ACE MARKETING & PROMOTIONS INC
Form 10-Q
May 15, 2009

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 MARCH 31, 2009

COMMISSION FILE NUMBER: 000-51160

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

NEW YORK	11-3427886
(State of jurisdiction of Incorporation)	(I.R.S. Employer Identification No.)

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)

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

Yes [X]   No [ ]

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.

Large Accelerated Filer [ ]	Accelerated Filer [ ]
Accelerated Filer [ ]	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 [ ] No [X]

As of May 15, 2009, the registrant had a total of 9,717,615 shares of Common Stock outstanding.

ACE MARKETING & PROMOTIONS, INC.

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ACE MARKETING &
PROMOTIONS, INC.

CONDENSED BALANCE SHEETS	MARCH 31, 2009	Decembe 2008
	Unaudited	Audit
Assets		
Current Assets:		
Cash and cash equivalents	$ 615,566	$ 509,
Accounts receivable, net of allowance for doubtful accounts of $20,000 at March 31, 2009 and December 31, 2008	350,981	809,
Note receivable	100,000	100,
Prepaid expenses and other current assets	103,304	63,
Total Current Assets	1,169,851	1,482,
Property and Equipment, net	108,462	115,
Other Assets	7,745	7,
Total Assets	$ 1,286,058	$ 1,605,
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 143,189	$ 338,
Accrued expenses	146,658	181,
Total Current Liabilities	289,847	519,
Commitments and Contingencies		
Stockholders' Equity:		
Preferred stock, $.0001 par value; 5,000,000 shares authorized; none issued	--	
Common stock, $.0001 par value; 25,000,000 shares authorized; 9,740,949 and 9,234,949 shares issued and 9,717,615 and 9,211,615 shares outstanding at March 31, 2009 and December 31, 2008, respectively	975	
Additional paid-in capital	5,226,255	4,851,
Accumulated deficit	(4,199,518)	(3,735,
	1,027,712	1,116,
Less: Treasury Stock, at cost, 23,334 shares	(31,501)	(31,
Total Stockholders' Equity	996,211	1,085,
Total Liabilities and Stockholders' Equity	$ 1,286,058	$ 1,605,

SEE NOTES TO CONDENSED FINANCIAL STATEMENTS.

ACE MARKETING &
PROMOTIONS, INC.

Condensed Statements of Operations	2009	2008
Three Months Ended March 31,	UNAUDITED	Unaudited
Revenues, net	$ 455,032	$ 1,176,183
Cost of Revenues	330,868	810,460
Gross Profit	124,164	365,723
Operating Expenses:		
Selling, general and administrative expenses	590,945	667,718
Total Operating Expenses	590,945	667,718
Loss from Operations	(466,781)	(301,995)
Other Income (Expense):		
Interest expense	(26)	--
Interest income	2,756	2,453
Total Other Income (Expense)	2,730	2,453
Net Loss	$ (464,051)	$ (299,542)
Net Loss Per Common Share:		
Basic	$ (0.05)	$ (0.04)
Diluted	$ (0.05)	$ (0.04)
Weighted Average Common Shares Outstanding:		
Basic	9,523,000	8,118,099
Diluted	9,523,000	8,118,099

SEE NOTES TO CONDENSED FINANCIAL STATEMENTS. 4

ACE MARKETING &
PROMOTIONS, INC.

CONDENSED STATEMENTS OF CASH FLOWS

Three Months Ended March 31,	2009	2008

	(UNAUDITED)	(unaudited)
Cash Flows from Operating Activities:		
Net loss	$(464,051)	$(299,542)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Depreciation and amortization	6,872	2,212
Stock-based compensation	124,777	143,161
Changes in operating assets and liabilities:		
(Increase) decrease in operating assets:		
Accounts receivable	458,704	333,815
Prepaid expenses and other current assets	(39,903)	(93,378)
Decrease in operating liabilities:		
Accounts payable and accrued expenses	(230,084)	(223,665)
Customer Deposits	--	300,000
Total adjustments	320,366	462,145
Net Cash (Used in) Provided by Operating Activities	(143,685)	162,603
Cash Flows from Investing Activities:		
Increase in Note receivable	--	(50,000)
Net Cash Used in Financing Activities	--	(50,000)
Cash Flows from Financing Activities:		
Proceeds from issuance of common stock	250,000	--
Net Cash Provided by Financing Activities	250,000	--
Net Decrease in Cash and Cash Equivalents	106,315	112,603
Cash and Cash Equivalents, beginning of period	509,251	819,021
Cash and Cash Equivalents, end of period	$ 615,566	$ 931,624

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ACE MARKETING & PROMOTIONS, INC.
NOTES TO CONDENSED FINANCIAL STATEMENTS
THREE MONTHS ENDED MARCH 31, 2009 AND 2008
(UNAUDITED)

The Condensed Balance Sheets as of March 31, 2009, the Condensed Statements of Operations for the three months ended March 31, 2009 and 2008 and the Condensed Statements of Cash Flows for the three months ended March 31, 2009 and 2008 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 March 31, 2009, results of operations for the three months ended March 31, 2009 and 2008 and cash flows for the three months ended March 31, 2009 and 2008. All such adjustments are of a normal recurring nature.

This report should be read in conjunction with our Form 10-K for our fiscal year ended December 31, 2008.

The results of operations and cash flows for the three months ended March 31, 2009 are not necessarily indicative of the results to be expected for the full year.

NATURE OF OPERATIONS - Ace Marketing & Promotions, Inc. (the "Company") is a full service advertising specialties and promotional products company that distributes items typically with logos to large corporations, schools and universities, financial institutions and not-for-profit organizations. Specific categories of promotional products include advertising specialties, business gifts, incentives and awards, and premiums.

In Fiscal 2008, the Company became an authorized distributor, provider and reseller of mobile advertising solutions. To date, the Company has not generated any significant revenue from this segment.

1. SUMMARY OF 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. Revenue is accounted for in accordance with Emerging Issue Task Force (EITF) Issue No. 99-19, "Reporting Revenue Gross as a Principal versus Net as an Agent." Revenue is recognized on a gross basis since the Company has the risks and rewards of ownership, latitude in selection of vendors and pricing, and bears all credit risk.

The Company records all shipping and handling fees billed to customers as revenues, and related costs as cost of goods sold, when incurred, in accordance with EITF 00-10, "Accounting for Shipping and Handling Fees and Costs."

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.

Recently Issued Accounting Pronouncements - On September 15, 2006, the Financial Accounting Standards Board ("FASB") issued Statement No. 157, FAIR VALUE MEASUREMENTS ("SFAS 157"). SFAS 157 provides guidance for using fair value to measure assets and liabilities. This statement references fair value as the price that would be received to sell an asset or paid to transfer a liability, in an orderly transaction, between market participants in the market in which the reporting entity transacts. The statement applies whenever other standards require (or permit) assets or liabilities to be measured at fair value. The statement does not expand the use of fair value in any new circumstances. SFAS 157 was effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The adoption of this Statement did not have a material effect on our financial position or results of operation.

ACE MARKETING & PROMOTIONS, INC.
NOTES TO CONDENSED FINANCIAL STATEMENTS
THREE MONTHS ENDED MARCH 31, 2009 AND 2008
(UNAUDITED)

In February 2007, the Financial Accounting Standards Board (FASB), issued Statement of Financial Accounting Standards (SFAS) No. 159, THE FAIR VALUE OPTION FOR FINANCIAL ASSETS AND FINANCIAL LIABILITIES -- INCLUDING AN AMENDMENT OF FASB STATEMENT NO. 115. Under SFAS No. 159, a company may elect to measure eligible financial assets and financial liabilities at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings at each subsequent reporting date. If elected, SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The Company did not elect to begin reporting any financial assets or liabilities at fair value upon adoption of SFAS No. 159 on January 1, 2008. Upon review of the March 31, 2009 period, there was no material impact and the Company did not elect to report at fair value any new financial assets or liabilities entered during the quarter ended March 31, 2009.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141R, "Business Combinations" ("SFAS 141R"), which establishes principles and requirements for the reporting entity in a business combination, including recognition and measurement in the financial statements of the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree. This statement also establishes disclosure requirements to enable financial statement users to evaluate the nature and financial effects of the business combination. SFAS 141R applies prospectively to business combinations for which the acquisition date is on or after fiscal years beginning after December 15, 2008. The Company evaluated the effect that the adoption of SFAS 141R would have no material effect on its financial statements

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 160, "Noncontrolling Interests in Consolidated Financial Statements, an Amendment of ARB No. 51" ("SFAS 160"). SFAS 160 establishes accounting and reporting standards pertaining to ownership interests in subsidiaries held by parties other than the parent; the amount of net income attributable to the parent and to the noncontrolling interest; changes in a parent's ownership interest; and the valuation of any retained noncontrolling equity investment when a subsidiary is deconsolidated. SFAS 160 also establishes disclosure requirements that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. SFAS 160 is required to be adopted prospectively for the first annual reporting period beginning after December 15, 2008. The Company established that there would be no material effect with the adoption of this statement on its financial statements.

In October 2008, the FASB issued FSP FAS No. 157-3, "Determining the Fair Value of a Financial Asset When the Market for that Is Asset Not Active" with an immediate effective date, including prior periods for which financial statements have not been issued. FSP FAS No. 157-3 clarifies the application of fair value in inactive markets and allows for the use of management's internal assumptions about future cash flows with appropriately risk-adjusted discount rates when relevant observable market data does not exist. The objective of FAS No. 157-3 has not changed and continues to be the determination of the price that would be received in an orderly transaction that is not a forced liquidation or distressed sale at the measurement date. The adoption of FSP FAS No. 157-3 in the second quarter did not have a material effect on the Company's results of operations, financial position or liquidity.

2. 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 6,344,000 and 4,739,000 because they are antidilutive as a result of a net loss for the three months ended March 31, 2009 and 2008, respectively.

3. STOCK COMPENSATION

The Company's Plan is accounted for in accordance with the recognition and measurement provisions of Statement of Financial Accounting Standards ("FAS") No. 123 (revised 2004), Share-Based Payment ("FAS 123(R)"). FAS 123 (R) requires compensation costs related to share-based payment transactions, including employee stock options, to be recognized in the financial statements. In addition, the Company adheres to the guidance set forth within Securities and Exchange Commission ("SEC") Staff Accounting Bulletin ("SAB") No. 107, which provides the Staff's views regarding the interaction between SFAS No. 123(R) and certain SEC rules and regulations and provides interpretations with respect to the valuation of share-based payments for public companies.

Stock options and warrants issued in exchange for non-employee services pursuant to the provisions of FAS 123(R), Emerging Issues Task Force ("EITF") 96-3 and EITF 96-18 are accounted for at the fair value of the consideration or services received or the fair value of the equity instruments issued, whichever is more reliably measurable

The Company's results for the three month periods ended March 31, 2009 and 2008 include employee share-based compensation expense totaling approximately $125,000 and $143,000, respectively. Such amounts have been included in the Condensed Consolidated Statements of Operations within selling, general and administrative expenses. No income tax benefit has been recognized in the statement of operations for share-based compensation arrangements due to a history of operating losses.

The following table summarizes stock-based compensation expense for the three months ended March 31, 2009 and 2008:

	Three Months Ended March 31, 2009	Three Months Ended March 31, 2008
Employee stock-based compensation - option grants	$ 30,160	$107,005
Employee stock-based compensation - stock grants	--	--
Non-Employee stock-based compensation - option grants	34,410	19,156
Non-Employee stock-based compensation - stock grants	4,200	17,000
Non-Employee stock-based compensation-stock warrants	56,007	--
Total	$124,777	$143,161

	========	========

ACE MARKETING & PROMOTIONS, INC.
NOTES TO CONDENSED FINANCIAL STATEMENTS
THREE MONTHS ENDED MARCH 31, 2009 AND 2008
(UNAUDITED)

STOCK OPTION PLAN

During Fiscal 2005, the Company established, and the stockholders approved, an Employee Benefit and Consulting Services Compensation Plan (the "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.

All stock options under the Plan are granted at or above the fair market value of the common stock at the grant date. Employee and non-employee stock options vest over varying periods and generally expire either 5 or 10 years from the grant date.

The fair value of options at the date of grant was estimated using the Black-Scholes option pricing model. For option grants, the Company will take into consideration guidance under SFAS 123R and SEC Staff Accounting Bulletin No. 107 (SAB 107) when reviewing and updating assumptions. The expected volatility is based upon historical volatility of our stock and other contributing factors. The expected term is based upon observation of actual time elapsed between date of grant and exercise of options for all employees. Previously, such assumptions were determined based on historical data.

The weighted average assumptions made in calculating the fair values of options granted during the three months ended March 31, 2009 and 2008 are as follows:

	Three Months Ended March 31, 2009	Three Months Ended March 31, 2008
Expected volatility	130.52%	114.92%
Expected dividend yield	--	--
Risk-free interest rate	1.15%	3.125%
Expected term (in years)	3.00	5.00

	Share	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding, January 1, 2009	3,331,222	$ 1.11		
Granted	50,000	$ 1.00		
Exercised	--	--		
Forfeited	--	--		

Outstanding, March 31, 2009	3,381,222 =========	$ 1.11	5.71	$ 13,000
Options exercisable, March 31, 2009	2,341,600 =========	$ 1.15	4.46	$ 13,000

The weighted-average grant-date fair value of options granted during the three months ended March 31, 2009 was $0.49 and $0.52 for the three months ended March 31, 2008.

The aggregate intrinsic value of options outstanding and options exercisable at March 31, 2009 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 $.85 closing price of the Company's common stock on March 31, 2009.

As of March 31, 2009, the fair value of unamortized compensation cost related to unvested stock option awards was approximately $365,000. Unamortized compensation cost as of March 31, 2009 is expected to be recognized over a remaining weighted-average vesting period of 2.96 years.

4. NOTE RECEIVABLE

In February 2008, the Company entered into an agreement with Blue Bite, LLC ("Blue Bite"), a distributor of wireless networking solutions, to become an authorized provider and reseller in the United States of mobile Advertising solutions.

In connection with the agreement, the Company loaned Blue Bite $50,000 (the "Note"). The Note bears interest at 10% per annum and is due June 1, 2009. The Note is convertible, at the Company's option, into a 10% ownership interest of Blue Bite. Upon conversion, the Company would also have to deliver to Blue Bite, $75,000 in restricted Common Stock of the Company as additional consideration.

On September 17, 2008, the Company loaned Blue Bite an additional $50,000 pursuant to the terms of a one year convertible promissory note the "Second Note". The Second Note provides for interest at 10% per annum, payable with any outstanding principal on September 17, 2009. The Company has the option to convert the Second Note plus $75,000 worth of shares of restricted Common Stock of the Company into an additional 10% interest in Blue Bite.

5. TRANSACTIONS WITH MAJOR CUSTOMER

The Company sells its products to a geographically diverse group of customers, performs ongoing credit evaluations of its customers and generally does not require collateral.

For the three months ended March 31, 2009 and 2008, sales from ten percent or greater customers approximated 0 % and 20.4%, respectively of total sales. During the March 31, 2008 reporting period, we had one principal customer, a retailer, accounting for these results.

6. CONSULTING AGREEMENT

In February 2009, the Company entered into an agreement with a consulting firm to provide investor relations services. The agreement provides for the issuance of 350,000 common stock purchase warrants, with an exercise price of $.80 and expires in February 2014. The warrants have a vesting period of 25% immediately and the remaining ratably on a monthly basis through January 2010.

In addition, the consultant would be entitled to an additional advisory fee, subject to the Company completing a successful capital raise through the sale of its common stock of at least $1,250,000.

7. PRIVATE PLACEMENT

On February 3, 2009, the Company sold 500,000 shares of its common stock at $.50 per share to investors in a private transaction.

8. SUBSEQUENT EVENTS

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.

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, 2008 which includes our audited financial statements for the year ended December 31, 2008 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.

OVERVIEW

We are a full service promotional marketing and distribution company offering a wide array of business solutions. Ace has grown organically through referrals based on its high quality service and external financings to support our growth. We are also expanding through hiring leading independent salespersons who are well supported by the Ace proprietary business structure. By offering more services and solutions to our customers, new recruits will have the ability to expand their present business by simply making the move to Ace. Upon integrating their client base into our system they too become trusted advisors that provide integrated business solutions instead of a commodity based promotional product salesperson.

These achievements position us to accelerate growth through potential acquisition and consolidation of other companies as well as simply recruiting experienced salespeople. In the event a company is acquired by us, of which no assurances can be given in this regard, the new clients would all be introduced to the additional services that are now available in our promotional marketing model.

We have effectively carved out a niche for Ace. Marketing and branding companies create an image and direction for clients. Ad agencies develop print, TV, radio and other campaigns aimed at goals of recruiting and introducing new products or services. Traditional promotional product companies offer imprinted merchandise and apparel. Ace finds itself in a position of providing value added services that compliment those of the ad agency, as well as branding and marketing companies while at the same time far exceeding the capabilities of a standard promotional products distributor.

We expect our revenues to grow at such time as economic conditions in the United States improve, by adding additional in-house and independent sales representatives to our sales network. While one or more acquisitions of other distributors will also be considered by Management, we can provide no assurances that one or more acquisitions of other distributors will be completed on terms satisfactory to us, if at all.

ACE MOBILE MARKETING

In 2008, we entered into agreements with certain non-affiliated parties to become an authorized distributor, provider and reseller in the United States of mobile advertising solutions, in the Mobile Advertising & Proximity Marketing Industry.

Management believes that proximity marketing has unlimited marketing possibilities to thousands of different businesses. Proximity marketing is the localized wireless distribution of advertising content associated with a particular place. If we place a proximity transmitting box in a location of an advertiser/business, transmissions (messages) will be sent to and received by cell phones and PDA's equipped with Bluetooth technology within approximately 100 meters of a marketing broadcast. A person receiving the transmission can elect to download the transmission, read the message and potentially act upon the message sent by the advertiser. The message will remain on the cell phone or PDA until proactively removed by the user. The user also has the ability to forward the message to other users, which generates multiple views over an extended period of time.

Management believes that advertisers are constantly seeking new measurable media channels that can accurately target and engage key consumer segments, and deliver compelling, relevant content that can be enjoyed for what it is, shared with friends, interactively engaged with or commercially acted upon instantaneously. All messages received by the public are free of charge meaning there is no charge on any content a consumer downloads. We will enable our advertising customers to promote their business by sending still images, animated images, audio files, video clips, text files, promotional or discount contents, bar codes, mobile games and java applications and business card files. We can also send live data such as news and sports updates to targeted mobile phones.

Management believes that proximity marketing is completely spam-free and compliant with all applicable governmental regulations. It asks the users if they would like to receive the content. It tracks how many people accept and reject the content, providing the sender with a detailed time and date for every transmission. The system maintains a unique Bluetooth ID assigned to each device, and therefore will not send users the same advertisement more than once, and if rejected will not contact the user again.

Ace intends to market its proximity boxes as a premiere mobile technology. This will allow Ace to create a new channel in the mobile marketplace for existing brands and marketers to leverage the inherent strengths of mobile advertising. Ace plans to leverage the technology to develop niche vertical sites. These services will be scalable for both large and small businesses to monetize high traffic areas. Additionally, the platform shall be dynamically scalable for worldwide partnerships, where a multi-location business will be able to send a different marketing campaign for each demographic. Ace has demonstrated the use of proximity marketing boxes and delivered branded content for:

- Def Leppard to support their band tour;
- International Speeding Corporation, owner and operator of 13 major motorsports facilities, including the Daytona International Speedway;
- Macy's Thanksgiving Day Parade ;
- SantaLand at Macy's;
- Madison Square Garden;
- IMAX theater
- Lonestar to support their band

Blue Bite, LLC is also an authorized distributor, provider and reseller of the proximity transmitting boxes. We have an agreement pursuant to which Ace has loaned Blue Bite $100,000 pursuant to two Notes (due June 1, 2009 and September 17, 2009) convertible at Ace's option into a 20% ownership interest of Blue Bite. At the time of conversion, Ace would also have to deliver to Blue Bite up to $150,000 in fair market value of its restricted Common Stock as additional consideration.

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 for in accordance with Emerging Issue Task Force Issue No. 99-19, 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, in accordance with Emerging Issue Task Force Issue No. 00-10, accounting for shipping and handling fees and costs.

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 in accordance with SFAS 123(R). Share-based compensation expense is determined based on the grant-date fair value estimated in accordance with the provisions of SFAS 123(R). 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 March 31	
	2009	2008
Revenue	$ 455,032	$ 1,176,183
Cost of Revenues	330,868	810,460
Gross Profit	124,164	365,723
Selling, General and Administrative Expenses	590,945	667,718
(Loss) from Operations	(466,781)	(301,995)

We generated revenues of $455,032 in the first quarter of 2009 compared to $1,176,183 in the same three month period ending March 31, 2008. The decrease in revenues of $721,151 in 2009 compared to 2008 was due to the general state of economy and customers choosing to cancel or delay purchases of promotional products. In this respect, one of our major customers which purchased $240,000 of promotional products in the quarter ended March 31, 2008, elected to hold off on its 2009 order due to the decline in their company sales.

Cost of revenues was $330,868 or 72.7% of revenues in the first quarter of 2009 compared to $810,460 or 68.9% of revenues in the same three months of 2008. Cost of revenues includes purchases and freight costs associated with the shipping of merchandise to our customers. Decrease in cost of revenues of $479,592 in 2009 is related to a decrease in sales during the current quarter ending March 31, 2009.

Gross profit was $124,164 in the first quarter of 2009 or 27.3% of net revenues compared to $365,723 in the same three months of 2008 or 31.1% 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.

Selling, general, and administrative expenses were $590,945 in the first quarter of 2009 compared to $667,718 in the same three months of 2008. Such costs include payroll and related expenses, commissions, insurance, rents, professional, consulting and public awareness fees. The overall decrease of $76,773 was primarily due to an $18,384 decrease in stock based compensation and a $91,340 decrease in commissions.

Net loss was $(464,051) in the first quarter of 2009 compared to a net loss of $(299,542) for the same three months in 2008. The first quarter net loss for 2009 includes stock based payments (non-cash) of $124,777 as compared to $143,161 for the comparable period of 2008. Our 2009 net loss increased by approximately $165,000 due to substantial decreases in sales caused by customers choosing to cancel or delay purchases of promotional products primarily as a result of the general state of the economy. No benefit for income taxes is provided for in 2009 and 2008 due to the full valuation allowance on the net deferred tax assets.

Liquidity and Capital Resources

The company had cash and cash equivalents of $615,566 at March 31, 2009. Cash used in operating activities for the three months ended March 31, 2009 was $143,685. This resulted primarily from a net loss of $464,051, offset by stock based compensation of $124,777 a decrease in accounts receivable of $458,704 and an increase in prepaid expenses and other assets of $39,903 and a decrease of accounts payable and accrued expenses of $230,084.

The company had cash and cash equivalents of $931,624 at March 31, 2008. Cash provided by operating activities for the three months ended March 31, 2008 was $162,603. This resulted primarily from a net loss of $299,542, offset by stock based compensation of $143,161 a decrease in accounts receivable of $333,815 and an increase in customer deposits of $300,000, as well as an increase prepaid expenses and other assets of $93,378 and a decrease of accounts payable and accrued expenses of $223,665.

Cash used in investing activities for the three months ended March 31, 2008 was $50,000 as a result of an issuance of a note receivable.

Cash provided by financing activities for the three months ended March 31, 2009 was $250,000 as a result of 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 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 fifteen 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

Between July and October 2008, the Company sold 445,000 shares of its

Series A Preferred Stock at a purchase price of $1.00 per share.

On December 15, 2008, all of the Preferred Shares automatically converted into 890,000 common shares at a conversion price of $.50 per share. Exemption is claimed pursuant to Rule 506 of Regulation D of the Securities Act for the issuance of the Preferred Shares. Exemption is claimed pursuant to Section 3(a)(9) of the Securities Act for the subsequent conversion of Preferred Stock into Common Stock.

In February 2009, we sold 500,000 shares of our Common Stock at an exercise price of $.50 per share, payable one-half immediately and the balance in March 2009 through the retirement of a $125,000 Note. Exemption is claimed under 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 Commissions 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.

At December 31, 2008, management identified the following significant deficiencies that when aggregated give rise to a material weakness in the area of financial reporting.

These deficiencies include, without limitation, a) lack of review or evidence of review in the financial Reporting process; b) information technology limitations; and inability to apply complex accounting principles. Management is presently assessing these deficiencies and as of March 31, 2009, had not completed remediated the identified deficiencies.

Management's Plan of Remediation

Independent Board of Directors or Audit Committee

Due to the current size of the Company it does not intend to add independent board members at this time. This deficiency will be addressed if the Company shows substantial growth moving forward.

Information Technology

Management is in the process of implementing a weekly and monthly checklist of IT required function to assure all necessary activities are completed and documented. As of this time the checklist has not yet been completed.

Management has limited the access to all financial applications only to include the Companies CEO, President and CFO. All passwords have been changed and will be changed on a quarterly basis to allow only access to the proper employee's.

Management has it's IT personnel updating the software at least annually and ensuring the updates, patches and licenses are current.

Revenue Recognition and Cost of Revenue

As of January 2009, management has implemented a change to ensure the company has a centralized system to track orders processed shipped and recorded. Orders can no longer move forward without verification from the billing or tracking department. No testing has yet been completed on the system.

Financial Reporting

Management has completed the complex equity transactions that are required and is in the process of having an outside consultant report on the system.

Management is also addressing the two accounting systems currently in use and has a plan which will be implemented in the second quarter to move to a single system. The single system will meet the company's needs and any current future growth.

Accounts Payable and Cash Disbursements

As of February 2009, management has implemented a change to address its deficiencies. The Company has granted access rights for the user of the accounts payable module which now results in the payment of open invoices to relieve any double counting. No testing has been completed on the new system.

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 2009 through April 19, 2009, 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 CO TE CO
February 2009	Common Stock	500,000 Shares	$250,000; no commissions paid	Section 4(2). A restrictive legend appears on each certificate.	No
February 2009	Common Stock Warrants	350,000	Services rendered; no commissions paid	Section 4(2). A restrictive legend appears on each certificate.	Fi ex pe
April 2009	Common Stock Options	100,000	Services rendered; no commissions paid	Section 4(2). A restrictive legend appears on each certificate.	Fi ex pe

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

(c) In the three months ended March 31, 2009, there were no repurchases by the Company of its Common Stock. However, in April 2009, a consultant of the Company agreed to cancel 50% of his options to purchase 1,000,000 shares and to proportionately adjust his vesting schedule.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. SUBMISSIONS OF MATTERS TO A VOTE OF SECURITY HOLDERS:

Not applicable.

ITEM 5. OTHER INFORMATION:

The Company has outstanding Class A and Class B Common Stock Purchase Warrants to purchase an aggregate of 737,000 shares of Common Stock, exercisable at $2.00 per share. The expiration date of the Class A and Class B Warrants has been extended to the close of business on July 1, 2009.

ITEM 6. EXHIBITS:

Except for the exhibits listed below as filed herewith or unless otherwise noted, all other required exhibits have been previously filed with the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended, on Form 10-SB, as amended (file no. 000-51160).

Exhibit Number	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)
11.1	Statement re: Computation of per share earnings. See Statement of Operations and Notes Statements
14.1	Code of Ethics/Code of Conduct (5)
21.1	Subsidiaries of the Issuer - None in 2008
31.1	Chief Executive Officer Rule 13a-14(a)/15d-14(a) Certification (3)
31.2	Chief Financial Officer Rule 13a-14(a)/15d-14(a) Certification (3)
32.1	Chief Executive Officer Section 1350 Certification (3)
32.2	Chief Financial Officer Section 1350 Certification (3)
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	Release - 2008 First quarter Results of Operations (3)

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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) Filed herewith.
(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
(6) Incorporated by reference to the Registrant's Form 10-KSB for its fiscal year ended December
(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

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: May 15, 2009

By: /s/ Dean L. Julia

Dean L. Julia,
Chief Executive Officer

Date: May 15, 2009

By: /s/ Sean McDonnell

Sean McDonnell,
Chief Financial Officer