ACE MARKETING & PROMOTIONS INC
Form 10QSB
May 14, 2008

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 MARCH 31, 2008

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 May 15, 2008, the registrant had a total of 8,121,615 shares of Common Stock outstanding.

ACE MARKETING & PROMOTIONS, INC.

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Condensed Balance Sheets

	March 31, 2008	
	(Unaudited)	
Assets		
Current Assets:		
Cash and cash equivalents	$ 931,624	$
Accounts receivable, net of allowance for doubtful accounts of $10,000 at March 31, 2008 and December 31, 2007, respectively	630,104	
Note receivable	50,000	

Prepaid expenses and other current assets	168,753
Total Current Assets	1,780,481
Property and Equipment, net	31,853
Other Assets	7,745
Total Assets	$ 1,820,079 $
Liabilities and Stockholders' Equity	
Current Liabilities:	
Accounts payable	$ 320,679 $
Accrued expenses	137,123
Customer deposits	300,000
Total Current Liabilities	757,802
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; 8,144,949 and 8,124,949 shares issued at March 31, 2008 and December 31, 2007, respectively	815
Additional paid-in capital	3,801,079
Accumulated deficit	(2,708,116)
	1,093,778
Less: Treasury Stock, at cost, 23,334 shares	(31,501)
Total Stockholders' Equity	1,062,277
Total Liabilities and Stockholders' Equity	$ 1,820,079 $

See notes to condensed financial statements.

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Condensed Statements of Operations

Three Months Ended March 31,	2008
	(Unaudited)
Revenue, net	$ 1,176,183 $
Cost of Revenue	810,460
Gross Profit	365,723
Operating Expenses:	

Selling, general and administrative expenses (including stock-based payments expense of $143,161 and $25,583, in 2008 and 2007, respectively)	667,718
Total Operating Expenses	667,718
Loss from Operations	(301,995)
Other Income:	
Interest income	2,453
Total Other Income	2,453
Net Loss	$ (299,542) $
Net Loss Per Common Share:	
Basic	$ (0.04) $
Diluted	$ (0.04) $
Weighted Average Common Shares Outstanding:	
Basic	8,118,099
Diluted	8,118,099

See notes to condensed financial statements.

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CONDENSED STATEMENTS OF CASH FLOWS

Three Months Ended March 31,	2008
	(UNAUDITED)
Cash Flows from Operating Activities:	
Net loss	$ (299,542) $
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:	
Depreciation and amortization	2,212
Stock-based compensation	143,161
Changes in operating assets and liabilities:	
(Increase) decrease in operating assets:	
Accounts receivable	333,815
Prepaid expenses and other assets	(93,378)
(Decrease) increase in operating liabilities:	
Accounts payable and accrued expenses	(223,665)
Customer deposits	300,000
Total adjustments	462,145

Net Cash Provided by (Used in) Operating Activities	162,603
Cash Flows from Investing Activities:	
Increase in note receivable	(50,000)
Net Cash Used in Investing Activities	(50,000)
Net Increase (Decrease) in Cash and Cash Equivalents	112,603
Cash and Cash Equivalents, beginning of period	819,021
Cash and Cash Equivalents, end of period	$ 931,624 $

See notes to condensed financial statements.

PART I. FINANCIAL INFORMATION

ACE MARKETING & PROMOTIONS, INC.
NOTES TO CONDENSED FINANCIAL STATEMENTS
THREE MONTHS ENDED MARCH 31, 2008 AND 2007
(UNAUDITED)

The Condensed Balance Sheets as of March 31, 2008, the Condensed Statements of Operations for the three months ended March 31, 2008 and 2007 and the Condensed Statements of Cash Flows for the three months ended March 31, 2008 and 2007 have been prepared by us without audit, and in accordance with the requirements of Form 10-QSB 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, 2008, results of operations for the three months ended March 31, 2008 and 2007 and cash flows for the three months ended March 31, 2008 and 2007. All such adjustments are of a normal recurring nature.

This report should be read in conjunction with our Form 10-KSB for our fiscal year ended December 31, 2007.

The results of operations and cash flows for the three months ended March 31, 2008 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.

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. The Company adopted the provisions of SFAS No. 157 related to financial assets and liabilities as of January 1, 2008. The application of this standard did not have a material impact on the results of operations or financial condition. The Company elected to defer adoption of SFAS No. 157 for non-financial assets and liabilities and does not anticipate that adoption in fiscal 2009 will have a material impact on the results of operations or financial condition.

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 and did not elect to report at fair value any new financial assets or liabilities entered during the quarter ended March

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 is currently evaluating the effect that the adoption of SFAS 141R will have 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 is currently reviewing the effect that the adoption of this statement will have on its financial statements.

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 4,739,170 and 3,519,000 because they are antidilutive as a result of a net loss for the three months ended March 31, 2008 and 2007.

3. STOCK COMPENSATION

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.

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, 2008 and 2007 include employee share-based compensation expense totaling approximately $143,000 and $26,000, 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, 2008 and 2007:

	Three Months Ended March 31,	
	2008	2007

Employee stock-based compensation - option grants	$107,055	$12,862
Employee stock-based compensation - stock grants	-	-
Non-Employee stock-based compensation - option grants	19,156	12,721
Non-Employee stock-based compensation - stock grants	17,000	-
Total	$143,161	$25,583

ACE MARKETING & PROMOTIONS, INC.
NOTES TO CONDENSED FINANCIAL STATEMENTS
THREE MONTHS ENDED MARCH 31, 2008 AND 2007
(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, 2008 and 2007 are as follows:

	Three Months Ended March 31,	
	2008	2007
Expected volatility	114.92%	-
Expected dividend yield	-	-
Risk-free interest rate	3.125%	-
Expected term (in years)	5.00	-

The following table represents the activity under our stock option plan:

	Weighted	Weighted Average

	Share	Average Exercise Price	Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding, January 1, 2008	2,221,222	$ 1.13		
Granted	1,110,000	$ .80		
Exercised	-	-		
Forfeited	(100,000)	$ 2.00		
Outstanding, March 31, 2008	3,231,222	$ 1.11	6.77	$ -
Options exercisable, March 31, 2008	1,762,247	$ 1.10	5.99	$ -

The weighted-average grant-date fair value of options granted during the three months ended March 31, 2008 was $0.52. There were no option grants for the three months ended March 31, 2007.

The aggregate intrinsic value of options outstanding and options exercisable at March 31, 2008 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 $.75 closing price of the Company's common stock on March 31, 2008. At March 31, 2008 there were no outstanding options with exercise prices less than $.75.

As of March 31, 2008, the fair value of unamortized compensation cost related to unvested stock option awards was approximately $532,473. Unamortized compensation cost as of March 31, 2008 is expected to be recognized over a remaining weighted-average vesting period of 4.75 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 bears interest at 10% per annum and is due March 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.

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, 2008 and 2007, sales from ten percent or

greater customers approximated 20.4% and 47.5%, respectively of total sales. During these reporting periods, we had one principal customer, of whom is a retailer, accounting for these results.

6. CONSULTING AGREEMENT

During the three months ended March 31, 2008, the Company issued 20,000 shares of common stock to a consultant in exchange for marketing and training services. The services were recorded equal to the value of the shares and an expense of $17,000 is included in selling, general and administrative for the three months ended March 31, 2008.

7. SUBSEQUENT EVENTS - WARRANTS

On April 1, 2008, the Company's Board of Directors approved the extension of the expiration date of the Company's Class A and Class B Warrants to July 1, 2008.

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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, 2007 which includes our audited financial statements for the year ended December 31, 2007 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 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 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.

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 COMPENSATION. 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.

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. The Company adopted the provisions of SFAS No. 157 related to financial assets and liabilities as of January 1, 2008. The application of this standard did not have a material impact on the results of operations or financial condition. The Company elected to defer adoption of SFAS No. 157 for non-financial assets and liabilities and does not anticipate that adoption in fiscal 2009 will have a material impact on the results of operations or financial condition.

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 and did not elect to report at fair value any new financial assets or liabilities entered during the quarter ended March

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 is currently evaluating the effect that the adoption of SFAS 141R will have 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 is currently reviewing the effect that the adoption of this statement will have on its financial statements.

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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 March 31,	2008	2007
Revenue	$1,176,183	$1,282,880
Cost of Revenues	810,460	865,525
Gross Profit	365,723	417,355
Selling, general & Administrative expenses	667,718	554,523
(Loss) from operations	(301,995)	(137,168)

We generated revenues of $1,176,183 in the first quarter of 2008 compared to $1,282,280 in the same three month period ending March 31, 2007. The decrease in revenues of $106,697 in 2008 compared to 2007 was for the following reason. One of our major customers was responsible for revenues in 2006 and 2007 totaling approximately $930,000 and $1,120,000, respectively. This same customer is anticipated by management to maintain a constant level of sales orders for 2008 versus 2007. Sales of merchandise for this principal customer in the first quarter of 2007 included over $300,000 of merchandise that were ordered in the fourth quarter of fiscal 2006, but due to delays in shipping, were not invoiced until the first quarter of 2007. Accordingly, the first quarter of fiscal 2007 has a bunching effect of orders which did not occur in the first quarter of 2008.

Cost of revenues was $810,460 or 68.9% of revenues in the first quarter of 2008 compared to $865,425 or 67.5% of revenues in the same three months of 2007. Cost of revenues includes purchases and freight costs associated with the shipping of merchandise to our customers. Decrease in cost of revenues of $55,065 in 2008 is related to a decrease in sales to a major customer who placed two fewer orders during the current quarter ending March 31, 2008.

Gross profit was $365,723 in the first quarter of 2008 or 31.1% of net revenues compared to $417,355 in the same three months of 2007 or 32.5% 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 $667,718 in the first quarter of 2008 compared to $554,523 in the same three months of 2007. Such costs include payroll and related expenses, commissions, insurance, rents, professional, consulting and public awareness fees. The overall increase of $113,195 was primarily due to a $117,578 increase in stock based compensation.

Net loss was $299,542 in the first quarter of 2008 compared to a net loss of $128,826 for the same three months in 2007. The first quarter net loss for 2008 includes stock based payments (non-cash) of $143,161 as compared to $25,583 for the comparable period of 2007. No benefit for income taxes is provided for in 2008 and 2007 due to the full valuation allowance on the net deferred tax assets.

Liquidity and Capital Resources

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.

The company had cash and cash equivalents of $1,045,532 at March 31, 2007. Cash used by operating activities for the three months ended March 31, 2007 was $(307,599). This resulted primarily from a net loss of $128,826, an increase in accounts receivable of $119,997 and an increase in prepaid expenses and other assets of $216,344 primarily offset by customer deposits of $137,000 and stock based compensation of $25,583.

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.

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.

We sold 951,575 shares of our Common Stock and Class C Warrants to purchase 475,788 shares of our Common Stock in the offering. On December 21, 2006 and December 17, 2007, we obtained an effective registration statement with the Securities and Exchange Commission to register the resale of 951,575 shares of Common Stock and 475,588 shares underlying the Class C Warrants. 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

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.

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) Since January 2008, we had no sales or issuances of unregistered common stock, except we made sales or issuances of unregistered securities listed in the table below:

DATE OF SALE	TITLE OF SECURITY	NUMBER SOLD	CONSIDERATION RECEIVED AND DESCRIPTION OF UNDERWRITING OR OTHER DISCOUNTS TO MARKET PRICE OR CONVERTIBLE SECURITY, AFFORDED TO PURCHASERS	EXEMPTION FROM REGISTRATION CLAIMED	IF OPTION, CONVERTIBLE TERMS OF EX OR CONVERSI
January 2008	Common Stock Options	1,000,000 shares	Services rendered; no commissions paid	Section 4(2)	Not applica
January 2008	Common Stock	20,000 shares	Services rendered; no commissions paid	Section 4(2). A restrictive legend appears on each certificate	Not applica

(b) Between January 1, 2008 and March 31, 2008, there were no sales of unregistered securities.
(c) Rule 463 of the Securities Act is not applicable to the Company.
(d) In the three months ended March 31, 2008, 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 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, 2008.

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 to Financial Statements
14.1	Code of Ethics/Code of Conduct (5)
21.1	Subsidiaries of the Issuer - None in 2007
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 31, 2005.

(6) Incorporated by reference to the Registrant's Form 10-KSB for its fiscal year ended December 31, 2006.

(7) Incorporated by reference to the Registrant's Form 8-K dated September 21, 2007.

(8) Incorporated by reference to the Registrant's Form 10-QSB for its quarter ended September 30, 2006.

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 13, 2008

By: /s/ Dean L. Julia

Dean L. Julia,
Chief Executive Officer

Date: May 13, 2008

By: /s/ Sean McDonnell

Sean McDonnell,
Chief Financial Officer