KLEVER MARKETING INC
Form 10-Q
November 19, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x **QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2012

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _________________ to _________________

Commission File Number: 0-18834

Klever Marketing, Inc.

(Exact name of small business issuer as specified in its charter)

Delaware	36-3688583
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

5320 South 900 East, Suite 120 Salt Lake City, UT 84117-7250
(Address of principal executive offices)

(801) 847-6444
(Issuer's Telephone Number)

Indicate by check mark whether the issuer (1) has 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 x No o

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

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

Large accelerated filer o	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company x

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

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 practical date. As of November 14, 2012, there were 46,626,377 shares of the issuer's $.01 par value common stock issued and outstanding.

KLEVER MARKETING, INC.

TABLE OF CONTENTS

PART 1 – FINANCIAL INFORMATION

Item 1. Financial Statements

KLEVER MARKETING, INC.

(A Development Stage Company)

Condensed Balance Sheets

(Unaudited)

	September 30, 2012	December 31, 2011
ASSETS		
CURRENT ASSETS		
Cash	$11,063	$177,873
Total Current Assets	11,063	177,873
FIXED ASSETS		
Capitalized software	291,343	191,120
Office equipment	2,084	–
Less accumulated depreciation	(222)	–
Total Fixed Assets	293,205	191,120
OTHER ASSETS		
Intangibles, net	61,572	28,124
Total Other Assets	61,572	28,124
TOTAL ASSETS	$365,840	$397,117
LIABILITIES AND STOCKHOLDERS' DEFICIT		
CURRENT LIABILITIES		
Accounts payable	$538,036	$455,860
Accrued liabilities	967,466	836,889
Preferred stock dividends	422,258	323,968
Related party notes payable	3,000	–
Notes payable	15,000	15,000

Total Current Liabilities	1,945,760	1,631,717
Total Liabilities	1,945,760	1,631,717
Convertible preferred stock - Class A (par value $0.01; 150,000 shares authorized; 101,134 issued and outstanding at September 30, 2012 and December 31, 2011, respectively); aggregate liquidation preference of $2,629,484.	1,011	1,011
Convertible preferred stock - Class B (par value $0.01; 125,000 shares authorized; 76,651 issued and outstanding at September 30, 2012 and December 31, 2011, respectively); aggregate liquidation preference of $1,303,067.	767	767
Convertible preferred stock - Class C (par value $0.01; 200,000 shares authorized; 134,774 issued and outstanding at September 30, 2012 and December 31, 2011, respectively); aggregate liquidation preference of $889,508.	1,348	1,348
Common stock (par value $0.01, 250,000,000 shares authorized, 46,251,377 and 45,512,933 shares issued and outstanding, at September 30, 2012 and December 31, 2011, respectively)	462,513	455,129
Treasury stock, 100,000 shares at September 30, 2012 and December 31, 2011	(1,000)	(1,000)
Due from related party, payable in common stock	–	(16,100)
Paid in capital in excess of par value	16,585,914	16,601,968
Retained deficit	(3,333,785)	(3,333,785)
Deficit accumulated during development stage	(15,296,688)	(14,943,938)
Total Stockholders' Deficit	(1,579,920)	(1,234,600)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	$365,840	$397,117

The accompanying notes are an integral part of these financial statements.

3

KLEVER MARKETING, INC.

(A Development Stage Company)

Condensed Statements of Operations

(Unaudited)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,		From Inception of Development Stage On July 5, 1996 Through September 30,
	2012	2011	2012	2011	2012
REVENUES	$–	$–	$–	$–	$256,000
EXPENSES					
Sales and marketing	–	–	–	–	163,306
General and administrative	98,229	202,943	307,757	484,681	12,137,237
Research and development	828	779	4,182	6,766	4,774,275
Total Expenses	99,057	203,722	311,939	491,447	17,074,818
OTHER INCOME (EXPENSE)					
Other income	–	–	–	177,000	685,751
Interest income	–	–	–	–	19,152
Interest expense	(13,223)	(6,650)	(37,812)	(22,014)	(2,728,052)
Forgiveness of debt	–	–	–	–	466,953
Gain on sale of assets	–	623,234	–	623,234	650,181
Capital gain on sale of investments	–	–	–	–	191,492
Total Other Income (Expense)	(13,223)	616,584	(37,812)	778,220	(714,523)
NET INCOME (LOSS) BEFORE INCOME TAXES	(112,280)	412,862	(349,751)	286,773	(17,533,341)
INCOME TAXES	572	100	2,999	100	63,842
NET INCOME (LOSS) BEFORE EXTRAORDINARY ITEMS	(112,852)	412,762	(352,750)	286,673	(17,597,183)

EXTRAORDINARY ITEM - TROUBLED DEBT RESTRUCTURING	–	–	–	–	2,271,394
NET INCOME (LOSS)	$(112,852)	$412,762	$(352,750)	$286,673	$(15,325,789)
BASIC INCOME (LOSS) PER COMMON SHARE	$(0.00)	$0.01	$(0.01)	$0.01	
FULLY DILUTED INCOME (LOSS) PER COMMON SHARE	$(0.00)	$0.01	$(0.01)	$0.00	
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING - BASIC	46,251,377	45,085,704	45,890,225	45,027,106	
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING - FULLY DILUTED	46,251,377	61,872,886	45,890,225	61,767,427	

The accompanying notes are an integral part of these financial statements.

4

KLEVER MARKETING, INC.

(A Development Stage Company)

Condensed Statement of Stockholders' Deficit

(Unaudited)

	Preferred Stock		Common Stock		Common Stock to be	Related Party	Treasury	Capital in Excess of	Retained	Deficit Accumulated During Development
	Shares	Amount	Shares	Amount	Issued	Receivable	Stock	Par Value	Deficit	Stage
Balance, December 31, 2011	312,559	$3,126	45,512,933	$455,129	$–	$(16,100)	$(1,000)	$16,601,968	$(3,333,785)	$(14,943,938
Common stock returned and cancelled to satisfy related party receivable	–	–	(161,000)	(1,610)	–	16,100	–	(14,490)	–	–
Common stock issued for cash at $0.09 per share	–	–	194,444	1,944	–	–	–	15,556	–	–
Common stock issued for cash at $0.10 per share	–	–	545,000	5,450	–	–	–	49,050	–	–
Common stock issued for services at	–	–	60,000	600	–	–	–	6,200	–	–

$0.1133 per share										
Common stock issued for cash at $0.125 per share	–	–	100,000	1,000	–	–	–	11,500	–	–
Issuance of stock options	–	–	–	–	–	–	–	14,420	–	–
Accrual for preferred stock dividend	–	–	–	–	–	–	–	(98,290)	–	–
Net loss for nine months ended September 30, 2012	–	–	–	–	–	–	–	–	–	(352,750
Balance, September 30, 2012	312,559	$3,126	46,251,377	$462,513	$–	$–	$(1,000)	$16,585,914	$(3,333,785)	$(15,296,688

The accompanying notes are an integral part of these financial statements.

5

KLEVER MARKETING, INC.

(A Development Stage Company)

Condensed Statements of Cash Flows

(Unaudited)

	For the Nine Months Ended September 30,		From Inception of Development Stage On July 5, 1996 Through September 30,
	2012	2011	2012
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss	$(352,750)	$286,673	$(15,325,789)
Adjustments to reconcile net income (loss) to net cash used by operating activities:			
Stock issued for general and administrative	6,800	(142,899)	1,277,356
Stock issued for research and development	–	–	62,850
Stock returned for services not rendered	–	–	(391,446)
(Gain)/loss on sale/disposal of assets	–	(623,234)	(136,698)
Compensation expense from stock options and warrants	14,420	–	110,202
Stock issued for interest	–	–	135,226
Stock issued for accounts payable	–	–	243,458
Deferred income	–	–	(214,000)
Depreciation and amortization	–	–	1,912,883
Write-off bad debts	222	–	15,222
Debt forgiveness	–	–	(174,825)
Services contributed by officers	–	–	60,000
Changes in operating assets and liabilities:			
(Increase) decrease in accounts receivable	–	–	62,281
(Increase) decrease in other assets and prepaids	–	35	89,238
Increase (decrease) in accounts payable	82,176	(48,856)	546,186
Increase (decrease) in accrued liabilities	130,577	190,897	1,076,156
Net Cash Used by Operating Activities	(118,555)	(337,384)	(10,651,700)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Acquisition/sale of equipment, net	–	–	(587,801)
Capitalized software development costs	(100,223)	(17,500)	(269,943)

Proceeds from sale of intangible assets	–	623,234	647,773
Purchase of equipment	(2,084)	–	(2,084)
Acquisition/sale of patents and other intangibles	(33,448)	–	(61,022)
Acquisition/sale of stock, net	–	–	12,375
Net Cash (Used by) Provided By Investing Activities	$(135,755)	$605,734	$(260,702)

The accompanying notes are an integral part of these financial statements.

6

KLEVER MARKETING, INC.

(A Development Stage Company)

Condensed Statements of Cash Flows (Continued)

(Unaudited)

	For the Nine Months Ended September 30,		From Inception of Development Stage On July 5, 1996 Through September 30,
	2012	2011	2012
CASH FLOWS FROM FINANCING ACTIVITIES:			
Stock deposit	$–	$–	$11,000
Stock subscription received	–	–	23,000
Proceeds from capital stock issued	84,500	37,500	7,697,201
Proceeds from loans	3,000	(44,950)	3,476,252
Change in line-of-credit	–	–	4,837
Loan receivables	–	–	(15,000)
Principal payments on lease obligations	–	–	(18,769)
Cash payments on note payable	–	–	(279,730)
Net Cash Provided by (Used by) Financing Activities	87,500	(7,450)	10,898,791
NET (DECREASE) INCREASE IN CASH	(166,810)	260,900	(13,611)
CASH AT BEGINNING OF PERIOD	177,873	1,071	24,674
CASH AT END OF PERIOD	$11,063	$261,971	$11,063
SUPPLEMENTAL DISCLOSURES			
Cash Paid For:			
Interest	$–	$2,263	$3,326
Income taxes	$–	$100	$1,841
Non-Cash Transactions from Investing and Financing Activities:			

Common stock returned to company to pay related party receivable	$16,100	$–
Common stock issued for capitalized software development to related parties	$–	$13,900
Common stock issued to pay accounts payable	$–	$20,054
Common stock issued to for stock deposit	$–	$11,000
Accrual for preferred stock dividends payable with preferred shares	$98,290	$311,761
Preferred stock issued to pay preferred stock dividends	$–	$385,144

The accompanying notes are an integral part of these financial statements.

7

KLEVER MARKETING, INC.

(A Development Stage Company)

Notes to Condensed Financial Statements

(Unaudited)

NOTE 1 – BASIS OF FINANCIAL STATEMENT PRESENTATION

The accompanying unaudited condensed financial statements have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted in accordance with such rules and regulations. The information furnished in the interim condensed financial statements includes normal recurring adjustments and reflects all adjustments, which, in the opinion of management, are necessary for a fair presentation of such financial statements. Although management believes the disclosures and information presented are adequate to make the information not misleading, it is suggested that these interim condensed financial statements be read in conjunction with the Company's audited financial statements and notes thereto included in its December 31, 2011 Annual Report on Form 10-K. Operating results for the three months and nine months ended September 30, 2012 are not necessarily indicative of the results that may be expected for the year ending December 31, 2012.

The Company was organized under the laws of the State of Delaware in December 1989. The Company was in the development stage from 1989 to 1991. The Company was an operating company from 1992 to December 8, 1993 when it filed petitions for relief under Chapter 11 bankruptcy. The Company was inactive until July 5, 1996 when the Company merged with Klever Kart, Inc. in a reverse merger and changed its name to Klever Marketing, Inc. The Company has been in the development stage since the reverse merger occurred.

The Company was formed for the purpose of creating a vehicle to obtain capital, to file and acquire patents, to seek out, investigate, develop, manufacture, market and distribute an electronic shopping cart for in-store advertising, promotion and media content and retail shopper services, which have potential for profit.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

Earnings Per Common Share

The computations of basic and fully diluted earnings per share of common stock are based on the weighted average number of common shares outstanding during the period of the financial statements, plus the common stock equivalents which would arise from the exercise of stock options and warrants outstanding during the period, or the exercise of convertible preferred stock. For the periods ended September 30, 2012 and 2011, common stock equivalents related to the conversion of preferred rights have not been included in calculation of diluted earnings per share because they are anti-dilutive.

Following is a reconciliation of the income (loss) per share for the three months and nine months ended September 30, 2012 and 2011, respectively:

	Three Months Ending September 30,		Nine Months Ending September 30,	
	2012	2011	2012	2011
Numerator:				
Income (loss) before extraordinary items	$(112,852)	$412,762	$(352,750)	$286,673
Income from extraordinary items, net of tax	–	–	–	–
Net income (loss)	$(112,852)	$412,762	$(352,750)	$286,673
Denominator:				
Weighted-average common shares outstanding				
Basic	46,251,377	45,085,704	45,890,225	45,027,106
Conversion of preferred rights	–	16,787,182	–	16,740,321
Diluted	46,251,377	61,872,886	45,890,225	61,767,427
Income (loss) per share				
Basic				
Income (loss) before extraordinary items	$(0.00)	$0.01	$(0.01)	$0.01
Income from extraordinary items, net of tax	–	–	–	–
Net income (loss)	$(0.00)	$0.01	$(0.01)	$0.01
Diluted				
Income (loss) before extraordinary items	$(0.00)	$0.01	$(0.01)	$0.00
Income from extraordinary items, net of tax	–	–	–	–
Net income (loss)	$(0.00)	$0.01	$(0.01)	$0.00

KLEVER MARKETING, INC.

(A Development Stage Company)

Notes to Condensed Financial Statements

(Unaudited)

Capitalized Software Development

The Company capitalizes software development costs incurred from the time technological feasibility has been obtained until the product is generally released to customers. The Company achieved technological feasibility with regard to its mobile phone technology during the fourth quarter of 2010. The Company had $291,343 and $191,120 of capitalized software development costs as of September 30, 2012 and December 31, 2011, respectively.

Income Taxes

The Company accounts for income taxes pursuant to ASC 740, *Income Taxes* ("ASC 740"). Under this accounting standard, deferred tax assets and liabilities are determined based on temporary differences between the bases of certain assets and liabilities for income tax and financial reporting purposes. The deferred tax assets and liabilities are classified according to the financial statement classification of the assets and liabilities generating the differences. Given the Company's history of losses, the Company maintains a full valuation allowance with respect to any deferred tax assets.

ASC 740 requires a company to determine whether it is more likely than not that a tax position will be sustained upon examination based upon the technical merits of the position. If the more-likely-than-not threshold is met, a company must measure the uncertain tax position to determine the amount to recognize in the financial statements. Our uncertain tax positions relate to certain state tax issues for which we have recorded an estimated current liability for in the accompanying financial statements at September 30, 2012 and December 31, 2011. There has been no significant change in the unrecognized tax benefit through September 30, 2012. The Company recognizes interest and penalties related to uncertain tax positions as a component of the income tax provision. The Company has not identified any uncertain tax positions for which it is reasonably possible that the total amount of liability for unrecognized tax positions will significantly increase or decrease within the next 12 months.

The Company establishes a valuation allowance based upon the potential likelihood of realizing the deferred tax asset and taking into consideration the Company's financial position and results of operations for the current period. Future realization of the deferred tax benefit depends on the existence of sufficient taxable income within the carry-forward period under the Federal tax laws.

Changes in circumstances, such as the Company generating taxable income, could cause a change in judgment about the realizability of the related deferred tax asset. Any change in the valuation allowance will be included in income in the year of the change in estimate.

The Company files income tax returns in the U.S. federal and Utah jurisdictions. Tax years 2009 to current remain open to examination by U.S. federal and state tax authorities.

From inception through September 30, 2012, the Company has incurred net losses and, therefore, had no federal income tax liability. To date, the Company has incurred the statutory minimum tax liability for state taxes and has accrued to its uncertain state tax position described above. The net deferred tax asset generated by the loss carry-forwards has been fully reserved. The cumulative net operating loss carry-forward is approximately $17.5 million as of September 30, 2012, and will expire in the years 2015 through 2029.

KLEVER MARKETING, INC.

(A Development Stage Company)

Notes to Condensed Financial Statements

(Unaudited)

Research and Development

The Company continues to develop its technology which facilitates the use of in-store advertising and coupon services through various technologies. As time and technology have progressed, the system being developed by the Company comprises mobile and other state of the art technology that facilitates retailers and package good companies to provide "product specific" point-of-purchase advertising to its customers using proprietary software. The Company is currently developing mobile smart phone technology that will provide similar functionality to the Klever-Kart System.

During the nine months ended September 30, 2012 and 2011, the Company incurred costs of $4,182 and $6,766 respectively, for research and development of its technologies.

Fair Value of Financial Instruments

The FASB provides the framework for measuring fair value. This guidance defines fair value, establishes a three-level valuation hierarchy for disclosures of fair value measurement and enhances disclosure requirements for fair value measures. The three levels are defined as follows: Level 1 inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets. Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Level 3 inputs to valuation methodology are unobservable and significant to the fair measurement.

The carrying amounts reported in the accompanying balance sheets as of September 30, 2012 and December 31, 2011 for cash, fixed assets, intangibles and current liabilities each qualify as financial instruments and are a reasonable estimate of fair value because of the short period of time between the origination of such instruments and expected realization and their current market rate of interest. The carrying value of notes payable approximates fair value because negotiated terms and conditions are consistent with current market rates as of September 30, 2012 and December 31, 2011.

NOTE 3 – RECLASSIFICATIONS

The Company has reclassed certain amounts on its prior year Statements of Operations to conform to the presentation provided in the Company’s 2011 amended 10-K.

NOTE 4 – GOING CONCERN

As shown in the accompanying financial statements, the Company incurred a net loss of $112,852 during the three months ended September 30, 2012. The Company did not generate any revenue from product sales during the three months ended September 30, 2012 or September 30, 2011. As of September 30, 2012, the Company’s current and total liabilities exceeded its current assets by $1,934,697. As of September 30, 2012, the Company had $11,063 of cash available on hand. The Company will require additional funding during the next twelve months to finance the growth of its current operations and achieve its strategic objectives. These factors, as well as the uncertain conditions that the Company faces relative to capital raising activities, create substantial doubt as to the Company’s ability to continue as a going concern. The Company is seeking to raise additional capital through private placement offerings and is targeting strategic partners in an effort to finalize the development of its products and begin generating revenues. The ability of the Company to continue as a going concern is dependent upon the success of future capital offerings or alternative financing arrangements and expansion of its operations. The accompanying financial statements do not include any adjustments that might be necessary should the Company be unable to continue as a going concern. Management is actively pursuing additional sources of financing sufficient to generate enough cash flow to fund its operations through 2012. However, management cannot make any assurances that such financing will be secured.

NOTE 5 – PREFERRED STOCK

Authorized Shares

In accordance with the Company’s bylaws, the Company has authorized a total of 2,000,000 shares of preferred stock for all classes. As of September 30, 2012 and December 31, 2011, there were 312,559 preferred shares issued and outstanding for all classes. As of September 30, 2012, all of the Company’s outstanding preferred shares are owned by a Company that is controlled by the Company’s CEO.

KLEVER MARKETING, INC.

(A Development Stage Company)

Notes to Condensed Financial Statements

(Unaudited)

In March, 2011, management realized that the preferred stock dividend that was paid in 2008 had resulted in the Company issuing more shares of Class A and Class B shares than were authorized pursuant to the Board resolution that was passed in June 2002. On April 14, 2011 the board of directors approved an increase to the authorized number of shares of preferred stock as described below.

Preferred Stock Dividends

As of September 30, 2012, the Company had accrued and unpaid preferred stock dividends totaling $422,258 relating to dividends for the twenty-one months ended September 30, 2012.

Class A Voting Preferred Stock

On February 7, 2000, the Board of Directors authorized and established “Class A Voting Preferred Stock” (“Class A Shares”) as a class of its $.01 par value, 2,000,000 shares authorized, preferred stock. Class A Shares consisted of 125,000 shares designated as Series 1 shares. On May 20, 2002, the Board of Directors amended the number of authorized shares of Class A voting preferred stock to 55,000 shares. On April 14, 2011, the Board of Directors increased the number of authorized Class A Voting Preferred shares to 150,000.

Initially, Class A Shares were convertible into Common Stock at an initial conversion price of $2.60 (subject to adjustment). In November 2011, the board passed a resolution and clarified that the adjusted conversion price meant that each share of Class A preferred stock is convertible into 99.035 shares of common stock upon conversion. Holders of Class A Shares are entitled to receive dividends at the rate of $2.20 per share per annum, payable semi-annually. Dividends are cumulative and may be paid in cash or in kind through the distribution of .0425 Class A Shares, Series 1, for each outstanding Class A Share, on each dividend payment date. In addition, each holder of Class A Shares is entitled to receive, when and as declared, a dividend equal to each dividend declared and paid on the shares of Common Stock, on a share for share basis.

Class A Shareholders shall be entitled to one vote for each share of Common Stock into which such Class A Shares could then be converted, and shall have voting rights and powers equal to that of a holder of Common Stock. The Holders of Class A Shares shall vote with the holders of Common Stock and not as a separate class.

Class A Shares carry a liquidation preference of $26.00 per share plus any accrued but unpaid dividends on such shares, if any, and adjusted for combinations, splits, dividends or distributions of shares of stock with respect to such shares.

The Class A Shares shall be redeemable by the Company, in whole or in part, at the option of the Board of Directors of the Company, at any time and from time to time on or after July 1, 2002. The redemption price shall be $26.00 per share together with accrued but unpaid dividends on such shares, if any.

Class B Voting Preferred Stock

On September 24, 2000, the Board of Directors authorized and established “Class B Voting Preferred Stock” (“Class B Shares”) as a class of its $.01 par value, 2,000,000 shares authorized, preferred stock. Class B Shares consisted of 125,000 shares designated as Series 1 shares. On May 20, 2002, the Board of Directors amended the number of authorized shares of Class B voting preferred stock to 42,000 shares. On April 14, 2011, the Board of Directors increased the number of authorized Class B Voting Preferred shares to 125,000.

Initially, Class B Shares were convertible into Common Stock at an initial conversion price of $1.70 (subject to adjustment). In November 2011, the board passed a resolution and clarified that the adjusted conversion price meant that each share of Class A preferred stock is convertible into 64.754 shares of common stock upon conversion. Holders of Class B Shares are entitled to receive dividends at the rate of $1.70 per share per annum, payable semi-annually. Such dividends shall be cumulative and may be paid in cash or in kind through the distribution of .0425 Class B Shares, of the same Series for which the dividend is accrued, for each outstanding Class B Share, on each dividend payment date. In addition, each holder of Class B Shares is entitled to receive, when and as declared, a dividend equal to each dividend declared and paid on the shares of Common Stock, on a share for share basis.

KLEVER MARKETING, INC.

(A Development Stage Company)

Notes to Condensed Financial Statements

(Unaudited)

Class B Shareholders shall be entitled to one vote for each share of Common Stock into which such Class B Shares could then be converted and shall have voting rights and powers equal to the voting rights and powers of a holder of shares of Common Stock. The holders of Class B Shares shall vote with the holders of shares of Common Stock and not as a separate class.

Class B Shares shall carry a liquidation preference of $17.00 per share plus any accrued but unpaid dividends on such shares, if any, and adjusted for combinations, splits, dividends or distributions of shares of stock with respect to such shares. The Class B Shares shall be redeemable by the Company, in whole or in part, at the option of the Board of Directors of the Company, at any time and from time to time on or after March 24, 2004 for Series 1, and such date as determined by the Board of Directors for each additional Series. The redemption price shall be $17.00 per share together with accrued but unpaid dividends on such shares, if any.

<u>Class C Voting Preferred Stock</u>

On January 2, 2001, the Board of Directors authorized and established "Class C Voting Preferred Stock" ("Class C Shares") as a class of its $.01 par value, 2,000,000 shares authorized, preferred stock. Class C Shares consisted of 125,000 shares designated as Series 1 shares and 125,000 shares thereof were designated as Series 2 shares. On May 20, 2002, the Board of Directors amended the number of authorized shares of Class C voting preferred stock to 150,000 shares. On April 14, 2011, the Board of Directors increased the number of authorized Class C Voting Preferred shares to 200,000.

Initially, Class C Shares were convertible into Common Stock at an initial conversion price of $0.66 (subject to adjustment). In November 2011, the board passed a resolution and clarified that the adjusted conversion price meant that each share of Class C preferred stock is convertible into 25.140 shares of common stock upon conversion. Holders of Class C Shares are entitled to receive dividends at the rate of $0.66 per share per annum, payable semi-annually. Dividends are cumulative and may be paid in cash or in kind through the distribution of .0425 Class C Shares, for each outstanding Class C Share, on each dividend payment date. In addition, each holder of a Class C Shares is entitled to receive, when and as declared, a dividend equal to each dividend declared and paid on the shares of Common Stock, on a share for share basis. Class C Shareholders shall be entitled to one vote for each share of Common Stock into which such Class C Shares could then be converted and shall have voting rights and powers equal to the voting rights and powers of a holder of shares of Common Stock. The holders of Class C Shares shall vote with the holders of shares of Common Stock and not as a separate class.

Class C Shares shall carry a liquidation preference of $6.60 per share plus any accrued but unpaid dividends on such shares, if any, and adjusted for combinations, splits, dividends or distributions of shares of stock with respect to such shares.

The Class C Shares shall be redeemable by the Company, in whole or in part, at the option of the Board of Directors of the Company, at any time and from time to time on or after July 2, 2004 for Series 1, and such date as determined by the Board of Directors for each additional Series. The redemption price shall be $6.60 per share together with accrued but unpaid dividends on such shares, if any.

Class D Voting Preferred Stock

On May 20, 2002, the Board of Directors authorized and established "Class D Voting Preferred Stock" ("Class D Shares") as a class of its $.01 par value, 2,000,000 shares authorized, preferred stock. Class D Shares consist of 500,000 shares thereof are designated as "Class D Voting Preferred Stock" (the "Class D Shares").

Class D Shares are convertible into Common Stock at an initial conversion price of $1.05 (subject to adjustment).

NOTE 6 – LITIGATION AND CONTINGENT LIABILITIES

The Company has certain claims against it for unpaid salary and benefits due to former officers and employees that exist on the balance sheet as accrued liabilities as of September 30, 2012 and December 31, 2011. Management is in the process of negotiating with a number of these claimants in order to reach agreements that would allow these liabilities to be settled through agreed upon cash payments as well as issuance of stock and stock options.

KLEVER MARKETING, INC.

(A Development Stage Company)

Notes to Condensed Financial Statements

(Unaudited)

NOTE 7 – STOCK OPTIONS

The shareholders approved, by a majority vote, the adoption of the 1998 Stock Incentive Plan (the "Plan"). As amended on August 11, 2003, the Plan reserves 20,000,000 shares of common stock for issuance upon the exercise of options which may be granted from time-to-time to officers, directors and certain employees and consultants of the Company or its subsidiaries. The Plan permits the award of both qualified and non-qualified incentive stock options. On August 18, 2003, the Company registered its "Amended Stock Incentive Plan of Klever Marketing, Inc." on Form S-8. The Company granted 160,000 stock options during the nine months ended September 30, 2012. The options vest immediately and have an exercise price of $0.10 per share. Of the options granted, 100,000 expired on September 22, 2012 and the remaining 60,000 expire on December 31, 2012. The Company recorded $14,420 of consulting expense during the nine months ended September 30, 2012 in connection with issuing the options. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the assumptions noted below:

Assumptions	
Dividend Yield	0%
Weighted average volatility	476.77%
Risk-free interest rate	0.18%
Expected life (years)	0.62

The summary of option activity for the nine months ended September 30, 2012 is presented below:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Life (Years)
Balance as of December	–		

31, 2011			
Granted	160,000	$ 0.10	0.62
Expired	(100,000)	0.10	–
Cancelled	–	–	–
Balance as of September 30, 2012	60,000	0.10	0.62

As of September 30, 2012, 60,000 options were exercisable. The weighted-average grant-date fair value of options granted during the nine months ended September 30, 2012 was $0.09. There were no options granted during the nine months ended September 30, 2011. As of September 30, 2012, the intrinsic value of outstanding and vested stock options was $0.

Expected option lives and expected stock price volatility were based on historical data of the Company. The risk free interest rate was calculated using U.S. Treasury constant maturity rates similar to the expected lives of the options, as published by the Federal Reserve. The Company has no plans to declare any future dividends.

NOTE 8 – COMMON STOCK

During the nine months ended September 30, 2012, the Company sold 839,444 shares of restricted common stock with a weighted share price $0.10 per share for $84,500.

During the nine months ended September 30, 2012, the Company issued 60,000 shares of restricted common stock valued at $6,800 or $0.1133 per common share to a consultant.

During the nine months ended September 30, 2012, the Company received back 161,000 shares of restricted common stock from the son of the Company's CEO as full repayment of a $16,100 receivable owed to the Company. The shares were subsequently cancelled by the Company.

KLEVER MARKETING, INC.

(A Development Stage Company)

Notes to Condensed Financial Statements

(Unaudited)

During the nine months ended September 30, 2011, the Company sold 250,000 shares of restricted common stock at $0.15 per share to an individual for $37,500.

During the nine months ended September 30, 2011, the Company received back 1,000,000 shares of restricted common stock from an investment banking firm and $2,500 in cash as a result of cancelling their agreement with the Company. The investment bank firm had been engaged to assist the Company with finding financing sources. The Company recorded a credit to operations of $152,500 in connection with the cancellation and retirement of the shares.

During the nine months ended September 30, 2011, the Company issued 50,000 shares to a third party to settle outstanding accounts payable obligations for services provided.

During the nine months ended September 30, 2011, the Company cancelled its agreement with a private investor. Pursuant to the terms of the cancellation, the Company received back 150,000 shares of common stock and $6,500 in cash. The Company recorded a credit to operations of $15,500 in connection with the cancellation and retired the shares.

NOTE 9 – RELATED PARTY TRANSACTIONS

The Company’s CEO, CFO and the bookkeeper who is the wife of the CEO did not take any compensation for services provided to the Company during 2009 and 2010. During the nine months ended September 30, 2012 and 2011, the Company incurred $135,000 and $231,000, respectively as compensation for the services provided by these individuals to the Company. The Company paid $37,500 of the amount accrued during the nine months ended September 30, 2012 and $27,000 was paid during the nine months ended September 30, 2011.

The son of the Company's CEO provided certain product development services to the Company. During the nine months ended September 30, 2012, the Company recorded $21,500 in Capitalized Software Development costs related to services provided by this individual. During the nine months ended September 30, 2011, the Company issued 300,000 common shares valued at $30,000 to this individual for services rendered.

During the nine months ended September 30, 2012, the son of the Company's CEO returned 161,000 restricted shares of the Company's common stock as full satisfaction of a $16,100 receivable from the individual. The shares were valued at $0.10 per share in this transaction.

NOTE 10 – SUBSEQUENT EVENTS

In October 2012, the Company sold 375,000 shares of common stock and 125,000 options to purchase common shares of the Company's stock resulting in the Company receiving cash proceeds of $37,500.

<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>

The following information specifies certain forward-looking statements of management of the Company. Forward-looking statements are statements that estimate the happening of future events and are not based on historical fact. Forward-looking statements may be identified by the use of forward-looking terminology, such as "may", "shall", "could", "expect", "estimate", "anticipate", "predict", "probable", "possible", "should", "continue", or similar terms, variations terms or the negative of those terms. The forward-looking statements specified in the following information have been compiled by our management on the basis of assumptions made by management and considered by management to be reasonable. Our future operating results, however, are impossible to predict and no representation, guaranty, or warranty is to be inferred from those forward-looking statements.

The assumptions used for purposes of the forward-looking statements specified in the following information represent estimates of future events and are subject to uncertainty as to possible changes in economic, legislative, industry, and other circumstances. As a result, the identification and interpretation of data and other information and their use in developing and selecting assumptions from and among reasonable alternatives require the exercise of judgment. To the extent that the assumed events do not occur, the outcome may vary substantially from anticipated or projected results, and, accordingly, no opinion is expressed on the achievability of those forward-looking statements. We cannot guaranty that any of the assumptions relating to the forward-looking statements specified in the following information are accurate, and we assume no obligation to update any such forward-looking statements.

We advise anyone relying upon this report that any statement of earnings by the company for the quarter ended September 30, 2012, has been obtained solely through the reduction, adjustment or termination of various debt obligations or the sale of assets and does not reflect operating revenues to the Company. The Company continues as a development stage company without revenues and with continuing substantial expenses, yielding a net loss from operations if considered apart from reduction of debt and asset sales. The Company continues to search for merger or acquisition candidates or possible entities to which it may sell or license its patent interest, but makes no warranty or assurance that it will be successful in any of these endeavors. Further, there is no assurance that the Company can continue to operate without cash flows or revenues and during the past year has relied exclusively upon interim capital financing for its continuation.

Product Base

Following a decade of development of its shopping cart-based electronic advertising technology, which was highly successful in demonstrating the advantages of electronic distribution and redemption of electronic coupons and promotions, the Company realized that mobile technology had advanced to the level where Klever's product base could be applied and considerably expanded into an entirely new product line. Accordingly, in 2010, the Company made a dramatic shift into mobile technology. Since that time the Company has made remarkable progress on its mobile application development and implementation. The software programming of our consumer KleverShop®

application has been completed and is ready for in-store demonstration. Our retailer and supplier KleverDash® application has completed its database and backend programming and is nearly complete with its user graphical interface. We have selected Wholesome Choice markets as our demonstration store, and we completed our initial in store focus group panel during the second quarter of 2012.

Progress During the Three Months Ended September 30, 2012

A number of product advancements were achieved during the third quarter. Both the iPhone and Android versions of KleverShop® have been approved by Apple and Google, and both are now registered. We have continued to make advancements in these two applications to increase consumer and retailer usability. We have further modified our Android version of KleverShop to accommodate the needs of our demonstration store and are about to return to the store to demonstrate these new capabilities.

Our KleverDash® retailer application, which is used by retailers to manage their promotional campaigns on line and make on the spot adjustments to these campaigns, underwent a next generation dashboard redesign with upgraded screens, much improved usability and greater user flexibility on retrieving coupon statistics and making changes on the fly. The statistical database and dashboard views are now more creative and appealing for decision making.

Our patented Chime-Time Award Program®, which was previously developed for our in-store, cart mounted devices, has now been integrated into our mobile application, and is a feature that continues to attract the attention of our retail customers. Registered trademarks for our KleverShop® and KleverDash® products were received this quarter, along with a wraparound patent for in-store advertising on electronic devices, which will continue to protect our in-store technology advancements. We will be demonstrating our KleverShop® product at the National Retail Federation Conference in New York in January and are working with a large hardware manufacturer on a joint presentation of our combined capabilities. This is a large show and a significant step into the public arena for Klever Marketing.

Looking ahead towards commercial operations, we have ramped up our sales and marketing efforts with the hiring of a Business Development and Strategy Director, who will be accelerating our sales approach with our retail and supplier clients.

Anticipated Business Development in the Next 12 Months

The next 12 months promise even more advances in the Company's product implementation. Following the latest upgrades to our KleverShop and KleverDash products, along with expansion of our KleverKloud knowledge database, the Company expects to complete its demonstration at Wholesome Choice Markets and launch its commercial operations first locally, then regionally and expanding nationally with major retailer and supplier chains. We will also be advancing our automated check-out capabilities to improve this aspect of the couponing process.

The marketing and sales tools and resources we are putting in place will be utilized to accommodate our potentially rapid growth. Plans have also been made for the operational needs of our growing product base, which will require expanded server hardware and support network plus additional resources to serve our customers. Accomplishing this growth will require a significant capital infusion or partnership with another Company, and efforts in this direction are at the top of the Company's priorities. While notable progress is being made, and the Company is optimistic about its future, we must caution the reader that Klever is still a development stage company, and no revenue contracts have yet been signed. No assurance or warranty can be given that the Company will be successful in implementing the efforts described in this report.

Results of Operations

Three Months Ended September 30, 2012 Compared to Three Months Ended September 30, 2011

For the three months ended September 30, 2012, the Company had a net loss of ($112,852) as compared to net income of $412,762 for the three months ended September 30, 2011. General and administrative costs decreased to $98,229 for the three months ended September 30, 2012 from $202,943 for the three months ended September 30, 2011. For the three months ended September 30, 2012, accounting fees increased by $25,801 to $29,233 from $3,432 for the three months ended September 30, 2011. In addition, SEC filing fees increased by $3,367 from $1,909 for the three months ended September 30, 2011 to $5,276 for the three months ended September 30, 2012. The increases were primarily due to higher accounting and audit fees resulting from the Company's restatement of its December 31, 2011 10-K and March 31, 2012 10-Q as well as fees associated with providing financial analyses to support management's ongoing fund raising and business strategy activities. The increases were offset by the Company paying commissions totaling $133,703 primarily as a result of the sale of certain non-core IP addresses described below.

During the quarter ended September 30, 2012, interest expense increased to $13,223 from $6,650 for the quarter ended September 30, 2011 as a result of increased debt and due to certain proposed settlement agreements the Company has with certain creditors requiring interest to be accrued because the Company was unable to pay the obligation by the contractual deadline.

The Company had a gain on sale of certain non-core IP addresses during the quarter ended September 30, 2011 of $623,234. The Company did not have any asset sales take place during the three months ended September 30, 2012.

Nine Months Ended September 30, 2012 Compared to Nine Months Ended September 30, 2011

For the nine months ended September 30, 2012, the Company had a net loss of ($352,750) as compared to net income of $286,673 for the nine months ended September 30, 2011. The increase in net loss in 2012 was primarily due to the Company receiving a $177,000 refund during the nine months ended September 30, 2011 due to the cancellation of agreements with an investment banking firm and an investment firm coupled with the Company generating a $623,234 gain on selling certain non-core IP addresses during the nine months ended September 30, 2011. General and administrative costs totaled $307,757 during the nine months ended September 30, 2012 compared to $484,681 for the nine months ended September 30, 2011. Consulting fees for the nine months ended September 30, 2012 increased by $45,296 and travel fees increased by $5,684 as compared to similar costs for the nine months ended September 30, 2011 primarily as a result of increased consulting efforts to assist the Company with commercializing its technology and additional travel costs associated with developing the Company's technology. These increases were partially offset by a $132,703 decrease in commission expense from the prior year resulting primarily from the sale of certain non-core IP addresses coupled with a $5,129 decrease in accounting fees, $29,062 decrease in legal and professional fees, and a $76,770 decrease in consulting expenses for members of management.

Accounting fees were down in 2012 as compared to 2011 because the Company had to re-audit its 2009 financial statements partially offset by accounting fees incurred with the restatement of the Company's December 31, 2011 10-K and March 31, 2012 10-Q that were incurred during the nine months ending September 30,2012. Legal fees were down due to the Company capitalizing costs in 2012 associated with obtaining patents and trademarks for the Company. Management salaries were down due to management electing to take reduced compensation to free up additional funding for product development and commercialization efforts.

The Company incurred $4,182 of research and development expenses during the nine months ended September 30, 2012 as compared to $6,766 for the nine months ended September 30, 2011. The decrease in research and development expenses is primarily the result of the Company reaching technological feasibility with its mobile phone technology and capitalizing costs incurred to complete its development.

During the nine months ended September 30, 2012, interest expense increased to $37,812 from $22,014 for the nine months ended September 30, 2011 as a result of increased debt and due to proposed settlement agreements the Company has with certain creditors requiring interest to be accrued because the Company was unable to pay the obligation by the contractual deadline.

Liquidity and Capital Resources

The Company requires working capital principally to fund its proposed product development and operating expenses for which the Company has relied primarily on short-term borrowings and the issuance of restricted common stock. During the nine months ended September 30, 2012, the Company was able to sell 839,444 restricted shares of common stock for $84,500. During the nine months ended September 30, 2012, the Company invested $100,223 in its capitalized software development, $33,448 in its patents and trademarks for its intellectual property, and $2,084 in computer equipment. Management believes that the Company will require additional funding and they are in the process of looking for additional investors. Currently, there are no formal commitments from banks or other lending sources for lines of credit or similar short-term borrowings, but the Company has been able to raise minimal additional working capital that has been required to enable the Company to continue operations. From time to time in the past, required short-term borrowings have been obtained from principal shareholders or other related entities or working capital has been obtained through the issuance of restricted common stock to fund operations in accordance with the Company's revised business plan.

Cash flows used by operating activities were $118,555 and $337,384 for the nine months ended September 30, 2012 and 2011, respectively. The decrease in cash flows used in operating activities is primarily due to increased stock issued for services, increased compensation expense associated with the issuance of stock options, and increases in accounts payable and accrued liabilities coupled with increases in cash flows used by operating activities in the prior year related to the gain on sale of the IP addresses, the return of stock associated with cancelling an agreement with an investment banking firm, and decreases in accounts payable.

Cash flows used by investing activities totaled $135,755 for the nine months ended September 30, 2012 as the Company incurred costs to develop its mobile phone technology and obtain related patents and trademarks. Cash flows provided by investing activities totaled $605,734 for the nine months ended September 30, 2011 primarily due to the Company receiving cash proceeds of $623,234 from the sale of certain non-core IP addresses partially offset by costs to develop its mobile phone technology.

Cash flows generated from financing activities totaled $87,500 for the nine months ended September 30, 2012 as compared to ($7,450) for the nine months ended September 30, 2011. During the nine months ended September 30, 2012, the Company sold 839,444 restricted shares of common stock to individuals for $84,500 and received $3,000 from related party loans. During the nine months ended September 30, 2011, the Company received proceeds from sales of common stock of $37,500 and repaid related party loans of ($44,950).

Off-Balance Sheet Arrangements. We have no off-balance sheet arrangements.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Not applicable.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our filings under the Exchange Act is recorded, processed, summarized and reported within the periods specified in the rules and forms of the SEC. This information is accumulated and communicated to our Chief Executive Officer to allow timely decisions regarding required disclosure. Our Chief Executive Officer evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) and Rule 15d-15(e) of the Exchange Act) as of the end of the period covered by this report. Based on that evaluation and the requirements of the Exchange Act, our Chief Executive Officer concluded that, as of September 30, 2012, our disclosure controls and procedures continue to be ineffective. The small size of our company does not provide for the desired segregation of duty control functions, and we do not have the required level of documentation of our monitoring and control procedures.

Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act). Management conducted an evaluation of the effectiveness of our internal control over financial reporting and determined that our internal control over financial reporting was ineffective as of September 30, 2012 due to material weaknesses. A material weakness in internal control over financial reporting is defined by the Public Company Accounting Oversight Board's Audit Standard No. 5 as a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those responsible for oversight of our financial reporting.

17

Management's assessment identified the following material weaknesses in internal control over financial reporting:

- The small size of our Company limits our ability to achieve the desired level of separation of internal controls and financial reporting. We do have a separate CEO and CFO, plus an Audit Committee to review and oversee the financial policies and procedures of the Company, which does achieve a degree of separation. However, until such time as the Company is able to hire a Controller, we do not believe we meet the full requirement for separation.
- We have not achieved the desired level of documentation of our internal controls and procedures. When the Company obtains sufficient funding, this documentation will be strengthened through utilizing a third party consulting firm to assist management with its internal control documentation and further help to limit the possibility of any lapse in controls occurring.
- We have not achieved the desired level of corporate governance with regard to our monitoring and ensuring compliance with key controls including tracking our authorized shares for preferred stock and ensuring that stock certificates were issued properly and in a timely manner to subscribers.
- We have not achieved the desired level of corporate governance to ensure that our accounting for all of our contractual and other agreements is in accordance with all of the relevant terms and conditions. Because of our limited capital resources, we sometimes formalize our agreements with certain contractors after the work is performed when additional resources become available to pay for the services.
- We have not achieved the desired level of corporate governance with regard to identifying, measuring, and recording in a timely manner our uncertain tax positions. Because of our limited internal resources, lack of corporate governance and in-house financial expertise, we do not have the necessary process and procedures in place to track and account for our uncertain tax positions.

As a result of the material weaknesses in internal control over financial reporting described above, the Company's management has concluded that, as of September 30, 2012, the Company's internal control over financial reporting was not effective based on the criteria in Internal Control - Integrated Framework issued by the COSO.

As of December 31, 2009, the Company had a member of its Audit and Compliance Committee ("Audit Committee") resign leaving the Company with only one person serving on its Audit Committee. To date, the Company has not been able to add any additional members to its Audit Committee due its limited financial resources. When the Company obtains sufficient funding, Management intends to add an additional member to the Audit Committee and charge them with assisting the Company in addressing the material weaknesses. The Company's lack of current financial resources makes it impossible for the Company to hire the appropriate personnel needed to overcome these weaknesses and ensure that appropriate controls and separation of responsibilities of a larger organization exist. We also will continue to follow the standards for the Public Company Accounting Oversight Board (United States) for internal control over financial reporting to include procedures that:

- o Pertain to the maintenance of records in reasonable detail accurately that fairly reflect the transactions and dispositions of the Company's assets;
- o Provide reasonable assurance that transactions are recorded as necessary to permit preparation of the financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures are being made only in accordance with authorizations of management and the Board of Directors; and

o Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Our management determined that there were no changes made in our internal controls over financial reporting during the fiscal year 2011 that have materially affected, or are reasonably likely to materially affect our internal control over financial reporting.

This annual report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this annual report.

Controls and Procedures.

Changes in internal controls. There were no changes in our internal control over financial reporting that occurred during the fiscal quarter covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

The Company has taken steps to meet its Sarbanes-Oxley (SOX) Section 404 compliance requirements and implement procedures to assure financial reports are prepared in accordance with generally accepted accounting principles (GAAP) and therefore fairly represent the results and condition of the Company.

18

PART II – OTHER INFORMATION

Item 1. Legal Proceedings.

None

Item 1A. Risk Factors and Uncertainties.

Readers should carefully consider the risks and uncertainties described below before deciding whether to invest in shares of our common stock.

Our failure to successfully address the risks and uncertainties described below would have a material adverse effect on our business, financial condition and/or results of operations, and the trading price of our common stock may decline and investors may lose all or part of their investment. We cannot assure you that we will successfully address these risks or other unknown risks that may affect our business.

As an enterprise engaged in the development of new technology, our business is inherently risky. Our common shares are considered speculative during the development of our new business operations. Prospective investors should consider carefully the risk factors set out below.

We need to continue as a going concern if our business is to succeed.

Our independent accountant's report to our audited consolidated financial statements for the year ended December 31, 2011, indicates that there are a number of factors that raise substantial risks about our ability to continue as a going concern. Such factors identified in the report are our accumulated deficit since inception, our failure to attain profitable operations and our dependence upon obtaining adequate additional financing to pay our liabilities. If we are not able to continue as a going concern, investors could lose their investments.

Because of the unique difficulties and uncertainties inherent in technology development, we face a risk of business failure.

Potential investors should be aware of the difficulties normally encountered by companies developing new technology and the high rate of failure of such enterprises. The likelihood of success must be considered in light of the problems, expenses, difficulties, complications and delays encountered in connection with the development of new technology with limited personnel and financial means. These potential problems include, but are not limited to, unanticipated technical problems that extend the time and cost of product development, or unanticipated problems with the operation of our technology or that with which we are licensing that also extend the time and cost of product development.

If we do not obtain additional financing, our business will fail.

Our current operating funds are less than necessary to complete the full development and marketing of our mobile products, and we will need to obtain additional financing in order to complete our business plan. We currently have minimal operations and no income.

Our business plan calls for significant expenses in connection with developing our mobile phone technology and paying our current obligations. The Company currently does not have sufficient funds to complete the development of its technology and to pay its obligations. As a result, the Company will require additional financing to execute its business plan.

We do not currently have any firm arrangements for financing, and we can provide no assurance to investors that we will be able to find such additional financing if required. Obtaining additional financing is subject to a number of factors, including investor acceptance of our technology and current financial condition as well as general market conditions. These factors affect the timing, amount, terms or conditions of additional financing unavailable to us. And if additional financing is not arranged, the company faces the risk of going out of business.

The most likely source of future funds presently available to us is through the additional sale of equity capital or through a convertible debt instrument. Any sale of share capital will result in dilution to existing shareholders.

There is no history upon which to base any assumption as to the likelihood we will prove successful, and we can provide investors with no assurance that we will generate any operating revenues or achieve profitable operations. If we are unsuccessful in addressing these risks, our business will most likely fail.

19

Because the SEC imposes additional sales practice requirements on brokers who deal in our shares that are penny stocks, some brokers may be unwilling to trade them. This means that investors may have difficulty reselling their shares and may cause the price of the shares to decline.

Our shares qualify as penny stocks and are covered by Section 15(g) of the Securities Exchange Act of 1934, which imposes additional sales practice requirements on broker/dealers who sell our securities in this offering or in the aftermarket. In particular, prior to selling a penny stock, broker/dealers must give the prospective customer a risk disclosure document that: contains a description of the nature and level of risk in the market for penny stocks in both public offerings and secondary trading; contains a description of the broker/dealers' duties to the customer and of the rights and remedies available to the customer with respect to violations of such duties or other requirements of Federal securities laws; contains a brief, clear, narrative description of a dealer market, including "bid" and "ask" prices for penny stocks and the significance of the spread between the bid and ask prices; contains the toll free telephone number for inquiries on disciplinary actions established pursuant to section 15(A)(i); defines significant terms used in the disclosure document or in the conduct of trading in penny stocks; and contains such other information, and is in such form (including language, type size, and format), as the SEC requires by rule or regulation. Further, for sales of our securities, the broker/dealer must make a special suitability determination and receive from you a written agreement before making a sale to you. Because of the imposition of the foregoing additional sales practices, it is possible that brokers will not want to make a market in our shares. This could prevent reselling of shares and may cause the price of the shares to decline.

Technology companies face intense competition. We will have to compete with our competitors for financing and for qualified managerial and technical employees.

The technology industry is intensely competitive in all of its phases. Competition includes large established technology companies with substantial capabilities and with greater financial and technical resources than we have. As a result of this competition, we may be unable to become a leader in our industry and attract and retain qualified managerial and technical employees. If we are unable to successfully compete for financing or for qualified employees, our technology development and commercialization efforts may be slowed down or suspended.

We do not expect to declare or pay any dividends.

We have not declared or paid any dividends on our common stock since our inception, and we do not anticipate paying any such dividends for the foreseeable future.

Volatility of Stock Price.

Our common shares are currently publicly traded on the pink sheets under the symbol KLMK.PK. In the future, the trading price of our common shares may be subject to wide fluctuations. Trading prices of the common shares may fluctuate in response to a number of factors, many of which will be beyond our control. In addition, the stock market in general, and the market for software technology companies in particular, has experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of such companies. Market and industry factors may adversely affect the market price of the common shares, regardless of our operating performance.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Submission of Matters to Vote of Security Holders

None

Item 5. Other Information

None.

Item 6. Exhibits

The following exhibits are included as part of this report:

Exhibit Number	Title of Document
3.01	Restated Certificate of Incorporation of Klever Marketing, Inc. a Delaware corporation (1)
3.02	Certificate of Designation of Rights, Privileges and Preferences: Rights of A Class Voting Preferred Stock, Series 1, of Klever Marketing, Inc., dated February 7, 2000 (2)
3.03	Bylaws, as amended (2)
4.01	Amended Certificate of Designation of Rights, Privileges and Preferences: Rights of A Class of Voting Preferred Stock, Series 1, of Klever Marketing, Inc., Dated February 7, 2000 (3)
4.02	Certificate of Designation of Rights, Privileges and Preferences of Class B Voting Preferred Stock, of Klever Marketing, Inc., dated September 24, 2000 (3)
4.03	Certificate of Designation of Rights, Privileges and Preferences of Class C Voting Preferred Stock, of Klever Marketing, Inc., dated January 2, 2001 (3)
4.04	Certificate of Designation of Rights, Privileges and Preferences of Class D Voting Preferred Stock, of Klever Marketing, Inc., dated June 14, 2002 (5)
4.05	Amendment to the Certificates of Designation of Rights, Privileges and Preferences of Class A, B, and C Voting Preferred Stock, of Klever Marketing, Inc., dated June 12, 2002 (5)
10.01	Separation Agreement between Paul G. Begum and the Registrant, dated January 8, 2001 (2)
10.02	Stock Incentive Plan, effective June 1, 1998 (2)
10.03	Amended and Restated Promissory Note (Secured) of the Registrant payable to Presidio Investments, LLC, dated June 27, 2000, with Financing Statement and Exhibit "A" (2)
10.04	Intercreditor Agreement between Seabury Investors III, Limited Partnership, The Olson Foundation, Presidio Investments, LLC, and the Registrant dated August 27, 2001 (4)
10.05	Asset purchase agreement dated August 27, 2004 (6)
10.06	Software Development Works Agreement between Klever Marketing, Inc. and Qualzoom Inc. dated August 15, 2010 (7)
10.07	Software Development Agreement between Klever Marketing, Inc. and Briabe Media Inc. September 22, 2010 (7)
31.1	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Schema Document
101.CAL	XBRL Calculation Linkbase Document
101.DEF	XBRL Definition Linkbase Document
101.LAB	XBRL Label Linkbase Document
101.PRE	XBRL Presentation Linkbase Document

(1) Incorporated herein by reference from Registrant's Form 10KSB, dated June 20, 1997.

(2) Incorporated herein by reference from Registrant's Form 10KSB, dated March 29, 2001

(3) Incorporated herein by reference from Registrant's Form 10QSB, dated May 15, 2001.

(4) Incorporated herein by reference from Registrant's Form 10QSB, dated May 15, 2002.

(5) Incorporated herein by reference from Registrant's Form 10QSB, dated August 19, 2002.

(6) Incorporated herein by reference from Registrant's Form 10QSB, dated November 19, 2004.

(7) Incorporated herein by reference from Registrant's Form 8-K, dated November 19, 2010.

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Klever Marketing, Inc.

(Registrant)

DATE: November 19, 2012

By: /s/ Paul G Begum

Paul G. Begum

Chairman

(Principal Executive Officer)

By: /s/ Robert Campbell

Robert Campbell

(Principal Financial Officer)