggregate intrinsic value of options outstanding and options exercisable at December 31, 2013 is calculated as the difference between the exercise price of the underlying options and the market price of the Company's common stock for the shares that had exercise prices, that were lower than the $.47 closing price of the Company's common stock on December 31, 2013.

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

The option information provided above includes options granted outside of the Plans, which total 1,600,000 as of December 31, 2013.

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

	Years Ended			
	2013		2012	
Expected volatility	70.66	%	52.88	%
Expected dividend yield	–		–	
Risk-free interest rate	.88	%	.3	%
Expected term (in years)	4.44		3.5	

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	Share	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding, January 1, 2013	14,319,532	$ .55	1.56	0
Granted	11,172,508	$ .51	3.98	
Exercised	–	–		
Cancelled/Expired	(5,851,665)	–		
Outstanding, December 31, 2013	19,640,375	$ .56	2.88	209,500
Warrants exercisable, December 31, 2013	19,640,375	$ .56	2.88	209,500

NOTE 10: COMMITMENTS AND CONTINGENCIES

LEASE COMMITMENTS –

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, Suite 541, Garden City, NY 11530. The lease agreement is for 63 months, commencing April 2012 and expiring June 2017. 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, Mobiquity 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.

The Company leases office space under non-cancelable operating leases in Farmingville, NY expiring in November 2014. The Company is obligated for the payment of real estate taxes under these leases. The Company is also currently leasing additional office space on a month-to-month basis. The Company also leases approximately 1,200 square feet of office and warehouse space in Spain at a monthly cost of approximately $2,200. Minimum future rentals under non-cancelable lease commitments are as follows:

YEARS ENDING DECEMBER 31,	
2014	126,000
2015	135,000
2016	139,000
2017 and thereafter	36,000
	$436,000

Rent and real estate tax expense was approximately $869,800 and $736,700 for the years December 31, 2013 and 2012, respectively.

EMPLOYMENT CONTRACTS –

On March 1, 2005, the Company entered into employment contracts with two of its officers, namely, Dean L. Julia and Michael D. Trepeta. 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 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 provided 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 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 on March 1st of each year. 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.

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.

On May 28, 2013, the Company approved amending the employment agreements of Messrs. Julia and Trepeta to provide that each officer may choose an annual bonus equal to 5% of pre-tax earnings for the most recently completed year before deduction of annual bonuses paid to officers or, in the event majority control of the Company is acquired by a person or a group of persons during the prior fiscal year, the officer may choose to receive the aforementioned bonus or 1% of the control consideration paid by acquirer(s) to acquire majority control of the Company.

TRANSACTIONS WITH MAJOR CUSTOMERS –

The Company sells its products to a geographically diverse group of customers, performs ongoing credit evaluations of its customers and generally does not require collateral. During the year ended December 31, 2013 a customer accounted for approximately 8% of net revenues and for the year ended December 31, 2012 a customer accounted for approximately 5% of net revenues. The Company holds on hand certain items that are ordered on a regular basis.

NOTE 11: SUPPLEMENTARY INFORMATION - STATEMENT OF CASH FLOWS

Cash paid during the years for:

	YEARS ENDED DECEMBER 31,	
	2013	2012
Interest	$58,803	$62,689
Income Taxes	$–	$–

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Non cash disclosures:

On December 12, 2013 a director of the Company was assigned the $350,000 note held by TCA Global. The note assigned was negotiated for extension of maturity date, to June 12, 2014, interest payable at 15%. Any outstanding balance and any accrued interest thereon may be converted into common stock at a price of $.30 per share. The Company may prepay the note without penalties. In December 2013, request was made to convert $28,000 of the note balance, into 93,334 shares of common stock.

NOTE 12: SEGMENT INFORMATION

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

While our results of operations are primarily reviewed on a consolidated basis, the chief operating decision-maker also manages the enterprise in two operating segments: (i) Ace Marketing and Promotions, Inc. captures Branding & Branded Merchandise (ii) Mobiquity Networks represent our Mobil Marketing.

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

	Ace Marketing & Promotions, Inc.	Mobiquity Networks Inc.	Total
Net sales	$2,995,032	162,500	$3,157,532

Operating (loss)	(3,775,827)	(1,795,529)	(5,571,356)
Interest income	274	–	274
Interest (expense)	(227,094)	–	(227,094)
Depreciation and amortization	(99,860)	(189,429)	(289,289)
Net Loss	(4,102,507)	(1,984,958)	(6,087,465)
Total assets at December 31, 2013	2,287,313	941,191	3,228,504

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

NOTE 13. COMMITTED EQUITY FACILITY AGREEMENT/REGISTRATION RIGHTS AGREEMENT

On June 12, 2012, Mobiquity 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”). It is the intention of the Company and TCA that the value of the Facility Fee Shares shall equal $100,000. 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. As of December 31, 2013, a total of 8,000 shares have been issued and paid for pursuant to the Equity Facility.

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. On April 12, 2013, a Registration Statement was declared effective by the SEC covering the resale of up to 5,000,000 shares under the Equity Agreement.

NOTE 14: SUBSEQUENT EVENTS

There are no subsequent events required to be disclosed in the Notes to Financial Statements through the date of the report, except as follows:

Between January 1, 2014 and the date of this report, the Company has raised gross proceeds of $2,160,300 from the sale of its Common Stock (including $175,000 of the stock subscription receivables) at $.30 per share. In connection with this private placement offering, the Company has issued 7,201,000 shares of Common Stock and Class BB Warrants to purchase 3,600,500 shares of Common Stock at an exercise price of $.50 per share through December 15, 2017.