ACE MARKETING & PROMOTIONS INC
Form 10QSB
November 13, 2006

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-QSB

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

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2006

COMMISSION FILE NUMBER: 000-51160

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

NEW YORK	11-3427896
(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 check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes [ ] No [X]

As of November 6, 2006, the registrant had a total of 8,028,363 shares of Common Stock outstanding, after giving effect to the issuance of an aggregate of 1,091,255 shares of Common Stock issued in connection with a recently completed private placement offering as described herein under "Item 2 - 2006 Financing,."

ACE MARKETING & PROMOTIONS, INC.

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PART I. FINANCIAL INFORMATION

ACE MARKETING & PROMOTIONS, INC.

CONDENSED BALANCE SHEET (UNAUDITED)

SEPTEMBER 30, 2006

ASSETS	
Current Assets:	
Cash and cash equivalents	$ 1,299,928
Accounts receivable, net of allowance for doubtful accounts of $10,000	772,455

Prepaid expenses and other current assets	89,901
Total Current Assets	2,162,284
Property and Equipment, net	17,949
Other Assets	5,492
Total Assets	$ 2,185,725
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current Liabilities:	
Accounts payable	$ 439,802
Accrued expenses	114,680
Total Current Liabilities	554,482
Commitments and Contingencies	
Stockholders' Equity:	
Common stock, $.0001 par value; 25,000,000 shares authorized 7,838,683 shares issued and outstanding	784
Preferred stock $.0001 par value: 500,000 shares authorized no shares outstanding	--
Additional paid-in capital	2,933,719
Accumulated deficit	(1,303,260)
Total Stockholders' Equity	1,631,243
Total Liabilities and Stockholders' Equity	$ 2,185,725

SEE NOTES TO CONDENSED FINANCIAL STATEMENTS. 3

ACE MARKETING &

CONDENSED STATEMENTS OF OPERATIONS (UNAUDITED)

	THREE MONTHS ENDED SEPTEMBER 30, 2006	2005	NINE MO SEPT 2006
Revenues, net	$ 1,357,655	$ 750,957	$ 3,521,251
Cost of Revenues	918,632	477,466	2,448,096
Gross Profit	439,023	273,491	1,073,155
Operating Expenses:			
Selling, general and administrative expenses	459,791	313,066	1,330,275
Total Operating Expenses	459,791	313,066	1,330,275
Net (Loss) from Operations	(20,768)	(39,575)	(257,120

Other Income (Expense):			
Interest expense	--	--	--
Interest income	1,482	12	2,353
Total Other Income (Expense)	1,482	12	2,353
(Loss) Before Provision for Income Taxes	(19,286)	(39,563)	(254,767
Provision for Income Taxes	--	--	--
Net Income (Loss)	$ (19,286)	$ (39,563)	$ (254,767
Net Loss Per Common Share:			
Basic	$ (0.00)	$ (0.01)	$ (0.04
Diluted	$ (0.00)	$ (0.01)	$ (0.04
Weighted Average Common Shares Outstanding:			
Basic	7,389,442	5,888,076	6,859,859
Diluted	7,389,442	5,888,076	6,859,859

SEE NOTES TO CONDENSED FINANCIAL STATEMENTS.

ACE MARKETING & PROMOTIONS, INC.

CONDENSED STATEMENTS OF CASH FLOWS (UNAUDITED)

NINE MONTHS ENDED SEPTEMBER 30,	2006	2005
Cash Flows from Operating Activities:		
Net loss	$ (254,767)	$ (532,581)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	3,151	3,913
Stock-based payments	87,135	481,786
Changes in operating assets and liabilities:		
(Increase) decrease in operating assets:		
Accounts receivable	(61,399)	(29,057)
Prepaid expenses and other assets	(48,619)	31,144
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	73,522	(77,761)
Customer deposits	(98,000)	--
Total adjustments	(44,210)	410,025

Net Cash Used in Operating Activities	(298,977)	(122,556)
Cash Flows from Financing Activities:		
Proceeds from private placement, net	1,200,670	126,076
Payment on notes payable	--	(25,000)
Net Cash Provided by Financing Activities	1,200,670	101,076
Net Increase (Decrease) in Cash and Cash Equivalents	901,693	(21,480)
Cash and Cash Equivalents, beginning of period	398,235	566,285
Cash and Cash Equivalents, end of period	$ 1,299,928	$ 544,805

ACE MARKETING & PROMOTIONS, INC.
NOTES TO CONDENSED FINANCIAL STATEMENTS
NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005
(UNAUDITED)

The Condensed Balance Sheet as of September 30, 2006, the Condensed Statements of Operations for the three and nine months ended September 30, 2006 and 2005 and the Condensed Statements of Cash Flows for the nine months ended September 30, 2006 and 2005 have been prepared by us without audit. 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, 2006, results of operations for the three and nine months ended September 30, 2006 and 2005 and cash flows for the nine months ended September 30, 2006 and 2005.

This report should be read in conjunction with our Form 10-KSB for our fiscal year ended December 31, 2005.

The results of operations and cash flows for the nine months ended September 30, 2006 are not necessarily indicative of the results to be expected for the full year.

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.

2. EARNINGS PER SHARE

Basic earnings per common share are computed by dividing net income by the weighted average number of shares of common stock outstanding during the period. Dilutive earnings 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. Diluted loss per common share does not give effect to the impact of options because their effect would have been anti-dilutive.

3. STOCK COMPENSATION

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.

Effective January 1, 2006, 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)"), which replaces FAS No. 123, Accounting for Stock-Based Compensation, and supersedes Accounting Principles Board Opinion ("APB") No. 25, Accounting for Stock Issued to Employees, and related interpretations. 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.

Prior to January 1, 2006, the Company accounted for similar transactions in accordance with APB No. 25 which employed the intrinsic value method of measuring compensation cost. Accordingly, compensation expense was not recognized for fixed stock options if the exercise price of the option equaled or exceeded the fair value of the underlying stock at the grant date.

While FAS No. 123 encouraged recognition of the fair value of all stock-based awards on the date of grant as expense over the vesting period, companies were permitted to continue to apply the intrinsic value-based method of accounting prescribed by APB No. 25 and disclose certain pro-forma amounts as if the fair value approach of SFAS No. 123 had been applied. In December 2002, FAS No. 148, Accounting for Stock-Based Compensation-Transition and Disclosure, an amendment of SFAS No. 123, was issued, which, in addition to providing alternative methods of transition for a voluntary change to the fair value method of accounting for stock-based employee compensation, required more prominent pro-forma disclosures in both the annual and interim financial statements. The Company complied with these disclosure requirements for all applicable periods prior to January 1, 2006.

In adopting FAS 123(R), the Company applied the modified prospective approach to transition. Under the modified prospective approach, the provisions of FAS 123 (R) are to be applied to new awards and to awards modified, repurchased, or cancelled after the required effective date. Additionally, compensation cost for the portion of awards for which the requisite service has not been rendered that are outstanding as of the required effective date shall be recognized as the requisite service is rendered on or after the required effective date. The compensation cost for that portion of awards shall be based on the grant-date fair value of those awards as calculated for either recognition or pro-forma disclosures under FAS 123.

As a result of the adoption of FAS 123(R), the Company's results for the three and nine month period ended September 30, 2006 include employee share-based compensation expense totaling approximately $12,000 and $37,000, 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. Stock compensation expense recorded under APB No. 25 in the Consolidated Statements of Operations for the three and nine months ended September 30, 2005 totaled $0 and $0 respectively.

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ACE MARKETING & PROMOTIONS, INC.
NOTES TO CONDENSED FINANCIAL STATEMENTS
NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005
(UNAUDITED)

The fair value of options at the date of grant was estimated using the Black-Scholes option pricing model. For option grants in Fiscal 2006, 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 and nine months ended September 30, 2006 and 2005 are as follows:

	Three Months Ended September 30, 2006	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005
		Pro forma		Pro Forma
Expected volatility	--	25.00%	25.0%	1.00%
Expected dividend yield	--	--	--	--
Risk-free interest rate	--	3.49%	5.02%	2.41%

Expected term (in years)	--	5.00	5.00	9.79
Fair Values	--	$ 0.20	$0.34	$0.16

The following table addresses the additional disclosure requirements of 123(R) in the period of adoption. The table illustrates the effect on net income and earnings per share as if the fair value recognition provisions of FAS No. 123 had been applied to all outstanding and unvested awards in the prior year comparable period.

	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2005
Net loss, as reported	$ (39,563)	$ (532,581)
Deduct: Total stock based compensation expense determined under the fair value based method for all awards (no tax effect)	0	(181,939)
Pro forma net loss	$ (39,563)	$ (714,520)
Net income per share:		
Basic - as reported	$ (0.01)	$ (0.09)
Basic - pro forma	$ (0.01)	$ (0.12)
Diluted - as reported	$ (0.01)	$ (0.09)
Diluted - pro forma	$ (0.01)	$ (0.12)

ACE MARKETING & PROMOTIONS, INC.
NOTES TO CONDENSED FINANCIAL STATEMENTS
NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005
(UNAUDITED)

The following table represents our stock options granted, exercised, and forfeited during the quarter ended September 30, 2006:

	Share	Weighted Average Exercise Price	Weight Averag Remain Contrac Ter
Outstanding, beginning of year	2,777,000	$ 1.05	
Granted	182,000	2.09	
Exercised	(37,778)	1.00	
Forfeited	(1,000,000)	1.00	
Outstanding, end of quarter	1,921,222	$ 1.17	6.1

Options exercisable, end of quarter	1,130,464	$ 1.07	7.1

On May 31, 2006, an option holder exercised 37,778 options utilizing the cashless exercise provisions and received 20,000 shares of common stock. The options were exercisable at $1.00 per share with a fair market value of $2.125 per share on the date of exercise.

4. CONSULTING AGREEMENT

On June 10, 2005 the Company entered into a consulting agreement with a financial advisory firm. In connection with this agreement, the Company granted a warrant for the purchase of 1,100,000 shares of the Company's common stock containing cashless exercise provisions. The warrant was exercisable at $.10 per share and would have expired on June 10, 2010. On February 27, 2006, the holder exercised the warrants utilizing the cashless exercise provision and received 1,029,032 shares of common stock in exchange for the exercise of the 1,100,000 warrants based on the closing price of $1.55 of the Company's stock on that date.

5. PRIVATE PLACEMENT

During the nine months ended September 30, 2006 the Company raised proceeds of $1,200,670 (net of expenses of $202,080) from the sale of 13.36 Units. Each Unit consisted of 60,000 shares of the Company's Common Stock and Class C Warrants to purchase 30,000 shares of Common Stock at an offering price of $105,000 per Unit. The Class C Warrants are exercisable at $1.75 per share at anytime from the date of issuance through the earlier of June 30, 2009 or the redemption date of the Class C Warrants, whichever is earlier. In addition, through September 30, 2006, the Company issued 100,000 shares to the placement agent in connection with the offering.

In connection with the offering, the Company granted 50,000 ten year non statutory stock options to a law firm for legal services The options have an exercise price of $0.10 per share and have been valued at $95,000 and were netted against the proceeds of the offering at September 30, 2006.

6. RELATED PARTY TRANSACTION

On April 10, 2006, the Company granted 40,000 five year non statutory stock options to an entity controlled by two of the officers of the Company, for the purchase of an email list of promotional products professionals and an industry specific search engine. The officers of the Company have waived their right to receive any benefit from the option grant, and the options were granted in the name of the minority shareholders of the related entity. The options have an exercise price of $2.50 per share and the email list and search engine were expensed and have been valued at approximately $18,000, which is included in general and administrative expenses for the period ended September 30, 2006.

7. MAJOR CUSTOMER

For the nine months ended September 30, 2006, sales from one customer approximated 26.7% of total sales.

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

FORWARD-LOOKING STATEMENTS

The information contained in this Form 10-QSB and documents incorporated herein by reference are intended to update the information contained in the Company's Form 10-KSB for its fiscal year ended December 31, 2005 which includes our audited financial statements for the year ended December 31, 2005 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-KSB and other Company filings with the Securities and Exchange Commission ("SEC").

This Quarterly Report on Form 10-QSB 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-QSB. Certain statements contained in Management's Discussion and Analysis, particularly in "Liquidity and Capital Resources," and elsewhere in this Form 10-QSB 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-QSB 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 advertising specialties and promotional products company. Specific categories of the use of promotional products include advertising specialties, business gifts, incentives and awards, and premiums. Through the services of our two in-house sales persons, who also serve as executive officers of our company, and the use of independent sales representatives, we distribute items to our customers typically with their logos on them. Several of our customer categories include large corporations, local schools, universities, financial institutions, hospitals and not-for-profit organizations.

The most popular products that we have distributed over the last two years and account for over 50% of our business are as follows:

o Wearables, such as t-shirts, golf shirts and hats. o Glassware, such as mugs and drinking glasses. o Writing instruments, such as pens, markers and highlighters. o Bags, such as tote bags, gift bags and brief cases.

There are a number of trends in the advertising/marketing industry, the most significant of which is the trend toward integrated marketing strategies. Integrated marketing campaigns involve not only advertising, but also sales promotions, internal communications, public relations, and other disciplines. The objectives of integrated marketing are to promote products and services, raise employee awareness, motivate personnel, and increase productivity through a wide array of methods including extensive use of promotional products.

Price is no longer the sole motivator of purchasing behavior for our customers. With the availability of similar products from multiple sources, customers are increasingly looking for distributors who provide a tangible added-value to their products. As a result, we provide a broad range of products and related services. Specifically, we provide research and consultancy services, artwork and design services, and fulfillment services to our customers. These services are provided in-house by our current employees. Management believes that by offering these services, we can attempt to attract new customers.

Our revenues are expected by us to grow as economic conditions in the United States continue to improve, by adding additional independent sales representatives to our sales network and through one or more acquisitions of other distributors. We can provide no assurances that our expectations described above will be realized.

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,		Nine Month Septembe
	2006	2005	2006
Revenue	$ 1,357,655	$ 750,957	$ 3,521,251
Cost of Revenues	918,632	477,466	2,448,096
Gross Profit	439,023	273,491	1,073,527
Selling, general & Administrative expenses	459,791	313,066	1,330,275
(Loss) from operations	(20,768)	(39,575)	(257,120)

Three Months Ended September 30, 2006 versus Three Months Ended September 30, 2005

We generated revenues of $1,357,655 in the third quarter of 2006 compared to $750,957 in the same three month period ending September 30, 2005. The increase in revenues of $606,698 in 2006 compared to 2005 is primarily due to our utilizing additional sales representations to obtain additional customers and our new and existing customers buying products with higher average prices.

Cost of revenues was $918,632 or 68% of revenues in the third quarter of 2006 compared to $477,466 or 64% of revenues in the same three months of 2005. Cost of revenues includes purchases and freight costs associated with the shipping of merchandise to our customers. Increase in cost of revenues of $441,166 in 2006 is related to an increase in revenues.

Gross profit was $439,023 in the third quarter of 2006 or 32% of net revenues compared to $273,491 in the same three months of 2005 or 36% 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 $459,791 in the third quarter of 2006 compared to $313,066 in the same three months of 2005. Such costs include payroll and related expenses, insurance and rents. The overall increase of $146,725 is primarily due to the increase in stock based compensation and an increase in salaries.

Net loss was $(20,768) in the third quarter of 2006 compared to a net loss of $(39,575) for the same three months in 2005.

The third quarter net loss for 2006 includes stock based payments (non-cash) of $22,821 as compared to $5,094 for the comparable period of 2005. No benefit for income taxes is provided for in 2006 and 2005 due to the full valuation allowance on the net deferred tax assets.

Nine months ended September 30, 2006 versus September 30, 2005

We generated revenues of $3,521,251 in the first nine months of 2006 compared to $2,300,150 in the same nine month period ending September 30, 2005. The increase in revenues of $1,221,101 in 2006 compared to 2005 is primarily due to our utilizing additional sales representations to obtain additional customers and our new and existing customers buying products with higher average prices.

Cost of revenues was $2,448,096 or 70% of revenues in the first nine months of 2006 compared to $1,518,185 or 66% of revenues in the same nine months of 2005. Cost of revenues includes purchases and freight costs associated with the shipping of merchandise to our customers. Increase in cost of revenues of $929,911 in 2006 is related to an increase in revenues.

Gross profit was $1,073,155 in the first nine months of 2006 or 30% of net revenues compared to $781,965 in the same nine months of 2005 or 34% 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. The decrease in gross profit percentage during the first nine months of 2006 relates to the mix of product sold and size of orders.

Selling, general, and administrative expenses were $1,330,275 in the first nine months of 2006 compared to $1,310,147 in the same nine months of 2005. Such costs include payroll and related expenses, insurance and rents. The overall increase of $20,127 is primarily due to the increase in salaries.

Net loss was $(257,120) in the first nine months of 2006 compared to a net loss of $(528,182) for the same nine months in 2005. The first nine months of 2006 include stock based payments (non-cash) of $87,135 as compared to $481,786 for the comparable period of the prior year. No benefit for income taxes is provided for in 2006 and 2005 due to the full valuation allowance on the net deferred tax assets.

LIQUIDITY AND CAPITAL RESOURCES

The Company had cash and cash equivalents of $1,299,928 at September 30, 2006. Cash used by operating activities for the nine months ended September 30, 2006 was $(298,977). This resulted primarily from a net loss of $(254,767), an increase in accounts receivable of $(61,399) and a increase in accounts payable and accrued expenses of $73,522 partially offset by customer deposits of $(98,000) and stock based compensation of $87,135.

The Company had cash and cash equivalents of $544,805 at September 30, 2005. Cash used by operating activities for the nine months ended September 30, 2005 was $(122,556). This resulted primarily from a net loss of $(532,581), an increase in accounts receivable of $(29,057) and a decrease in accounts payable and accrued expenses of $(77,761) partially offset by prepaid expenses of $31,144 and stock based compensation of $481,786. Cash provided from financing activities was $101,076 resulting from a private placement of common stock and warrants which netted $95,000 and the conversion of a note payable with accrued interest into common stock of the company at a reduced conversion rate of $1.00 per share, which resulted in the issuance of 31,076 shares 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 on equity financing and borrowings 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.

2006 Financing

We recently engaged Brookshire Securities Corporation, a licensed broker-dealer and member of the NASD, to act as Placement Agent to raise financing for our company through the sale of our unregistered securities solely to "accredited investors" as defined in Rule 501 of Regulation D of the Securities Act of 1933, as amended.

Pursuant to the offering, we raised gross proceeds of $1,665,250 from the sale of Units. Each Unit consisted of 60,000 shares of our Common Stock and Class C Warrants to purchase 30,000 shares of Common Stock at an offering price of $105,000 per Unit. We had the right to sell fractional Units, but not fractional shares or fractional Class C Warrants. The Class C Warrants are exercisable at

$1.75 per share at anytime from the date of issuance through the earlier of June 30, 2009 or the redemption date of the Class C Warrants, whichever is earlier.

Each Class C Warrant may be redeemed by us at a redemption price of $.001 per Warrant, on at least 30 days prior written notice (the "Redemption Date'), at anytime after the average closing sales price of our Common Stock as reported in the Over-the-Counter Market OTC Electronic Bulletin Board, NASDAQ or if listed on a national securities exchange, equals or exceeds $3.00 per share for a period of 20 consecutive trading days ending within 10 days prior to the date of the notice of redemption is mailed or otherwise delivered by us to each holder of Class C Warrants.

All investors who purchased Units in the Offering have the following additional rights:

- LIQUIDATED DAMAGES RELATING TO REGISTRATION STATEMENT - We have agreed to file a Registration Statement with the SEC within 60 days (automatically extended to 120 days if we have executed an agreement to acquire the stock or assets of another promotional product distributor) after the final closing date of the Offering (i.e. October 30, 2006), to provide for the resale by purchasers of Units of the shares of Common Stock and the Warrant Shares issuable upon exercise of the Class C Warrants under the Securities Act. We have agreed to use our best efforts to have the Registration Statement declared effective as soon as possible after filing and we have agreed to obtain an effective Registration Statement within 210 days after the final closing date of the Offering (i.e. October 30, 2006), subject to a 30-day extension if the Registration Statement receives a "full review" from the Commission. These intervals would be extended by 30 days if fiscal year end audited financial statements would be required, and which were not issued prior to the closing. If the Registration Statement is not effective within the aforementioned time parameters, we will pay liquidated damages in cash or, at our discretion, in Common stock (based upon the fair market value of our Common Stock) equal to 1% of the

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amount invested to each investor for each subsequent 30-day period that we fail to have an effective Registration Statement, up to a maximum of 9%. In the event the SEC establishes policy preventing the use of or prohibiting the effectiveness of a registration statement, and the Registration Statement is still pending with liquidated damages accruing, we shall be responsible for said damages up to the date of the policy change. We have agreed to use our best efforts to maintain the effectiveness of the registration statement until the earlier of five years from the final closing date of the Offering or until the Shares and Warrant Shares may be sold pursuant to provisions of Rule 144(k) without volume limitations. Any registration costs (other than costs of counsel to subscribers or commissions related to the sales of the Shares and Warrant Shares) will be paid by us.

- ANTI-DILUTION PROTECTION - In the event we seek to raise money on a capital raise transaction during the period commencing on October 30, 2006 and terminating on the earlier of 24 months from that date or 12 months from the initial effective date of the Registration Statement (the "Covered Period") and we sell shares of our Common Stock or issue options or warrants at a price below $1.75 per share during the Covered Period, the investors in the Offering will have the following anti-dilution protection during the Covered Period:

"MOST FAVORED NATION PROVISION" - Purchasers of Units sold by the Company during the Covered Period may elect at the time of each capital raise transaction by us to exchange their unsold Units multiplied by $105,000 per Unit in exchange for an equivalent amount of our securities offered in any new capital raise transaction based upon the new terms offered by us. A capital raise transaction shall not include the issuance of securities to officers, directors, employees, advisors or consultants or securities issued in connection with acquisitions, consolidations or mergers."

Pursuant to the Offering, we sold 951,575 shares of our Common Stock and Class C Warrants to purchase 475,788 shares of our Common Stock. We also issued to the Placement Agent 139,680 shares of Common Stock and five-year Warrants to purchase 95,160 shares of Common Stock exercisable at $1.00 per share. Exemption from registration is claimed under Rule 506 of Regulation d promulgated under Section 4(2) of the Securities Act.

ITEM 3. CONTROLS AND PROCEDURES

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company's Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure based closely on the definition of "disclosure controls and procedures" in Rule 13a-15(e). In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. The Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and the Company's Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on the foregoing, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective at the reasonable assurance level at the end of our most recent quarter. There have been no changes in the Company's disclosure controls and procedures or in other factors that could affect the disclosure controls subsequent to the date the Company completed its evaluation. Therefore, no corrective actions were taken.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS:

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

ITEM 2. CHANGES IN SECURITIES.

(a) Between July 1, 2006 and October 31, 2006, there were no sales of unregistered securities, except as follows:

DATE OF SALE	TITLE OF SECURITY	NUMBER SOLD	CONSIDERATION RECEIVED AND DESCRIPTION OF UNDERWRITING OR OTHER DISCOUNTS TO MARKET PRICE OR CONVERTIBLE	EXEMPTION F REGISTRATIO CLAIMED
July - October 2006	Common Stock and Class C Warrants	951,575 shares 475,788 warrants	$1,665,250 gross proceeds received; 12% of gross proceeds paid to Brookshire Securities plus $30,000 legal expenses, 100,000 shares of Common Stock and Placement Agent Warrants to purchase 139,680 shares.	Rule

(b) Rule 463 of the Securities Act is not applicable to the Company.
(c) In the three months ended September 30, 2006 there were no repurchases by the Company of its Common Stock.

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 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 Warrants has been extended to the close of business on January 3, 2007.

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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	Letter Employment Agreement - Michael Trepeta (2)
10.2	Letter Employment Agreement - Dean Julia (2)
10.3	Amendment to Employment Agreement - Michael Trepeta (3)
10.4	Amendment to Employment Agreement - Dean L. Julia (3)
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 (3)
31.1	Chief Executive Officer Rule 13a-14(a)/15d-14(a) Certification (5)
31.2	Chief Financial Officer Rule 13a-14(a)/15d-14(a) Certification (5)
32.1	Chief Executive Officer Section 1350 Certification (5)
32.2	Chief Financial Officer Section 1350 Certification (5)
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	Release - 2006 Third Quarter Results of Operations (5)
99.6	Form of Class C Warrant (5)

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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-KSB for fiscal year ended December 31, 2005.

(4) Incorporated by reference to the Registrant's Form 10-QSB/A filed with the Commission on August 18, 2005 for the quarter ended September 30, 2005.

(5) Filed herewith.

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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: November 13, 2006

By: /s/ Dean L. Julia

Dean L. Julia,

Chief Executive Officer

Date: November 13, 2006

By: /s/ Sean McDonnell

Sean McDonnell,

Chief Financial Officer