ACE MARKETING & PROMOTIONS INC
Form 10QSB
August 09, 2007

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 JUNE 30, 2007

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

Yes [ ] No [X]

As of August 9, 2007, the registrant had a total of 8,017,529 shares of Common Stock outstanding.

ACE MARKETING & PROMOTIONS, INC.

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PART I. FINANCIAL INFORMATION

ACE MARKETING & PROMOTIONS, INC.

CONDENSED BALANCE SHEET (UNAUDITED)

JUNE 30, 2007	UNADJUSTED
ASSETS	
Current Assets:	
Cash and cash equivalents	$ 1,037,262
Accounts receivable, net of allowance for doubtful accounts of $10,000	733,064
Prepaid expenses and other current assets	65,378
Total Current Assets	1,835,704
Property and Equipment, net	19,062
Other Assets	7,745

Total Assets	$ 1,862,511
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current Liabilities:	
Accounts payable	$ 307,455
Accrued expenses	116,361
Total Current Liabilities	423,816
Commitments and Contingencies	
Stockholders' Equity:	
Common stock, $.0001 par value; 25,000,000 shares authorized 8,005,029 shares issued and outstanding	803
Preferred stock $.0001 par value: 500,000 shares authorized no shares outstanding	--
Additional paid-in capital	3,259,458
Accumulated deficit	(1,790,065)
Less: Treasury Stock, at cost, 23,334 shares	(31,501)
Total Stockholders' Equity	1,438,695
Total Liabilities and Stockholders' Equity	$ 1,862,511

SEE NOTES TO CONDENSED FINANCIAL STATEMENTS. 3

ACE MARKETING & PROMOTIONS, INC.

CONDENSED STATEMENTS OF OPERATIONS (UNAUDITED)

	Three Months Ended June 30, 2007	Three Months Ended June 30, 2006	Six 2007
Revenues, net	$ 1,400,786	$ 1,088,589	$ 2,683,6
Cost of Revenues	960,074	754,291	1,825,5
Gross Profit	440,712	334,298	858,0
Operating Expenses:			
Selling, general and administrative expenses	580,384	454,311	1,134,9
Total Operating Expenses	580,384	454,311	1,134,9
Loss from Operations	(139,672)	(120,013)	(276,8
Other Income (Expense):			
Interest expense	(43)	--	(
Interest income	7,995	124	16,3

Total Other Income (Expense)	7,952	124	16,2
Loss Before Provision for Income Taxes	(131,720)	(119,889)	(260,5
Provision for Income Taxes	--	--	
Net Loss	$ (131,720)	$ (119,889)	$ (260,5
Net Loss Per Common Share:			
Basic	$ (0.02)	$ (0.02)	$ (0.
Diluted	$ (0.02)	$ (0.02)	$ (0.
Weighted Average Common Shares Outstanding:			
Basic	8,012,722	6,923,701	8,020,4
Diluted	8,012,722	6,923,701	8,020,4

SEE NOTES TO CONDENSED FINANCIAL STATEMENTS.

ACE MARKETING & PROMOTIONS, INC.

Condensed Statements of Cash Flows (unaudited)

SIX MONTHS ENDED JUNE 30,	2007	2006
Cash Flows from Operating Activities:		
Net loss	$ (260,546)	$ (235,649)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	2,243	2,101
Stock-based payments	51,166	64,314
Changes in operating assets and liabilities:		
(Increase) decrease in operating assets:		
Accounts receivable	(11,078)	58,405
Prepaid expenses and other assets	(19,948)	3,025
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	(73,300)	8,370
Customer deposits	--	(19,600)
Total adjustments	(50,917)	116,615
Net Cash Used in Operating Activities	(311,463)	(119,034)

Cash Flows from Investing Activities:		
Acquisition of property & equipment	(4,406)	--
Net Cash Provided by Financing Activities	(4,406)	--
Net Decrease in Cash and Cash Equivalents	(315,869)	(119,034)
Cash and Cash Equivalents, beginning of period	1,353,131	398,235
Cash and Cash Equivalents, end of period	$ 1,037,262	$ 279,201

SEE NOTES TO CONDENSED FINANCIAL STATEMENTS. 5

ACE MARKETING & PROMOTIONS, INC.
NOTES TO CONDENSED FINANCIAL STATEMENTS
THREE AND SIX MONTHS ENDED JUNE 30, 2007 AND 2006
(UNAUDITED)

The Condensed Balance Sheet as of June 30, 2007, the Condensed Statements of Operations for the three and six months ended June 30, 2007 and 2006 and the Condensed Statements of Cash Flows for the six months ended June 30, 2007 and 2006 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 June 30, 2007, results of operations for the three and six months ended June 30, 2007 and 2006 and cash flows for the six months ended June 30, 2007 and 2006.

This report should be read in conjunction with our Form 10-KSB for our fiscal year ended December 31, 2006.

The results of operations and cash flows for the three and/or six months ended June 30, 2007 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.

NEW ACCOUNTING PRONOUNCEMENTS - In July 2006, the FASB issued FASB Interpretation 48, "Accounting for Uncertainty in Income Taxes ("FIN 48"). FIN

48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109, "Accounting for Income Taxes." This interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides a guidance on de-recognition, classification interest and penalties, accounting in interim periods, disclosure and transition. The adoption of FIN 48 on January 1, 2007 did not have a material impact on the Company's financial statements.

ACE MARKETING & PROMOTIONS, INC.
NOTES TO CONDENSED FINANCIAL STATEMENTS
THREE AND SIX MONTHS ENDED JUNE 30, 2007 AND 2006
(UNAUDITED)

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. 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 3,519,000 and 2,848,000 because they are antidilutive as a result of a net loss for the six months ended June 30, 2007 and 2006..

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)"). 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.

The Company's results for the three and six month periods ended June 30, 2007 and 2006 include employee share-based compensation expense totaling approximately $25,583 and $51,166 and $42,309 and $56,189 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 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 following table represents the activity under our stock option plan:

	Share	Weighted Average Exercise Price	Weigh Avera Remain Contractu
Outstanding, January 1, 2007	1,921,222	$ 1.17	
Granted	-		
Exercised	-		
Forfeited	-		
Outstanding, June 30, 2007	1,921,222	$ 1.17	5.6
Options exercisable, June 30, 2007	1,352,247	$ 1.11	6.0

As of June 30, 2007, the fair value of unamortized compensation cost related to unvested stock option awards was approximately $165,000. Unamortized compensation cost as of June 30, 2007 is expected to be recognized over a remaining weighted-average vesting period of 3.50 years.

4. 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 and six months ended June 30, 2007 and 2006, sales from ten percent or greater customers approximated 27% and 37%, 11 % and 27%, respectively of total sales. During these reporting periods, we had up to two different principal customers, each of whom are retailers, accounting for these results.

5. TREASURY SHARES

In April 2007, in connection with a settlement arrangement with a former sales agent, the Company received 23,334 shares of its common stock from the sales agent. The shares have been recorded at their fair value on the date of receipt and presented as treasury shares.

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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, 2006 which includes our audited financial statements for the year ended December 31, 2006 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 in-house sales persons 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 several years and account for over 50% of our business are as follows:

- Wearables, such as t-shirts, golf shirts and hats.
- Glassware, such as mugs and drinking glasses.
- Writing instruments, such as pens, markers and highlighters.
- 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 value-added 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 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.

Recently Issued Accounting Pronouncements

Reference is made to the Notes to Financial Statements for a description of certain recently issued accounting pronouncements.

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 require 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, customer credit worthiness, (d) current economic conditions, and (e) changes in customer payment terms.

STOCK-BASED PAYMENTS. Effective January 1, 2006, the Company began recording compensation expense associated with stock options and other equity-based compensation in accordance with SFAS 123(R), using the modified prospective transition method and therefore has not restated results for prior periods. Under the modified prospective transition method, share-based compensation expense for 2006 includes 1) compensation expense for all share-based awards granted on or after January 1, 2006 as determined based on the grant-date fair value estimated in accordance with the provisions of SFAS 123(R) and 2) compensation expense for share-based compensation awards granted prior to, but not yet vested as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS 123. The Company recognizes compensation expense on a straight-line basis over the requisite service period of the award.

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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 June 30,:	2007	2006
Revenue	$1,400,786	$1,088,589
Cost of Revenue	960,074	754,291
Gross Profit	440,712	334,298
Selling, general & Administrative expenses	580,384	454,311
Loss from operations	(139,672)	(120,013)

Six Months Ended June 30,:	2007	2006
Revenue	$2,683,666	$2,163,596
Cost of Revenue	1,825,598	1,529,464
Gross Profit	858,068	634,132

Selling, general & Administrative expenses	1,134,908	870,484
Loss from operations	(276,840)	(236,352)

We generated revenue of $1,400,786 in the three months ended June 30, 2007 compared to $1,088,589 in the same three month period ending June 30, 2006. We generated revenue of $2,683,666 in the six months ended June 30, 2007 compared to $2,163,596 in the same six month period ending June 30, 2006. The increase in revenue of $312,197 or 28.7% in the three months ended June 30, 2007 and $520,070 or 24.0% in the six months ended June 30, 2007 as compared to the comparable periods of 2006 are 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 revenue was $960,074 or 68.5% of revenue in the three months ended June 30, 2007 compared to $754,291 or 69.3% of revenues in the same three months of 2006. Cost of revenue was $1,825,598 or 68.0% of revenues in the six months ended June 30, 2007 compared to $1,529,464 or 70.7% of revenue in the same six months of 2006. Cost of revenue includes purchases and freight costs associated with the shipping of merchandise to our customers. Increases in cost of revenues in 2007as compared to 2006 are related to an increase in revenue.

Gross profit was $440,712 in the three months ended June 30, 2007 or 31.5% of net revenue compared to $334,298 in the same three months of 2006 or 30.7% of revenue. Gross profit was $858,068 in the six months ended June 30, 2007 or 32.0% of net revenue compared to $634,132 in the same six months of 2006 or 29.3% of revenues. Gross profit 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 revenue 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 $580,384 in the three months ended June 30, 2007 compared to $454,311 in the same three months of 2006. Selling, general, and administrative expenses were $1,134,908 in the six months ended June 30, 2007 compared to $870,484 in the same six months of 2006. Such costs include payroll and related expenses, commissions, insurance, rents, professional, consulting and public awareness fees. For the six months ended June 30, 2007, the overall increase of $126,073 was primarily due to a $128,685 increase in salaries, commissions and other compensation paid to our employees to sustain our growth and a $16,726 decrease in stock based compensation. For the six months ended June 30, 2007, the overall increase of $264,424 was primarily due to a $191,148 increase in salaries, commissions and other compensation paid to our employees to sustain our growth, one time cash fees for public awareness/investor relations of approximately $45,000 and a $5,023 decrease in stock based compensation.

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Net Loss was $131,720 for the three months ended June 30, 2007 compared to a net loss of $119,889 for the same three months in 2006. The net loss for the six months ended June 30, 2007 includes stock based payments (non-cash) of $25,583 as compared to $42,309 for the comparable period of 2006. Net Loss was $260,546 for the six months ended June 30, 2007 compared to a net loss of $235,481 for the same six months in 2006. The net loss for the six months ended June 30, 2007 includes stock based payments (non-cash) of $51,166 as compared to $56,189 for the comparable period of 2006. It also includes a one time cash fee for public awareness/investor relations of approximately $45,000. No benefit for income taxes is provided for in 2007 and 2006 due to the full valuation allowance on the net deferred tax assets.

LIQUIDITY AND CAPITAL RESOURCES

The company had cash and cash equivalents of $1,037,262 at June 30, 2007. Cash used by operating activities for the six months ended June 30, 2007 was $(311,463). This resulted primarily from a net loss of $ 260,546 and a decrease in accounts payable of $73,300, partially offset by stock based compensation of $51,166.

The Company had cash and cash equivalents of $279,201 at June 30, 2006. Cash used by operating activities for the six months ended June 30, 2006 was $(119,034). This resulted primarily from a net loss of $(235,481), partially offset by decreased accounts receivable of $58,405 and stock based compensation of $64,314.

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

In 2006, we 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:

- REGISTRATION RIGHTS - On December 21, 2006, we obtained an effective Registration Statement to register the resale of 951,575 shares of our Common Stock and 475,788 shares of our Common Stock underlying a like number of Class C Warrants.

- 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 (i.e. December 21, 2006) 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.

Management has not yet completed, and is not yet required to have completed, its assessment of the effectiveness of internal control over financial reporting as required by Section 404 of the Sarbanes-Oxley Act of 2002, as amended.

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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 January 1, 2007 and June 30, 2007, there were no sales of unregistered securities,
(b) Rule 463 of the Securities Act is not applicable to the Company.
(c) In the six months ended June 30, 2007, there were no repurchases by the Company of its Common Stock. However, 23,334 shares were cancelled by agreement with a former consultant in settlement of a dispute involving the number of shares the consultant was entitled to retain for services previously rendered.

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 September 28,2007.

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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,
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 Operat Financial Statements
14.1	Code of Ethics/Code of Conduct (3)
31.1	Chief Executive Officer Rule 13a-14(a)/15d-14(a) Certification (6)
31.2	Chief Financial Officer Rule 13a-14(a)/15d-14(a) Certification (6)
32.1	Chief Executive Officer Section 1350 Certification (6)
32.2	Chief Financial Officer Section 1350 Certification (6)
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 - 2007 Second Quarter Results of Operations (6)
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 June 30, 2005.

(5) Incorporated by reference to the Registrant's Form 10-QSB filed with the Commission on November 13, 2006 for the quarter ended September 30, 2006.

(6) 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: August 9, 2007

By: /s/ Dean L. Julia

Dean L. Julia,
Chief Executive Officer

Date: August 9, 2007

By: /s/ Sean McDonnell

Sean McDonnell,
Chief Financial Officer