

ACE MARKETING & PROMOTIONS INC  
Form 10-Q  
October 24, 2011

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SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2011

COMMISSION FILE NUMBER: 000-51160

ACE MARKETING & PROMOTIONS, INC.  
(Exact name of registrant as specified in its charter)

NEW YORK  
(State of jurisdiction of Incorporation)

11-3427886  
(I.R.S. Employer Identification No.)

457 ROCKAWAY AVE.  
VALLEY STREAM, NY 11581  
(Address of principal executive offices)

(516) 256-7766  
(Registrant's telephone number)

NOT APPLICABLE  
(Former name, address and fiscal year, if changed since last report)  
[Missing Graphic Reference]

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by checkmark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the 12 preceding months (or such shorter period that the registrant was required to submit and post such file).

Yes  No

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

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Large Accelerated Filer   
Accelerated Filer

Accelerated Filer   
Smaller Reporting Company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

As of October 20, 2011, the registrant had a total of 23,147,401 shares of Common Stock outstanding.

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ACE MARKETING & PROMOTIONS, INC.

FORM 10-Q QUARTERLY REPORT  
TABLE OF CONTENTS

	PAGE
<b>PART I. FINANCIAL INFORMATION</b>	
<b>Item 1. Financial Statements (Unaudited)</b>	
Condensed Balance Sheets as of September 30, 2011 (unaudited) and December 31, 2010 (audited)	3
Condensed Statements of Operations for the Three Months and Nine Months Ended September 30, 2011 and September 30, 2010 (unaudited)	4
Statement of Stockholder's Equity for the Year Ended December 31, 2010 and Nine Months Ended September 30, 2011(unaudited)	5
Condensed Statements of Cash Flows for the Nine Months Ended September 30, 2011 and September 30, 2010 (unaudited)	6
Notes to Condensed Financial Statements (unaudited)	7
<b>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</b>	<b>17</b>
<b>Item 3 Quantitative and Qualitative Disclosures</b>	<b>23</b>
<b>Item 4. Controls and Procedures</b>	<b>23</b>
<b>PART II. OTHER INFORMATION</b>	
<b>Item 1. Legal Proceedings</b>	<b>23</b>
<b>Item 2. Changes in Securities</b>	<b>23</b>
<b>Item 3. Defaults Upon Senior Securities</b>	<b>26</b>
<b>Item 4. Submissions of Matters to a Vote of Security Holders</b>	<b>26</b>
<b>Item 5. Other Information</b>	<b>26</b>
<b>Item 6. Exhibits and Reports on Form 8-K</b>	<b>26</b>
<b>SIGNATURES</b>	<b>26</b>

ACE MARKETING &  
PROMOTIONS, INC.

Condensed Balance Sheets	September 30, 2011 Unaudited	December 31, 2010 Audited
<b>Assets</b>		
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 1,094,001	\$ 763,581
Accounts receivable, net of allowance for doubtful accounts of \$20,000 at September 30, 2011 and December 31, 2010	342,937	298,892
Prepaid expenses and other current assets	486,508	218,336
<b>Total Current Assets</b>	<b>1,923,446</b>	<b>1,280,809</b>
Property and Equipment, net	662,060	249,726
Other Assets	7,745	7,745
<b>Total Assets</b>	<b>\$ 2,593,251</b>	<b>\$ 1,538,280</b>
<b>Liabilities and Stockholders' Equity</b>		
<b>Current Liabilities:</b>		
Accounts payable	\$ 317,082	\$ 243,795
Accrued expenses	139,201	98,270
<b>Total Current Liabilities</b>	<b>456,283</b>	<b>342,065</b>
<b>Commitments and Contingencies</b>		
<b>Stockholders' Equity:</b>		
Preferred Stock, \$.0001 par value; 5,000,000 shares authorized, none issued		
Common stock, \$.0001 par value; 100,000,000 shares authorized; 23,170,736 and 16,834,260 shares issued and outstanding at September 30, 2011 and December 31, 2010, respectively	2,316	1,683
Additional paid-in capital	10,825,993	8,300,766
Accumulated deficit	(8,659,840 )	(7,074,733 )
	2,168,469	1,227,716
Less: Treasury Stock, at cost, 23,334 shares	(31,501 )	(31,501 )
<b>Total Stockholders' Equity</b>	<b>2,136,968</b>	<b>1,196,215</b>
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$ 2,593,251</b>	<b>\$ 1,538,280</b>

See notes to condensed financial statements.

3

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ACE MARKETING &  
PROMOTIONS, INC.

## Condensed Statements of Operations

	Three Months Ended September 30, Unaudited		Nine Months Ended September 30, Unaudited	
	2011	2010	2011	2010
Revenues, net	\$650,370	\$773,830	\$2,284,573	\$2,447,723
Cost of Revenues	484,032	509,973	1,761,655	1,688,609
Gross Profit	166,338	263,857	522,918	759,114
Operating Expenses:				
Selling, general and administrative expenses	852,186	598,949	2,107,440	2,048,720
Total Operating Expenses	852,186	598,949	2,107,440	2,048,720
Loss from Operations	(685,848 )	(335,092 )	(1,584,522 )	(1,289,606 )
Other Income (Expense):				
Interest expense	(151 )	(470 )	(1,070 )	(729 )
Interest income	217	181	485	592
Total Other Income (Expense)	66	(289 )	(585 )	(137 )
Net Loss	\$(685,782 )	\$(335,381 )	\$(1,585,107 )	\$(1,289,743 )
Net Loss Per Common Share:				
Basic	\$(0.03 )	\$(0.03 )	\$(0.09 )	\$(0.10 )
Diluted	\$(0.03 )	\$(0.03 )	\$(0.09 )	\$(0.10 )
Weighted Average Common Shares Outstanding:				
Basic	21,025,193	13,221,722	18,074,187	13,028,517
Diluted	21,025,193	13,221,722	18,074,187	13,028,517

See notes to condensed financial statements.

ACE MARKETING &  
PROMOTIONS, INC.

## Statement of Stockholders'

## Equity

Nine Months Ended September 30, 2011

	Total Stockholders' Equity	Common Stock Shares	Amount	Additional Paid-in Capital	(Deficit)	Treasury Stock Shares	Amount
Balance, at December 31, 2010	\$ 1,196,215	16,834,260	\$ 1,683	\$ 8,300,766	\$(7,074,733)	23,334	\$(31,501)
Stock Purchase	448,000	1,166,666	117	447,883			
Stock Warrant	19,153			19,153			
Stock Grant	14,365	150,000	15	14,350			
Stock Compensation	91,005			91,005			
Net Loss	(435,006 )				(435,006 )		
Balance, at March 31, 2011	\$ 1,333,732	18,150,926	\$ 1,815	\$ 8,873,157	\$(7,509,739)	23,334	\$(31,501)
Stock Purchase	\$ 866,250	2,500,000	\$ 250	\$ 866,000			
Stock Warrant	\$ 6,369			\$ 6,369			
Stock Grant	14,789	100,000	10	14,779			
Stock Compensation	31,180			31,180			
Net Loss	(464,319 )				\$(464,319 )		
Balance, at June 30, 2011	\$ 1,788,001	20,750,926	\$ 2,075	\$ 9,791,485	\$(7,974,058)	23,334	\$(31,501)
Stock Purchase	\$ 950,000	1,950,000	\$ 195	\$ 949,805			
Stock Grant	\$ 47,196	335,000	\$ 33	\$ 47,163			
Warrant Exercise		134,810	\$ 13	\$(13 )			
Stock Compensation	\$ 37,553			\$ 37,553			
Net Loss	\$(685,782 )				\$(685,782 )		
Balance, at September 30, 2011	\$ 2,136,968	23,170,736	\$ 2,316	\$ 10,825,993	\$(8,659,840)	23,334	\$(31,501)

See notes to financial statements.

ACE MARKETING &  
PROMOTIONS, INC.Condensed Statements of Cash Flows  
Nine Months Ended September 30,

	2011 Unaudited	2010 unaudited
<b>Cash Flows from Operating Activities:</b>		
Net loss	\$(1,585,107 )	\$(1,289,743 )
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	85,380	39,435
Stock-based compensation	261,610	552,693
Changes in operating assets and liabilities:		
(Increase) decrease in operating assets:		
Accounts receivable	(44,045 )	196,306
Prepaid expenses and other assets	(268,173 )	(63,925 )
Increase (Decrease) in operating liabilities:		
Accounts payable and accrued expenses	114,220	(205,832 )
Total adjustments	148,992	518,677
Net Cash Used in Operating Activities	(1,436,115 )	(771,066 )
<b>Cash Flows from Investing Activities:</b>		
Acquisition of property and equipment	(497,715 )	(164,362 )
Net Cash (Used) in Provided by Investing Activities	(497,715 )	(164,362 )
<b>Cash Flows from Financing Activities:</b>		
Proceeds from issuance of common stock	2,264,250	600,500
Net Cash Provided by Financing Activities	2,264,250	600,500
Net Increase in Cash and Cash Equivalents	330,420	(334,928 )
Cash and Cash Equivalents, beginning of period	763,581	595,611
Cash and Cash Equivalents, end of period	\$1,094,001	\$260,683

See notes to condensed financial statements.





ACE MARKETING & PROMOTIONS, INC.

NOTES TO CONDENSED FINANCIAL STATEMENTS  
THREE MONTHS AND NINE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010  
(UNAUDITED)

NOTE 1: BASIS OF PRESENTATION:

The accompanying condensed financial statements and footnotes thereto are unaudited.

The Condensed Balance Sheets as of September 30, 2011 and December 31, 2010, the Condensed Statements of Operations for the three months and nine months ended September 30, 2011 and 2010 and the Condensed Statements of Cash Flows for the nine months ended September 30, 2011 and 2010 have been prepared by us without audit, and in accordance with the requirements of Form 10-Q and, therefore, they do not include all information and footnotes necessary for a fair presentation of financial position, results of operations, and cash flows in conformity with accounting principles generally accepted in the United States of America. In our opinion, the accompanying unaudited condensed financial statements contain all adjustments necessary to present fairly in all material respects our financial position as of September 30, 2011, results of operations for the three months and nine months ended September 30, 2011 and 2010 and cash flows for the nine months ended September 30, 2011 and 2010. All such adjustments are of a normal recurring nature. The results of operations and cash flows for the three months and nine months ended September 30, 2011 are not necessarily indicative of the results to be expected for the full year. We have evaluated subsequent events through the filing of this Form 10-Q with the SEC, and determined there have not been any events that have occurred that would require adjustments to our unaudited Condensed Financial Statements.

The information contained in this report on Form 10-Q should be read in conjunction with our Form 10-K for our fiscal year ended December 31, 2010.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the amounts of assets, liabilities, revenue, costs and expenses. Actual results could differ from these estimates.

**NATURE OF OPERATIONS** - Ace Marketing & Promotions, Inc. (the "Company" or "Ace") began as promotional products company and has since evolved into an Integrated Marketing Solutions Company. Ace currently focuses on four business verticals; Branding, Interactive, Direct Relationship Marketing and Mobile Marketing. With its newly developed suite of solutions in place, Ace now offer its clients and potential clients the ability to work smarter in addressing their marketing needs by leveraging technology platforms. The services and technology platforms assembled within each business vertical allows Ace to provide its clients with an exceptional mix of solutions for reaching their customers in ways that were previously impossible. Clients have the ability to choose a single solution within a vertical or a complete package of solutions working together seamlessly. By offering the entire suite of solutions, the need for multiple vendors has been eliminated, and Ace can be a single source provider of Branding, Interactive, Direct Relationship Marketing and Mobile Marketing Solutions.

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



ACE MARKETING & PROMOTIONS, INC.  
NOTES TO CONDENSED FINANCIAL STATEMENTS  
THREE MONTHS AND NINE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010  
(UNAUDITED)

The Interactive vertical deals with any online marketing & branding initiatives. Utilizing the Ace Place Platform (a proprietary Content Management System); custom websites are created and total control of the site content is given back to the client. Through the Ace Place platform, a client simply chooses from one of the many web-design packages and has the ability to change the content on the site without the need for a programmer and the high hourly fees that go along with them. With this power, their websites become dynamic and powerful marketing vehicles instead of just an online static ad. For relevant clients, Ace can add an E-Commerce component to their website along with Email Marketing services to assist in marketing the site. As an additional service, each site can be housed on Ace's servers.

The Direct Relationship Marketing vertical creates 1 to 1 relationship marketing Solutions. Ace's strategy for delivering successful marketing campaigns utilizes specific databases to personalize messages across a wide array of integrated delivery mechanisms. Ace has expanded its capabilities beyond direct mail to incorporate variable data programming technology into web applications, telephony, email, and print. Ace's Direct Relationship Marketing solution helps attract new customers and retain exist ones by targeting each identified demographic group through our various tools to get the intended message across with measured results.

The Company's fourth business vertical is the Mobile Marketing vertical. The Mobile Marketing advertising medium is set to become the next component of marketing spends as mobile marketing continues to gain more and more momentum. Technology allows advertisers to target and deliver rich media content to specific locations and times where it is most relevant. It gives advertisers the ability to reach consumers with their message as they are ready to make their purchasing decision. Ace Marketing & Promotions subsidiary Mobiquity Networks provides Location-Based Mobile marketing services via Bluetooth and Wi-Fi that requires no GPS tracking and no need to download and application.

Mobiquity Networks is a leading location based mobile marketing network in the US. We utilize a targeted, location-based approach to reach audiences on their personal mobile devices when it matters most. The Company employs a combination of leading-edge mobile technologies to deliver virtually any digital media content including images, videos, audio mp3s, maps, games, applications and coupons to mobile phones within targeted geographic locations. Mobiquity has focused on and built an extensive Location Based Mobile Marketing Mall Network which gives us access to over 90 million mobile customer visits per month while they are shopping. Our network allows brands to engage their potential customers with the right offer at the right place at the right time....when they are about to make a purchasing decision. Mobiquity currently has over 500 zones throughout 67 malls with over 90 million monthly visits. These zones create a cloud of coverage so that visitors do not need to go directly to one of these zone access points. Some of our land mark malls includethe following: Roosevelt Field – NY, the Galleria-Houston, Lenox Square -Atlanta,Northbridge-Chicago , Santa Monica Place-LA and Copley Place –Boston.

We have partnered with Blue Bite LLC. ("Blue Bite"), a premier provider of Proximity Marketing hardware and software solutions, and Eye Corp Pty Ltd., ("EyeCorp") an out-of-home media company which operates the largest mall advertising display network in the United States, to roll-out an expansive network which comprises of retail, dining, transportation, sporting, music, and other high traffic venues.



ACE MARKETING & PROMOTIONS, INC.

NOTES TO CONDENSED FINANCIAL STATEMENTS  
THREE MONTHS AND NINE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010  
(UNAUDITED)

Agreement with Simon Property Group, L.P.

In April 2011, we signed an exclusive rights agreement with a Top Mall Developer (the "Simon Property Group") to create a location-based mobile marketing network called Mobiquity Networks. The 50 mall agreement runs through December of 2015 and includes top malls in the Simon Mall portfolio. This new alliance will give advertisers the opportunity to reach millions of mall visitors per month with mobile digital content and offers when they are most receptive to advertising messages.

In connection with Eye Corp., Mobiquity Networks will deliver digital content and offers to shoppers on their mobile devices through Eye Corp's extensive Mall Advertising Network. Eye Corp and Mobiquity Networks have an exclusive agreement to build a location-based mobile marketing network throughout Eye Corp's Mall Advertising network. New properties to be added to the Mobiquity Networks portfolio will include iconic malls in the top DMA's (designated market area) in the US. These prestigious malls further complement Mobiquity Networks' portfolio of prominent malls including Queens Center Mall in New York City, Northbridge in Chicago, and Santa Monica Place in Los Angeles.

Ace's Location-Based Mobile advertising medium is designed to reach on-the-go shoppers via their mobile devices with free rich media content delivered using Bluetooth or Wi-Fi. This advertising medium offers extremely targeted messaging engineered to engage and influence shoppers as they move about the mall environment. Eye Corp, along with Ace Marketing, will jointly create mobile marketing programs for existing clients in conjunction with their already active in mall advertising programs. Mobiquity Networks proximity marketing units will be strategically positioned in shopping malls near entrances, anchor stores, escalators and other high-traffic, and high dwell-time areas. Mobiquity Networks proximity marketing unit placement takes advantage of the opportunity to provide a reminder to consumers and touch them just before making a purchase decision. These units generate high awareness and brand recognition at the right time and place. When combined with the impact of other visual advertising mediums (in mall assets) or as a stand-alone medium, Mobiquity Networks is a great mobile solution to promote a brand on a local or national level.

NOTE 2: ACCOUNTING PRONOUNCEMENTS:

Except for rules and interpretive releases of the SEC under authority of federal securities laws and a limited number of grandfathered standards, the FASB Accounting Standards Codification™ ("ASC") is the sole source of authoritative GAAP literature recognized by the FASB and applicable to the Company. Management has reviewed the aforementioned rules and releases and believes any effect will not have a material impact on the Company's present or future consolidated financial statements.

NOTE 3: SUMMARY OF SELECTED SIGNIFICANT ACCOUNTING POLICIES

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. The

Company applies the revenue recognition principles which provides for revenue to be recognized when (i) persuasive evidence of an arrangement exists, (ii) delivery has been completed, (iii) the customer accepts and verifies receipt, (iv) collectability is reasonably assured. The Company records all shipping and handling fees billed to customers as revenues and related costs as cost of goods sold, when incurred.

ACE MARKETING & PROMOTIONS, INC.  
NOTES TO CONDENSED FINANCIAL STATEMENTS  
THREE MONTHS AND NINE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010  
(UNAUDITED)

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.

NOTE 4: LOSS PER SHARE

Basic loss per common share is computed by dividing net loss by the weighted average number of shares of common stock outstanding during the period. Dilutive loss per share gives effect to stock options and warrants, which are considered to be dilutive common stock equivalents. Basic loss per common share was computed by dividing net loss by the weighted average number of shares of common stock outstanding. The number of common shares potentially issuable upon the exercise of certain options and warrants that were excluded from the diluted loss per common share calculation was approximately 15,900,000 and 6,300,000 because they are anti-dilutive as a result of a net loss for the three and nine months ended September 30, 2011 and 2010, respectively.

NOTE 5: STOCK COMPENSATION

Compensation costs related to share-based payment transactions, including employee stock options, are recognized in the financial statements utilizing the straight line method for the cost of these awards.

The Company's results for the three month periods ended September 30, 2011 and 2010 include employee share-based compensation expense totaling approximately \$85,000 and \$56,000, respectively. The Company's results for the nine month periods ended September 30, 2011 and 2010 include employee share-based compensation expense totaling approximately \$262,000 and \$553,000, respectively. Such amounts have been included in the Condensed Consolidated Statements of Operations within selling, general and administrative expenses. No income tax benefit has been recognized in the statement of operations for share-based compensation arrangements due to a history of operating losses.



ACE MARKETING & PROMOTIONS, INC.  
NOTES TO CONDENSED FINANCIAL STATEMENTS  
THREE MONTHS AND NINE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010  
(UNAUDITED)

The following table summarizes stock-based compensation expense for the three and nine months ended September 30, 2011 and 2010:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2011	2010	2011	2010
Employee stock-based compensation - option grants	\$ 47,197	\$ -	\$ 89,963	\$ 267,180
Employee stock-based compensation - stock grants	-	-	14,789	
Non-Employee stock-based compensation - option grants	31,180	40,322	104,232	134,799
Non-Employee stock-based compensation - stock grants	-	15,250	14,365	135,650
Non-Employee stock-based compensation-stock warrant	6,372	-	38,261	15,064
Total	\$ 84,749	\$ 55,572	\$ 261,610	\$ 552,693

#### NOTE 6: STOCK OPTION PLAN

During Fiscal 2005, the Company established, and the stockholders approved, an Employee Benefit and Consulting Services Compensation Plan (the "2005 Plan") for the granting of up to 2,000,000 non-statutory and incentive stock options and stock awards to directors, officers, consultants and key employees of the Company. On June 9, 2005, the Board of Directors amended the Plan to increase the number of stock options and awards to be granted under the Plan to 4,000,000. In October 2009, the Company established and the stockholders approved a 2009 Employee Benefit and Consulting Services Compensation Plan (the "2009 Plan") for granting up to 4,000,000 non-statutory and incentive stock options and awards to directors, officers, consultants and employees of the Company. (The 2005 Plan and the 2009 Plan are collectively referred to as 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. 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.



ACE MARKETING & PROMOTIONS, INC.  
NOTES TO CONDENSED FINANCIAL STATEMENTS  
THREE MONTHS AND NINE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010  
(UNAUDITED)

The weighted average assumptions made in calculating the fair values of options granted during the three months and nine months ended September 30, 2011 and 2010 are as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
	2011	2010	2011	2010
Expected volatility	187.04%	123.48%	108.97%	123.48%
Expected dividend yield	-	-	-	-
Risk-free interest rate	92.00%	3.01%	2.36%	3.01%
Expected term (in years)	5	7.73	7.29	7.73

	Share	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding, January 1, 2011	3,120,000	.97	5.23	6,500
Granted	315,000	.33	7.48	
Exercised	-			
Cancelled & Expired	(130,000)	2.50	5.00	
Outstanding, September 30, 2011	3,305,000	.85	5.09	
Options exercisable, September 30, 2011	3,155,000	.84	5.11	\$ 1,426,350

The weighted-average grant-date fair value of options granted during the nine months ended September 30, 2011 and 2010 was \$0.33 and \$0.26, respectively.

The aggregate intrinsic value of options outstanding and options exercisable at September 30, 2011 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 \$1.25 closing price of the Company's common stock on September 30, 2011.

As of September 30, 2011, the fair value of unamortized compensation cost related to unvested stock option awards was approximately \$62,000. Unamortized compensation cost as of September 30, 2011 is expected to be recognized over a remaining weighted-average vesting period of 0.5 years.



ACE MARKETING & PROMOTIONS, INC.  
NOTES TO CONDENSED FINANCIAL STATEMENTS  
THREE MONTHS AND NINE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010  
(UNAUDITED)

The weighted average assumptions made in calculating the fair value of warrants granted during the three and nine months ended September 30, 2011 and 2010 are as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
	2011	2010	2011	2010
Expected volatility	56.83%	132.18%	56.83%	132.18%
Expected dividend yield	-	-	-	-
Risk-free interest rate	1.07%	2.65%	1.07%	1.15%
Expected term (in years)	3	5	3	3
	Share	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding, January 1, 2011	6,243,965	\$ 0.54	2.26	\$ 6,500
Granted	7,021,666	\$ 0.45	2.39	
Exercised	(395,000)	-		
Cancelled	(299,989)	-		
Outstanding, September 30, 2011	12,570,642	\$ 0.50	2.09	
Warrants exercisable, September 30, 2011	12,570,642	\$ 0.50	2.09	\$ 9,369,726

**NOTE 7: CONSULTING AGREEMENTS**

In January 2010, the Company entered into an agreement with a consulting firm to provide services over the next twelve months. The agreement provides for the issuance of 100,000 restricted common shares of Common Stock.

In January 2010, the Company also entered into an agreement with a two individuals to provide services over the next twelve months. The agreement provides for the issuance of 57,500 shares and 52,500 restricted common shares of Common Stock which vest immediately.

In January 2011, the Company entered into an agreement with a consulting firm to provide business development services. The agreement provides for the issuance of 100,000 shares of restricted Common Stock and Warrants to purchase 200,000 shares of restricted Common Stock.

Pursuant to an agreement dated as of November 15, 2010, the Company entered into a three year contract with a consulting firm to provide certain financial and public relation services on a non-exclusive basis. Pursuant to the

agreement, an initial retainer of \$12,500 was paid. The agreement provides for the possible issuance of up to 250,000 common shares and up to \$100,000 in cash compensation based upon referrals of credible and synergistic corporate partners and/or acquisitions, which acquisitions or partnerships must be approved by Ace. In January 2011 and August 2011, the Company approved the issuance of 50,000 shares and 175,000 shares of common stock, respectively, for consulting services rendered by this consultant.

In June 2011, we entered into a one-year Investor Relation, Public Awareness Agreement with Legend Securities, Inc. at a cost of \$10,000 per month and 75,000 shares of restricted Common Stock per quarter.

ACE MARKETING & PROMOTIONS, INC.  
NOTES TO CONDENSED FINANCIAL STATEMENTS  
THREE MONTHS AND NINE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010  
(UNAUDITED)

Ace has retained an outside contractor to build its website development program at a cost of \$120,000, \$80,000 of which has been paid and the remaining \$40,000 was accrued in the quarter ended September 30, 2011. At its option, Ace will make the final \$40,000 payment to the contractor in cash or through the issuance of up to 66,000 shares of its common stock.

NOTE 8: PRIVATE PLACEMENT

On December 8, 2009, Ace Marketing & Promotions, Inc. entered into an Introducing Agent Agreement with Legend Securities, Inc., a FINRA registered broker-dealer ("Legend"), to attempt to raise additional financing through the sale of its Common Stock and Warrants. Between December 8, 2009 and March 15, 2010, the Company closed on gross proceeds of \$1,025,000 before commissions of \$117,000. The planned use of proceeds is to primarily expand the Company's mobile and interactive divisions. The Company issued pursuant to the terms of the offering an aggregate of 2,050,000 shares of Common Stock at a per share price of \$.50 per share and 1,025,000 Warrants exercisable at \$1.00 per share to investors in the offering and placement agent warrants to purchase an amount equal to 10% of the number of shares and the number of warrants sold in the offering. All securities were issued pursuant to Rule 506 of Regulation D promulgated under Section 4(2) of the Securities Act of 1933, as amended.

In August 2010, the Company raised \$175,000 in gross proceeds from the sale of 437,500 shares and a like number of Warrants expiring in August 2013. The investor paid \$0.40 per Share and received Warrants exercisable at \$0.60 per Share. In November 2010, the Company commenced a plan of financing and raised an additional \$800,500 in financing from the sale of 2,934,999 Shares of its restricted Common Stock at \$0.30 per Share and Class E Common Stock Purchase Warrants to purchase a like number of Shares, exercisable at \$0.30 per Share through August 31, 2013. Subsequent to the completion of the second financing, the Company agreed to adjust the terms of the August 2010 transaction and issue to the August 2010 investor Shares and Class E Warrants on the same terms as those sold in November - December 2010. Accordingly, an additional 145,833 Shares and a like number of Warrants were issued to the August 2010 investor, with the exercise price of the Warrants being lowered from \$0.60 per Share to \$0.30 per Share.

In March 2011, the Company commenced a private placement offering. Pursuant to said offering which terminated on April 19, 2011, the Company raised \$755,000 in gross proceeds from the sale of 2,516,667 shares of common stock and a like number of warrants, exercisable at \$.30 per share through August 31, 2013. 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.

Between May 25, 2011 and June 3, 2011, the Company received gross proceeds of \$461,250 from the sale of 1,025,000 shares of Common Stock at a purchase price of \$.45 per share. The sale of stock was also accompanied by Warrants expiring on May 31, 2014. 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.

In July 2011, the Company commenced a private placement offering. Pursuant to said offering between July 14, 2011 and August 1, 2011, the Company raised \$975,000 in gross proceeds from the sale of 1,950,000 shares of common stock and a like number of warrants, exercisable at \$.60 per share through July 31, 2014. 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.





ACE MARKETING & PROMOTIONS, INC.  
NOTES TO CONDENSED FINANCIAL STATEMENTS  
THREE MONTHS AND NINE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010  
(UNAUDITED)

NOTE 9: OPTIONS OUTSIDE COMPENSATION PLAN

On March 25, 2010, the Company granted Non-Statutory Stock Options to purchase 10,000 shares of the Company's Common Stock to an attorney for services rendered. at an exercise price of \$.54 per share, with 100% of the options vesting immediately and expiring on March 25, 2020.

On March 25, 2010, the Company issued a total of 100,000 Non-Statutory Stock Options to two key employees in accordance with their employment agreement. The Options have an exercise price of \$.54 per share, with 100% of the options vesting immediately and expiring on March 25, 2020.

On April 9, 2009, the Company hired a firm as an independent sales organization to promote its proximity marketing units in the sports and entertainment industry. The firm was granted options to purchase 100,000 shares at \$.90 per share outside of Ace's compensation plan which generates approximately a non-cash \$3,000 expense on a monthly basis.

NOTE 10: SHARED BASED COMPENSATION

On January 4, 2010, the Company issued 6,000 Warrants to purchase Common Stock to an independent consultant to manage sales relationships. The services were recorded equal to the value of the shares at the date of grant and an expense of \$3,051 is included in the operating expenses for the year ended December 31, 2010

On August 17, 2010, the Company issued 145,600 Warrants to purchase Common Stock to franchisee owners of a chain store for the purpose of placing proximity marketing units in their business locations.

RESTRICTED STOCK GRANTS - In January 2010, the Company entered into an agreement with a consulting firm to provide services over the next twelve months. The agreement provides for the issuance of 100,000 restricted Common Stock.

In January 2010, the Company also entered into an agreement with two individuals to provide services over the next twelve months. The agreement provides for the issuance of 57,500 shares and 52,500 restricted common shares of Common Stock which vest immediately.

Pursuant to an agreement dated as of November 15, 2010, the Company entered into a three year contract with a consulting firm to provide certain financial and public relation services on a non-exclusive basis. Pursuant to the agreement, an initial retainer of \$12,500 was paid. The agreement provides for the possible issuance of up to 250,000 common shares and up to \$100,000 in cash compensation based upon referrals of credible and synergistic corporate partners and/or acquisitions, which acquisitions or partnerships must be approved by Ace. In January 2011, the Company approved the issuance of 50,000 shares of common stock for consulting services rendered by this consultant. In August 2011, the Company issued an additional 175,000 shares of Common Stock for consulting services rendered by the consultant.

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 45,000 Shares for 2008, subject to continued services with the Company through December 31, 2009. These awards totaled 51,000 Shares for 2009 subject to continued services with the Company through December 31, 2010. These awards totaled 105,000 Shares for 2010 subject to continued services with the Company through December 31, 2011.

ACE MARKETING & PROMOTIONS, INC.  
NOTES TO CONDENSED FINANCIAL STATEMENTS  
THREE MONTHS AND NINE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010  
(UNAUDITED)

The Company's results for the three months ended September 30, 2011 and 2010 include employee share-based compensation expense totaling approximately \$85,000 and \$56,000, respectively. The Company's results for the nine months ended September 30, 2011 and 2010 include employee share-based compensation expense totaling approximately \$262,000 and \$553,000, 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.

NOTE 11. EMPLOYMENT CONTRACTS/DIRECTOR COMPENSATION

On April 7, 2010, the Board of Directors approved a five-year extension of the employment contracts of Dean L. Julia and Michael D. Trepeta to expire on March 1, 2015. The Board approved the continuation of each officer's annual salary and scheduled salary increases on March 1 of each year of \$2,000 per month. The Board also approved a signing bonus of stock options to purchase 200,000 shares granted to each officer which is fully vested at the date of grant and exercisable at \$.50 per share through April 7, 2020; ten-year stock options to purchase 100,000 shares of Common Stock to be granted to each officer at fair market value on each anniversary date of the contract and extension thereof commencing March 1, 2011; and termination pay of one year base salary based upon the scheduled annual salary of each executive officer for the next contract year plus the amount of bonuses paid or entitled to be paid to the executive for the current fiscal year or the preceding fiscal year, whichever is higher. In the event of termination, the executives will continue to receive all benefits included in the employment agreement through the scheduled expiration date of said employment agreement prior to the acceleration of the termination date thereof.

On April 7, 2010, the Board of Directors approved the grant of options to purchase 150,000 shares of Common Stock to a director, exercisable at \$.50 per share at any time from the date of grant through April 7, 2020. The Board also approved commencing March 1, 2011, and every March 1st thereafter, the grant of 50,000 ten-year stock options to purchase shares at the fair market value at the date of grant to each director who is not an executive officer of the Company.

On March 1, 2011, Messrs. Julia and Trepeta each received 10-year options to purchase 100,000 shares, exercisable at \$.26 per share. On the same date, a director also received 10-year options to purchase 50,000 shares exercisable at \$.26 per share.

NOTE 12. WARRANT EXERCISE

In September 2011, Warrants to purchase 395,000 shares of the Company's Common Stock were exercised on a cashless basis at exercises prices ranging from \$.30 per share to \$.90 per share resulting in the issuance of 134,810 shares of restricted Common Stock.

NOTE 13. SUBSEQUENT EVENTS

The Company has evaluated all subsequent events through the filing date of this Form 10-Q for appropriate accounting and disclosures.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### FORWARD-LOOKING STATEMENTS

The information contained in this Form 10-Q and documents incorporated herein by reference are intended to update the information contained in the Company's Form 10-K for its fiscal year ended December 31, 2010 which includes our audited financial statements for the year ended December 31, 2010 and such information presumes that readers have access to, and will have read, the "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Risk Factors" and other information contained in such Form 10-K and other Company filings with the Securities and Exchange Commission ("SEC").

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements involve risks and uncertainties, and actual results could be significantly different than those discussed in this Form 10-Q. Certain statements contained in Management's Discussion and Analysis, particularly in "Liquidity and Capital Resources," and elsewhere in this Form 10-Q are forward-looking statements. These statements discuss, among other things, expected growth, future revenues and future performance. Although we believe the expectations expressed in such forward-looking statements are based on reasonable assumptions within the bounds of our knowledge of our business, a number of factors could cause actual results to differ materially from those expressed in any forward-looking statements, whether oral or written, made by us or on our behalf. The forward-looking statements are subject to risks and uncertainties including, without limitation, the following: (a) changes in levels of competition from current competitors and potential new competition, (b) possible loss of customers, and (c) the company's ability to attract and retain key personnel, (d) The Company's ability to manage other risks, uncertainties and factors inherent in the business and otherwise discussed in this 10-Q and in the Company's other filings with the SEC. The foregoing should not be construed as an exhaustive list of all factors that could cause actual results to differ materially from those expressed in forward-looking statements made by us. All forward-looking statements included in this document are made as of the date hereof, based on information available to the Company on the date thereof, and the Company assumes no obligation to update any forward-looking statements.

### NATURE OF OPERATIONS

Ace Marketing & Promotions, Inc. (the "Company" or "Ace") began as promotional products company and has since evolved into an Integrated Marketing Solutions Company. Ace currently focuses on four business verticals; Branding, Interactive, Direct Relationship Marketing and Mobile Marketing. With its newly developed suite of solutions in place, Ace now offer its clients and potential clients the ability to work smarter in addressing their marketing needs by leveraging technology platforms. The services and technology platforms assembled within each business vertical allows Ace to provide its clients with an exceptional mix of solutions for reaching their customers in ways that were previously impossible. Clients have the ability to choose a single solution within a vertical or a complete package of solutions working together seamlessly. By offering the entire suite of solutions, the need for multiple vendors has been eliminated, and Ace can be a single source provider of Branding, Interactive, Direct Relationship Marketing and Mobile Marketing Solutions.

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

The Interactive vertical deals with any online marketing & branding initiatives. Utilizing the Ace Place Platform (a proprietary Content Management System); custom websites are created and total control of the site content is given back to the client. Through the Ace Place platform, a client simply chooses from one of the many web-design packages and has the ability to change the content on the site without the need for a programmer and the high hourly fees that go along with them. With this power, their websites become dynamic and powerful marketing vehicles instead of just an online static ad. For relevant clients, Ace can add an E-Commerce component to their website along with Email Marketing services to assist in marketing the site. As an additional service, each site can be housed on Ace's servers.

The Direct Relationship Marketing vertical creates 1 to 1 relationship marketing Solutions. Ace’s strategy for delivering successful marketing campaigns utilizes specific databases to personalize messages across a wide array of integrated delivery mechanisms. Ace has expanded its capabilities beyond direct mail to incorporate variable data programming technology into web applications, telephony, email, and print. Ace’s Direct Relationship Marketing solution helps attract new customers and retain exist ones by targeting each identified demographic group through our various tools to get the intended message across with measured results.

The Company's fourth business vertical is the Mobile Marketing vertical. The Mobile Marketing advertising medium is set to become the next component of marketing spends as mobile marketing continues to gain more and more momentum. Technology allows advertisers to target and deliver rich media content to specific locations and times where it is most relevant. It gives advertisers the ability to reach consumers with their message as they are ready to make their purchasing decision.

Ace Marketing & Promotions subsidiary Mobiquity Networks provides Location-Based Mobile marketing services via Bluetooth and Wi-Fi that requires no GPS tracking and no need to download and application. Mobiquity Networks is a leading location based mobile marketing network in the US. We utilize a targeted, location-based approach to reach audiences on their personal mobile devices when it matters most. The Company employs a combination of leading-edge mobile technologies to deliver virtually any digital media content including images, videos, audio mp3s, maps, games, applications and coupons to mobile phones within targeted geographic locations. Mobiquity has focused on and built an extensive Location Based Mobile Marketing Mall Network which gives us access to over 90 million mobile customer visits per month while they are shopping. Our network allows brands to engage their potential customers with the right offer at the right place at the right time....when they are about to make a purchasing decision. Mobiquity currently has over 500 zones throughout 67 malls with over 90 million monthly visits. These zones create a cloud of coverage so that visitors do not need to go directly to one of these zone access points. Some of our land mark malls include:

- Roosevelt Field - NY
- The Galleria – Houston
- Lenox Square – Atlanta
- Northbridge – Chicago
- Santa Monica Place – LA
- Copley Place – Boston

#### Business Partners

We have partnered with Blue Bite LLC. (“Blue Bite”), a premier provider of Proximity Marketing hardware and software solutions, and Eye Corp Pty Ltd., (“EyeCorp”) an out-of-home media company which operates the largest mall advertising display network in the United States, to roll-out an expansive network which comprises of retail, dining, transportation, sporting, music, and other high traffic venues.

Agreement with Simon Property Group, L.P.

In April 2011, we signed an exclusive rights agreement with a Top Mall Developer (the "Simon Property Group") to create a location-based mobile marketing network called Mobiquity Networks. The 50 mall agreement runs through December of 2015 and includes top malls in the Simon Mall portfolio. This new alliance will give advertisers the opportunity to reach millions of mall visitors per month with mobile digital content and offers when they are most receptive to advertising messages.

In connection with Eye Corp., Mobiquity Networks will deliver digital content and offers to shoppers on their mobile devices through Eye Corp's extensive Mall Advertising Network. Eye Corp and Mobiquity Networks have an exclusive agreement to build a location-based mobile marketing network throughout Eye Corp's Mall Advertising network. New properties to be added to the Mobiquity Networks portfolio will include iconic malls in the top DMA's (designated market area) in the US. These prestigious malls further complement Mobiquity Networks' portfolio of prominent malls including Queens Center Mall in New York City, Northbridge in Chicago, and Santa Monica Place in Los Angeles.

Ace's Location-Based Mobile advertising medium is designed to reach on-the-go shoppers via their mobile devices with free rich media content delivered using Bluetooth or Wi-Fi. This advertising medium offers extremely targeted messaging engineered to engage and influence shoppers as they move about the mall environment. Eye Corp, along with Ace Marketing, will jointly create mobile marketing programs for existing clients in conjunction with their already active in mall advertising programs. Mobiquity Networks proximity marketing units will be strategically positioned in shopping malls near entrances, anchor stores, escalators and other high-traffic, and high dwell-time areas. Mobiquity Networks proximity marketing unit placement takes advantage of the opportunity to provide a reminder to consumers and touch them just before making a purchase decision. These units generate high awareness and brand recognition at the right time and place. When combined with the impact of other visual advertising mediums (in mall assets) or as a stand-alone medium, Mobiquity Networks is a great mobile solution to promote a brand on a local or national level.

#### Critical Accounting Policies

Our discussion and analysis of our financial condition and results of operations are based upon our financial statements, which have been prepared in accordance with generally accepted accounting principles in the United States. The preparation of financial statements requires management to make estimates and disclosures on the date of the financial statements. On an on-going basis, we evaluate our estimates including, but not limited to, those related to revenue recognition. We use authoritative pronouncements, historical experience and other assumptions as the basis for making judgments. Actual results could differ from those estimates. We believe that the following critical accounting policies affect our more significant judgments and estimates in the preparation of our financial statements.

**REVENUE RECOGNITION.** Revenues are recognized when title and risk of loss transfers to the customer and the earnings process is complete. In general, title passes to our customers upon the customer's receipt of the merchandise. Revenue is accounted by reporting revenue gross as a principal versus net as an agent. Revenue is recognized on a gross basis since our company has the risks and rewards of ownership, latitude in selection of vendors and pricing, and bears all credit risk. Our company records all shipping and handling fees billed to customers as revenues, and related costs as cost of goods sold, when incurred.





**ALLOWANCE FOR DOUBTFUL ACCOUNTS.** We are required to make judgments based on historical experience and future expectations, as to the realizability of our accounts receivable. We make these assessments based on the following factors: (a) historical experience, (b) customer concentrations, (c) customer credit worthiness, (d) current economic conditions, and (e) changes in customer payment terms.

**STOCK BASED COMPENSATION.** The Company records compensation expense associated with stock options and other equity-based compensation. Share-based compensation expense is determined based on the grant-date fair value estimated using the Black Scholes method. The Company recognizes compensation expense on a straight-line basis over the requisite service period of the award.

## RESULTS OF OPERATIONS

The following table sets forth certain selected unaudited condensed statement of operations data for the periods indicated in dollars and as a percentage of total net revenues. The following discussion relates to our results of operations for the periods noted and is not necessarily indicative of the results expected for any other interim period or any future fiscal year. In addition, we note that the period-to-period comparison may not be indicative of future performance.

	Three Months Ended September 30,	
	2011	2010
Revenue	\$ 650,370	\$ 773,830
Cost of Revenues	484,032	509,973
Gross Profit	166,338	263,857
Selling, General and Administrative Expenses	852,186	598,949
(Loss) from Operations	\$ (685,848 )	\$ (335,092)

We generated revenues of \$650,370 in the third quarter of 2011 compared to \$773,830 in the same three month period ended September 30, 2010. The decrease in revenues of \$123,460 in 2011 compared to 2010 was due to the downturn in the overall economy.

Cost of revenues was \$484,032 or 74.4% of revenues in the third quarter of 2011 compared to \$509,973 or 65.9% of revenues in the same three months of 2010. Cost of revenues includes purchases and freight costs associated with the shipping of merchandise to our customers. Cost of revenues in 2011 include \$44,164 costs associated with purchasing air cards for our proximity marketing business and the installations costs of connecting the air cards to our servers. These costs have no significant revenues associated with these costs for the 2011 third quarter.

Gross profit was \$166,338 in the third quarter of 2011 or 25.6% of net revenues compared to \$263,857 in the same three months of 2010 or 34.1% of revenues. Gross profits will vary period-to-period depending upon a number of factors including the mix of items sold, pricing of the items and the volume of product sold. Also, it is our practice to pass freight costs on to our customers. Reimbursement of freight costs which are included in revenues have lower profit margins than sales of our promotional products and has the effect of reducing our overall gross profit margin on sales of products, particularly on smaller orders. If you exclude the proximity costs of \$44,164 from our 2011 third quarter cost of revenues, our gross profit percentage would have been approximately 32%.

Selling, general, and administrative expenses were \$852,186 in the third quarter of 2011 compared to \$598,949 in the same three months of 2010. Such costs include payroll and related expenses, commissions, insurance, rents, professional, consulting and public awareness fees. The \$253,237 increase in costs relates primarily to an

approximate \$115,000 increase in rent and licensing fees for our proximity marketing program which is taking place at malls throughout the country, an increase in commissions of \$53,588 and an increase in stock compensation of \$29,177..

Net loss was \$(685,848) in the third quarter of 2011 compared to a net loss of \$(335,092) for the same three months in 2010, an increase of \$350,756. The third quarter net loss for 2011 includes a \$123,460 decrease in revenues and a \$253,237 increase in costs relates primarily to a \$115,000 increase in rent and licensing fees for our proximity marketing program which is taking place at malls throughout the country, an increase in commissions of \$53,588 and an increase in stock compensation of \$29,177.. No benefit for income taxes is provided for in 2011 and 2010 due to the full valuation allowance on the net deferred tax assets.

	Nine Months Ended September 30,	
	2011	2010
Revenue	\$ 2,284,573	\$ 2,447,723
Cost of Revenues	1,761,655	1,688,609
Gross Profit	522,918	759,114
Selling, General and Administrative Expenses	2,107,440	2,048,720
Loss) from Operations	\$ (1,584,522)	\$(1,289,606)

We generated revenues of \$2,284,573 in the first nine months of 2011 compared to \$2,447,723 in the same nine month period ended September 30, 2010. The decrease in revenues of \$163,150 in 2011 compared to 2010 was due to the downturn in the overall economy.

Cost of revenues was \$1,761,655 or 77.1% of revenues in the first nine months of 2011 compared to \$1,688,609 or 69% of revenues in the same nine months of 2010. Cost of revenues includes purchases and freight costs associated with the shipping of merchandise to our customers. Increase in cost of revenues of \$73,046 in 2011 is related to an increase in purchases due to the mix of items our customer base has ordered during the nine months ended September 30, 2011. Cost of revenues in 2011 include \$70,344 costs associated with purchasing air cards for our proximity marketing business and the installations costs of connecting the air cards to our servers. These costs have no significant revenues associated with these costs for the nine months ended September 30, 2011.

Gross profit was \$522,918 in the first nine months of 2011 or 22.9% of net revenues compared to \$759,114 in the same nine months of 2010 or 31% of revenues. Gross profits will vary period-to-period depending upon a number of factors including the mix of items sold, pricing of the items and the volume of product sold. Also, it is our practice to pass freight costs on to our customers. Reimbursement of freight costs which are included in revenues have lower profit margins than sales of our promotional products and has the effect of reducing our overall gross profit margin on sales of products, particularly on smaller orders. If you exclude the proximity costs of \$70,344 from our 2011 nine month cost of revenues, our gross profit percentage would have been approximately 26%.

Selling, general, and administrative expenses were \$2,107,440 in the first nine months of 2011 compared to \$2,048,720 in the same nine months of 2010. Such costs include payroll and related expenses, commissions, insurance, rents, professional, consulting and public awareness fees. The increase in costs relates to an increase in rents and licensing fees which relates to our mall proximity program as described above.

Net loss was \$(1,584,522) in the first nine months of 2011 compared to a net loss of \$(1,289,606) for the same nine months in 2010, an increase of \$294,916. The first nine months net loss for 2011 includes a decrease in revenues of approximately \$163,150 and an increase in rents and licensing fees relating to our proximity marketing mall program of approximately \$110,000. No benefit for income taxes is provided for in 2011 and 2010 due to the full valuation allowance on the net deferred tax assets.



## Liquidity and Capital Resources

The Company had cash and cash equivalents of \$1,094,001 at September 30, 2011. Cash used by operating activities for the nine months ended September 30, 2011 was \$(1,436,115). This resulted primarily from a net loss of (\$1,585,105) partially offset by an increase in accounts receivable of \$44,045 and \$268,173 in prepaid expenses and other assets. Net cash of \$497,715 was used by investing activities to acquire property and equipment. Net cash was provided by financing activities totaling \$2,264,250 resulting from the issuance of common stock.

The Company had cash and cash equivalents of \$260,683 at September 30, 2010. Cash used by operating activities for the nine months ended September 30, 2010 was \$(771,066). This resulted primarily from a net loss of (\$1,289,743) partially offset by a decrease in accounts receivable of \$196,306 and \$552,693 in stock based payments. Net cash of \$164,362 was used by investing activities to acquire property and equipment. Net cash was provided by financing activities totaling \$600,500 resulting from the issuance of common stock.

Our Company commenced operations in 1998 and was initially funded by our three founders, each of whom has made demand loans to our Company that have been repaid. Since 1999, we have relied primarily on equity financing from outside investors to supplement our cash flow from operations.

We anticipate that our future liquidity requirements will arise from the need to expand our Proximity Marketing Division to finance our accounts receivable and inventories, hire additional sales persons, capital expenditures and possible acquisitions. The primary sources of funding for such requirements will be cash generated from operations, raising additional capital from the sale of equity or other securities and borrowings under debt facilities which currently do not exist. We believe that we can generate sufficient cash flow from these sources to fund our operations for at least the next twelve months. In the event we should need additional financing, we can provide no assurances that we will be able to obtain financing on terms satisfactory to us, if at all.

## Recent Financings

On December 8, 2009, the Company entered into an Introducing Agent Agreement with Legend Securities, Inc., a FINRA registered broker-dealer ("Legend"), to attempt to raise additional financing through the sale of its Common Stock and Warrants. Between December 8, 2009 and March 15, 2010, the Company closed on gross proceeds of \$1,025,000 before commissions of \$117,000. The planned use of proceeds is to primarily expand the Company's mobile and interactive divisions. The Company issued pursuant to the terms of the offering an aggregate of 2,050,000 shares of Common Stock at a per share price of \$.50 per share and 1,025,000 Class D Warrants exercisable at \$1.00 per share to investors in the offering and placement agent warrants (in the form of Class D Warrants) to purchase 307,500 shares. All securities were issued pursuant to Rule 506 of Regulation D promulgated under Section 4(2) of the Securities Act of 1933, as amended.

In August 2010, the Company raised \$175,000 in gross proceeds from the sale of 437,500 shares and a like number of Warrants expiring in August 2013. The investor paid \$0.40 per Share and received Warrants exercisable at \$0.60 per Share. In November 2010, the Company commenced a plan of financing and raised an additional \$800,500 in financing from the sale of 2,934,999 Shares of its restricted Common Stock at \$0.30 per Share and Common Stock Purchase Warrants to purchase a like number of Shares, exercisable at \$0.30 per Share through August 31, 2013. Subsequent to the completion of the second financing, the Company agreed to adjust the terms of the August 2010 transaction and issue to the August 2010 investor Shares and Warrants on the same terms as those sold in November - December 2010. Accordingly, an additional 145,833 Shares and a like number of Warrants were issued to the August 2010 investor, with the exercise price of the Warrants being lowered from \$0.60 per Share to \$0.30 per Share. All securities will be issued pursuant to Section 4(2) and/or Rule 506 of Regulation D promulgated under Section 4(2) of the Securities Act of 1933, as amended.

In March 2011, the Company commenced a private placement offering. Pursuant to said offering between March 29, 2011 and April 19, 2011, the Company raised \$755,000 in gross proceeds from the sale of 2,516,666 shares of common stock and a like number of warrants, exercisable at \$.30 per share through August 31, 2013. 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.

Between May 25, 2011 and June 3, 2011, the Company received gross proceeds of \$461,250 from the sale of 1,025,000 shares of Common Stock at a purchase price of \$.45 per share. The sale of stock was also accompanied by Warrants expiring on May 31, 2014. 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.

In July 2011, the Company commenced a private placement offering. Pursuant to said offering between July 14, 2011 and August 1, 2011, the Company raised \$975,000 in gross proceeds from the sale of 1,950,000 shares of common stock and a like number of warrants, exercisable at \$.60 per share through July 31, 2014. 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.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk is the risk of loss arising from adverse changes in market rates and prices, such as interest rates, foreign currency exchange rates and commodity prices. Our primary exposure to market risk is interest rate risk associated with our short term money market investments. The Company does not have any financial instruments held for trading or other speculative purposes and does not invest in derivative financial instruments, interest rate swaps or other investments that alter interest rate exposure. The Company does not have any credit facilities with variable interest rates.

### ITEM 4. CONTROLS AND PROCEDURES

We maintain disclosure controls and procedures, which are designed to ensure that information required to be disclosed in the reports we file or submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to our management, including our CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure.

Under the supervision and with the participation of our management, including our CEO and CFO, an evaluation was performed on the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this quarterly report. Based on that evaluation, our management, including our CEO and CFO, concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report.

There were no changes in the Company's internal controls over financial reporting during the most recently completed fiscal quarter that have materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting.



## PART II. OTHER INFORMATION

## ITEM 1. LEGAL PROCEEDINGS.

As of the filing date of this Form 10-Q, we are not a party to any pending legal proceedings.

## ITEM 1A. RISK FACTORS

As a Smaller Reporting Company as defined Rule 12b-2 of the Exchange Act and in item 10(f)(1) of Regulation S-K, we are electing scaled disclosure reporting obligations and therefore are not required to provide the information requested by this Item 1A.

## ITEM 2. CHANGES IN SECURITIES.

(a) From January 1, 2010 through September 30, 2011, we had no sales or issuances of unregistered common stock, except we made sales or issuances of unregistered securities listed in the table below:

Date of Sale	Title of Security	Number Sold	Consideration Received and Description of Underwriting or Other Discounts to Market Price or Convertible Security, Afforded to Purchasers	Exemption from Registration Claimed	If Option, Warrant or Convertible Security, terms of exercise or conversion
January 2011	Common Stock	150,000 shares and 200,000 Class E warrants	Services rendered; no commissions paid	Section 4(2)	Warrants exercisable at \$.30 per share through August 31, 2013
March 2011	Common Stock and Class E Warrants	2,516,666 shares and 2,516,666 warrants	\$755,000; no commissions paid	Rule 506	Warrants exercisable at \$.30 per share through August 31, 2013



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April 2011	Common Stock and Class E warrants	100,000 shares and Class E warrants to purchase 100,000 shares	Services rendered; Rule 506 no commissions paid		Warrants exercisable at \$.30 per share through August 31, 2013
May 1/ June 2011	Common Stock and Class F Warrants	1,025,000 shares, Class F Warrants to purchase 1,025,000 shares and Class G Warrants to purchase 900,000 shares, respectively.	\$461,250; no commissions paid	Rule 506	Class F Warrants exercisable at \$.50 per share through May 31, 2014, Class G Warrants exercisable at \$.60 per share through May 31, 2014 August 31, 2013
July/August 2011	Common Stock and Class H Warrants	1,950,000 shares, 1,980,000 Warrants (includes 30,000 Warrants issued to Placement Agent)	\$975,000; \$15,000 commission paid	Rule 506	Class H Warrants exercisable at \$.60 per share through July 31, 2014
September 2011	Common Stock	159,810 shares	Cashless exercise of Warrants; no commissions paid	Section 3(a)(9)	Warrants exercised on cashless basis
September 2011	Common Stock	325,000 shares (1)	Services rendered; no commissions paid	Section 4(2)	Not applicable.

(1) Of the 325,000 shares, 175,000 shares were issued to Glenwood Capital in connection with consulting services. The remaining 150,000 shares were issued to Legend Securities and their nominees. Of the 150,000 shares, 75,000 shares were issued for services rendered per quarter in advance commencing June 6, 2011. However, these 75,000

shares plus an additional 75,000 shares for the next quarter were not issued until September 2011.

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

(c) In the nine months ended September 30, 2011, there were no repurchases by the Company of its Common Stock.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable

ITEM 4. Reserved.

ITEM 5. OTHER INFORMATION:

None.

ITEM 6. EXHIBITS:

Exhibit No. Description

3.1	Articles of Incorporation filed March 26, 1998 (1)
3.2	Amendment to Articles of Incorporation filed June 10, 1999 (1)
3.3	Amendment to Articles of Incorporation approved by stockholders on February 9, 2005(1)
3.4	Amended By-Laws (1)
10.1	Employment Agreement - Michael Trepeta (2)
10.2	Employment Agreement - Dean Julia (2)
10.3	Amendments to Employment Agreement - Michael Trepeta (5)(7)
10.4	Amendments to Employment Agreement - Dean L. Julia (5)(7)
10.5	Joint Venture Agreement with Atrium Enterprises Ltd. (6)
10.6	Agreement with Aon Consulting (6)
10.7	Amendment to Exhibits 10.3 and 10.4 dated April 7, 2010 (10)
11.1	Statement re: Computation of per share earnings. See Statement of Operations and Notes to Financial Statements
14.1	Code of Ethics/Code of Conduct (5)
21.1	Subsidiaries of the Issuer - None in 2007
31.1	Principal Executive Officer Rule 13a-14(a)/15d-14(a) Certification (11)
31.2	Principal Financial Officer Rule 13a-14(a)/15d-14(a) Certification (11)
32.1	Principal Executive Officer Section 1350 Certification (11)
32.2	Principal Financial Officer Section 1350 Certification (11)
99.1	2005 Employee Benefit and Consulting Services Compensation Plan(2)
99.2	Form of Class A Warrant (2)
99.3	Form of Class B Warrant (2)
99.4	Amendment to 2005 Plan (4)
99.5	Form of Class C Warrant (8)
99.6	2009 Employee Benefit and Consulting Services Compensation Plan (3)
99.7	Form of Class D Warrant (3)
99.8	Form or Class E Warrant(9)
99.9	Form of Class F Warrant (9)
99.10	Form of Class G Warrant (9)
99.11	Form of Class H. Warrant (9)
99.12	Press Release dated May 23, 2011 (11)
101.SCH	Document, XBRL Taxonomy Extension (11)
101.CAL	Calculation Linkbase, XBRL Taxonomy Extension Definition (11)
101.DEF	Linkbase, XBRL Taxonomy Extension Labels (11)
101.LAB	Linkbase, XBRL Taxonomy Extension (11)

101.PRE Presentation Linkbase (11)

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- (1) Incorporated by reference to Registrant's Registration Statement on Form 10-SB as filed with the Commission on February 10, 2005.
  - (2) Incorporated by reference to Registrant's Registration Statement on Form 10-SB/A as filed with the Commission March 18, 2005.
  - (3) Incorporated by reference to Form 10-K filed for the fiscal year ended December 31, 2009.
  - (4) Incorporated by reference to the Registrant's Form 10-QSB/A filed with the Commission on August 18, 2005.
  - (5) Incorporated by reference to the Registrant's Form 10-KSB for its fiscal year ended December 31, 2005.
  - (6) Incorporated by reference to the Registrant's Form 10-KSB for its fiscal year ended December 31, 2006.
  - (7) Incorporated by reference to the Registrant's Form 8-K dated September 21, 2007.
  - (8) Incorporated by reference to the Registrant's Form 10-QSB for its quarter ended September 30, 2006.
  - (9) Incorporated by reference to the Registrant's Form 10-K for its fiscal year ended December 31, 2010.
  - (10) Incorporated by reference to the Registrant's Form 10-Q for the quarter ended March 31, 2011.
  - (11) Filed herewith.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ACE MARKETING & PROMOTIONS, INC.

Date: October 24, 2011

By: /s/ Dean L. Julia  
Dean L. Julia,  
Principal Executive Officer

Date: October 24, 2011

By: /s/ Sean McDonnell  
Sean McDonnell,  
Principal Financial Officer