

ACL SEMICONDUCTORS INC
Form 10-Q
May 16, 2011

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2011

OR

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

Commission file number: 000-50140

ACL Semiconductors Inc.

(Exact name of Registrant as specified in its charter)

Delaware

16-1642709

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification Number)

Room 1701, 17/F.,
Tower 1, Enterprise Square, 9 Sheung Yuet Road, Kowloon Bay,
Kowloon, Hong Kong.

(Address of principal executive offices) (Zip code)

011-852-3666-9939

(Registrant's telephone number including area code)

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

Yes No

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

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Edgar Filing: ACL SEMICONDUCTORS INC - Form 10-Q

Large accelerated filer

Accelerated filer

Non-accelerated filer
(Do not check if a smaller
reporting company)

Smaller reporting company

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

Yes No

The Registrant had 28,779,936 shares of common stock outstanding as of May 14, 2011.

TABLE OF CONTENTS

| | <u>Page</u> |
|---|-------------|
| PART I FINANCIAL INFORMATION | |
| <u>Item 1.</u> <u>Financial Statements (Unaudited)</u> | 1 |
| <u>Condensed Consolidated Balance Sheets (Unaudited)</u> | 1 |
| <u>Condensed Consolidated Statements of Income (Unaudited)</u> | 3 |
| <u>Condensed Consolidated Statements of Cash Flows (Unaudited)</u> | 4 |
| <u>Notes to the Condensed Consolidated Financial Statements (Unaudited)</u> | 6 |
| <u>Item 2.</u> <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | 26 |
| <u>Item 3.</u> <u>Quantitative and Qualitative Disclosures about Market Risk</u> | 37 |
| <u>Item 4T.</u> <u>Controls and Procedures</u> | 37 |
| PART II <u>OTHER INFORMATION</u> | 41 |
| <u>Item 1.</u> <u>Legal Proceedings</u> | 41 |
| <u>Item 2.</u> <u>Unregistered Sales of Equity Securities and Use of Proceeds</u> | 41 |
| <u>Item 3.</u> <u>Defaults Upon Senior Securities</u> | 41 |
| <u>Item 4.</u> <u>(Removed and Reserved)</u> | 41 |
| <u>Item 5.</u> <u>Other Information</u> | 41 |
| <u>Item 6.</u> <u>Exhibits</u> | 42 |
| <u>SIGNATURES</u> | 43 |
| EXHIBIT INDEX | 44 |

PART I FINANCIAL INFORMATION

ACL SEMICONDUCTORS INC. AND SUBSIDIARIES

Item 1. Financial Statements

Condensed Consolidated Balance Sheets (Unaudited)

| | Notes | As of March 31, 2011 (Unaudited) | As of December 31, 2010 |
|--|-------|---|-------------------------------|
| ASSETS | | | |
| Current assets | | | |
| Cash and cash equivalents | | \$ 3,844,682 | \$ 1,579,416 |
| Restricted cash | | 2,088,374 | 2,088,374 |
| Accounts receivable, net of allowance for doubtful accounts of \$0 for 2011 and 2010 | | 9,269,987 | 14,195,067 |
| Inventories, net | 3 | 6,167,108 | 3,064,567 |
| Other current assets | | 113,877 | 117,233 |
| | | <u> </u> | <u> </u> |
| Total current assets | | \$ 21,484,028 | \$ 21,044,657 |
| Property, plant and equipment, net | 4 | 8,256,047 | 8,227,546 |
| Other deposits | | 63,472 | 71,564 |
| Amounts due from Aristo / Mr. Yang | | 14,598,794 | 13,647,827 |
| | | <u> </u> | <u> </u> |
| TOTAL ASSETS | | \$ 44,402,341 | \$ 42,991,594 |
| | | <u> </u> | <u> </u> |
| LIABILITIES | | | |
| Current liabilities | | | |
| Accounts payable | | \$ 20,790,369 | \$ 20,394,399 |
| Accruals | | 339,709 | 718,416 |
| Lines of credit and loan facilities | 8 | 11,411,569 | 11,153,021 |
| Bank loan | 9 | 2,669,937 | 2,750,024 |
| Current portion of capital lease | 5 | 119,921 | 178,659 |
| Income tax payable | | 117,989 | 70,157 |
| Due to shareholders for converted pledged collateral | | 112,385 | 112,385 |
| Other current liabilities | | 671,150 | 872,811 |
| | | <u> </u> | <u> </u> |
| Total current liabilities | | \$ 36,233,029 | \$ 36,249,872 |

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

PART I FINANCIAL INFORMATION

ACL SEMICONDUCTORS INC. AND SUBSIDIARIES

Condensed Consolidated Balance Sheets (Unaudited)

| | Notes | As of March 31, 2011 (Unaudited) | As of December 31, 2010 |
|---|-------|---|-------------------------------|
| Long-term liabilities | | | |
| Capital lease, less current portion | 5 | \$ 155,699 | \$ 100,915 |
| Deferred tax liabilities | | 45,504 | 45,504 |
| | | <u>201,203</u> | <u>146,419</u> |
| Total long-term liabilities | | | |
| TOTAL LIABILITIES | | \$ 36,434,232 | \$ 36,396,291 |
| NET ASSETS | | \$ 7,968,109 | \$ 6,595,303 |
| | | <u>7,968,109</u> | <u>6,595,303</u> |
| Commitments and contingencies | | \$ | \$ |
| STOCKHOLDERS EQUITY | | | |
| Preferred stock, 20,000,000 shares authorized; 0 shares issued and outstanding as of March 31, 2011 and December 31, 2010 | | | |
| Common stock, \$0.001 par value; 50,000,000 shares authorized; 28,779,936 and 28,729,936 shares issued and outstanding as of March 31, 2011 and December 31, 2010 | | 28,780 | 28,780 |
| Additional paid in capital | | 3,679,077 | 3,679,077 |
| Retained earnings | | 4,260,252 | 2,887,446 |
| | | <u>7,968,109</u> | <u>6,595,303</u> |
| TOTAL STOCKHOLDERS EQUITY | | \$ 7,968,109 | \$ 6,595,303 |

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

PART I FINANCIAL INFORMATION

ACL SEMICONDUCTORS INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Income (Unaudited)

| | Notes | Three months ended March 31, 2011 (Unaudited) | Three months ended March 31, 2010 |
|---|-------|---|--|
| Net sales | | \$ 120,991,594 | \$ 99,011,062 |
| Costs of sales | | (118,051,463) | (96,184,458) |
| Gross profit | | \$ 2,940,131 | \$ 2,826,604 |
| Selling and distribution costs | | (22,330) | (24,802) |
| General and administrative expenses | | (1,308,539) | (1,057,869) |
| Income from operation | | \$ 1,609,262 | \$ 1,743,933 |
| Other income (expenses) | | | |
| Rental income | | 31,896 | 30,000 |
| Interest expenses | | (108,781) | (95,164) |
| Management and service income | | 10,885 | 8,321 |
| Net income on cash flow hedge | | 0 | 15,410 |
| Interest income | | 451 | 93 |
| Profit / (Loss) on disposals of equipment | | 18,024 | (308) |
| Exchange differences | | (5,507) | (6,203) |
| Miscellaneous | | 8,884 | 960 |
| Income before income taxes | | \$ 1,565,114 | \$ 1,697,042 |
| Income taxes | | (192,308) | (256,066) |
| Net income | | \$ 1,372,806 | \$ 1,440,976 |
| Earnings per share basic and diluted | | \$ 0.05 | \$ 0.05 |
| Weighted average number of shares basic and diluted | 12 | 28,779,936 | 28,729,936 |

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

PART I FINANCIAL INFORMATION

ACL SEMICONDUCTORS INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows (Unaudited)

| | As of March 31, 2011 (Unaudited) | As of March 31, 2010 |
|--|---|----------------------------|
| Cash flows provided by (used for) operating activities: | | |
| Net income | \$ 1,372,806 | \$ 1,440,976 |
| Adjustments to reconcile net income to net cash provided by (used for) operating activities: | | |
| Depreciation and amortization | 82,601 | 72,298 |
| Change in inventory reserve | 70,513 | (315,082) |
| (Gain) / loss on disposal of fixed assets | (18,024) | 308 |
| Changes in assets and liabilities: | | |
| (Increase) decrease in assets | | |
| Accounts receivable other | 4,925,080 | (1,058,166) |
| Inventories | (3,173,054) | 2,998,018 |
| Other current assets | 3,357 | 110,993 |
| Other assets | 8,092 | 31,419 |
| Increase (decrease) in liabilities | | |
| Accounts payable | 395,970 | (4,035,991) |
| Accrued expenses | (378,707) | 76,001 |
| Income tax payable | 47,832 | 227,729 |
| Other current liabilities | (201,661) | 15,354 |
| Net cash provided by (used for) operating activities | \$ 1,761,999 | \$ (436,143) |
| Cash flows used for investing activities: | | |
| Advanced from Aristo / Mr. Yang | \$ 4,021,688 | \$ 3,967,560 |
| Advanced to Aristo / Mr. Yang | (4,972,655) | (3,216,386) |
| Increase in restricted cash | | (1,666) |
| Cash proceeds from sales of fixed assets | 107,692 | 81,154 |
| Purchase of fixed assets | (38,206) | (73,399) |
| Net cash (used for) provided by investing activities | \$ (881,481) | \$ 757,263 |

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

PART I FINANCIAL INFORMATION

ACL SEMICONDUCTORS INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows (Unaudited) (Continued)

| | | |
|---|-------------------|-------------------|
| Cash flows provided by (used for) financing activities: | | |
| Net borrowings on lines of credit and notes payable | \$ 258,548 | \$ 1,216,277 |
| Principal payments to bank | (80,087) | (79,310) |
| Principal payments under capital lease obligation | (166,519) | (129,617) |
| | <u> </u> | <u> </u> |
| Net cash provided by financing activities | \$ 11,942 | \$ 1,007,350 |
| | <u> </u> | <u> </u> |
| Net increase in cash and cash equivalents | \$ 2,265,266 | \$ 1,328,470 |
| | <u> </u> | <u> </u> |
| Cash and cash equivalents beginning of year | 1,579,416 | 2,001,805 |
| | <u> </u> | <u> </u> |
| Cash and cash equivalents end of year | \$ 3,844,682 | \$ 3,330,275 |
| | <u> </u> | <u> </u> |

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

PART I FINANCIAL INFORMATION

ACL SEMICONDUCTORS INC. AND SUBSIDIARIES

Notes to the Condensed Consolidated Financial Statements (Unaudited)

Note 1. The Company

ACL Semiconductors Inc. (Company or ACL) was incorporated in the State of Delaware on September 17, 2002 and acquired Atlantic Components Ltd., a Hong Kong based company (Atlantic) through a reverse-acquisition that was effective September 30, 2003. The Company's principal business is the distribution of electronic components under the Samsung brand name which comprise of Dynamic Random Access Memory (DRAM), Graphic Random Access Memory (Graphic RAM), and Flash in the Hong Kong Special Administrative Region and People's Republic of China markets. Atlantic was incorporated in Hong Kong on May 30, 1991. On October 2, 2003, the Company set up a wholly-owned subsidiary, Alpha Perform Technology Limited (Alpha), a British Virgin Islands company, to provide services on behalf of the Company in jurisdictions outside of Hong Kong. Effective January 1, 2004, the Company ceased the operations of Alpha and all the related activities are consolidated with those of Atlantic.

On March 23, 2010, the Company concluded that Aristo Technologies Limited (Aristo), a related company solely owned by Mr. Yang, is a variable interest entity under FASB ASC 810-10-25 and is therefore subject to consolidation with the Company beginning fiscal year 2007 under the guidance applicable to variable interest entities.

On December 14, 2010, the Company set up a wholly-owned subsidiary, ACL International Holdings Limited (ACL Holdings) in Hong Kong. On December 17, 2010 the Company restructured the group; the Company's wholly owned subsidiary, Atlantic, was transferred to become a wholly owned subsidiary of ACL Holdings, therefore Atlantic became an indirect wholly-owned subsidiary of the Company. This restructuring has no effect on the Company's financial statements.

Note 2. Summary of Significant Accounting Policies*(a) Method of Accounting*

The Company maintains its general ledger and journals with the accrual method accounting for financial reporting purposes. The consolidated financial statements and notes are representations of management. Accounting policies adopted by the Company conform to generally accepted accounting principles in the United States of America and have been consistently applied in the presentation of consolidated financial statements.

(b) Principles of Consolidation

The consolidated financial statements are presented in US Dollars and include the accounts of the Company and its subsidiary. All significant inter-company balances and transactions are eliminated in consolidation.

The Company owned its subsidiary soon after its inception and continued to own the equity's interests through March 31, 2011. The following table depicts the identity of the subsidiary:

| Name of Subsidiary | Place of Incorporation | Attributable Equity Interest % | Registered Capital |
|------------------------------------|------------------------|--------------------------------|--------------------|
| ACL International Holdings Limited | Hong Kong | 100 | \$ 0.13 |
| Alpha Perform Technology Limited | BVI | 100 | \$ 1,000 |
| Atlantic Components Limited (1) | Hong Kong | 100 | \$ 384,615 |
| Aristo Technologies Limited (2) | Hong Kong | 100 | \$ 1,282 |

Note: (1) Wholly owned subsidiary of ACL International Holdings Limited

(2) Deemed variable interest entity

PART I FINANCIAL INFORMATION

ACL SEMICONDUCTORS INC. AND SUBSIDIARIES

Notes to the Condensed Consolidated Financial Statements (Unaudited)

Note 2. Summary of Significant Accounting Policies (Continued)

(b) Principles of consolidation (Continued)

Variable Interest Entities

According to ASC 810-10-25 which codified FASB Interpretation No. 46 (Revised December 2003), Consolidation of Variable Interest Entities – an interpretation of ARB No. 51 (FIN 46R), an entity that has one or more of the three characteristics set forth therein is considered a variable interest entity. One of such characteristics is that the equity investment at risk in the relevant entity is not sufficient to permit the entity to finance its activities without additional subordinated financial support provided by any parties, including the equity holders.

ASC 810-05-08A specifies the two characteristics of a controlling financial interest in a variable interest entity (VIE): (1) the power to direct the activities of a VIE that most significantly impact the VIE 's economic performance; and (2) the obligation to absorb losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE. The Company is the primary beneficiary of Aristo because the Company can direct the activities of Aristo through the common director and major shareholder. Also, the Company extended substantial accounts receivable to Aristo and created an obligation to absorb loss if Aristo failed. Moreover, ASC 810-25-42 & 43 provides guidance on related parties treatment of VIE and specifies the relationship of de-facto agent and principal. This guidance will help to determine whether the Company will consolidate Aristo.

Owing to the extent of outstanding large amounts of accounts receivable since 2007 together with the nominal amount of paid-up capital contributed by Mr. Yang when Aristo was formed, it has been determined that Aristo cannot finance its operations without subordinated financial support from ACL and accordingly, ACL is considered to be the de facto principal of Aristo, Aristo is considered to be the de facto subsidiary of the Company and Mr. Yang is considered to be the related party of both the Company and Aristo.

By virtue of the above analysis, it has been determined that the Company is the primary beneficiary of Aristo.

Aristo Technologies Limited

The Company sells Samsung memory chips to Aristo and allows long grace periods for Aristo to repay the open accounts receivable. Being the biggest creditor, the Company does not require Aristo to pledge assets or enter into any agreements to bind Aristo to specific repayment terms. The Company does not provide any bad debt provision or experience derived from Aristo. Although, the Company is not involved in Aristo 's daily operation, it believes that there will not be significant additional risk derived from the trading relationship and transactions with Aristo.

Aristo is engaged in the marketing, selling and servicing of computer products and accessories including semiconductors, LCD products, mass storage devices, consumer electronics, computer peripherals and electronic components for different generations of computer related products. Aristo carries various brands of products such as Samsung, Hynix, Micron, Elpida, Qimonda, Lexar, Dane-Elec, Elixir, SanDisk and Winbond. Aristo 2010 and 2009 sales were around 15 million and 30 million; it was only a small distributor that accommodated special requirements for specific customers.

Aristo supplies different generations of computer related products. Old generation products will move slowly owing to lower market demand. According to the management experience and estimation on the actual market situation, old products carrying on hand for ten years will have no resell value. Therefore, inventories on hand over ten years will be written-off by Aristo immediately.

PART I FINANCIAL INFORMATION

ACL SEMICONDUCTORS INC. AND SUBSIDIARIES

Notes to the Condensed Consolidated Financial Statements (Unaudited)

Note 2. Summary of Significant Accounting Policies (Continued)*(b) Principles of consolidation (Continued)*

The Company sells to Aristo in order to fulfill Aristo's periodic need for Samsung memory products based on prevailing market prices, which products Aristo, in turn, sells to its customers. The sales to Aristo during the first quarter of 2011 were \$5,263,693 with accounts receivable of \$15,042,492 as of March 31, 2011. The sales to Aristo during the first quarter of 2010 were \$1,287,266 with accounts receivable of \$11,221,505 as of March 31, 2010. For fiscal year 2010, sales to Aristo were \$7,123,769 with accounts receivable of \$14,073,937 as of December 31, 2010. For fiscal year 2009, sales to Aristo were \$13,160,521 with accounts receivable of \$10,315,388 as of December 31, 2009.

The Company purchases from Aristo, from time to time, LCD panels, Samsung memory chips, DRAM, Flash memory, central processing units, external hard disks, DVD readers and writers that the Company cannot obtain from Samsung directly due to supply limitations.

(c) Use of estimates

The preparation of consolidated financial statements that conform with generally accepted accounting principles in the United States of America 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Management makes these estimates using the best information available at the time, however, actual results could differ materially from those estimates.

(d) Economic and political risks

The Company's operation is conducted in Hong Kong. A large amount of customers are located in Southern China. Accordingly, the Company's business, financial condition and results of operations may be influenced by the political, economic and legal environment in Hong Kong and China, and by the general state of the economy in Hong Kong and China.

The Company's operations in Hong Kong and customers in Hong Kong and Southern China are subject to special considerations and significant risks not typically associated with companies in North America and Western Europe. These include risks associated with, among others, the political, economic and legal environment and foreign currency exchange. The Company's results may be adversely affected by changes in the political and social conditions in Hong Kong and China, and by changes in governmental policies with respect to laws and regulations, anti-inflationary measures, currency conversion, remittances abroad, and rates and methods of taxation, among other things.

(e) Property, plant and equipment

Plant and equipment are carried at cost less accumulated depreciation. Depreciation is provided over their estimated useful lives, using the straight-line method. Estimated useful lives of the plant and equipment are as follows:

| | |
|-----------------------|--------------------------|
| Automobiles | 3 1/3 years |
| Computers | 5 years |
| Leasehold improvement | 5 years |
| Land and buildings | By estimated useful life |
| Office equipment | 5 years |
| Machinery | 10 years |

The cost and related accumulated depreciation of assets sold or otherwise retired are eliminated from the accounts and any gain or loss is included in the statement of income.

PART I FINANCIAL INFORMATION

ACL SEMICONDUCTORS INC. AND SUBSIDIARIES

Notes to the Condensed Consolidated Financial Statements (Unaudited)

Note 2. Summary of Significant Accounting Policies (Continued)

(f) Account receivable

Accounts receivable is carried at the net invoiced value charged to customer. The Company records an allowance for doubtful accounts to cover estimated credit losses. Management reviews and adjusts this allowance periodically based on historical experience and its evaluation of the collectability of outstanding accounts receivable. The Company evaluates the credit risk of its customers utilizing historical data and estimates of future performance.

(g) Accounting for the impairment of long-lived assets

The Company periodically evaluates the carrying value of long-lived assets to be held and used, including intangible assets subject to amortization, when events and circumstances warrant such a review, pursuant to the guidelines established in ASC No. 360 (formerly Statement of Financial Accounting Standards No. 144). The carrying value of a long-lived asset is considered impaired when the anticipated undiscounted cash flow from such asset is separately identifiable and is less than its carrying value. In that event, a loss is recognized based on the amount by which the carrying value exceeds the fair market value of the long-lived asset. Fair market value is determined primarily using the anticipated cash flows discounted at a rate commensurate with the risk involved. Losses on long-lived assets to be disposed of are determined in a similar manner, except that fair market values are reduced for the cost to dispose.

During the reporting years, there was no impairment loss.

(h) Cash and cash equivalents

The Company considers all highly liquid investments purchased with original maturities of three months or less to be cash equivalents. The Company maintains bank accounts in Hong Kong. The Company does not maintain any bank accounts in the United States of America.

(i) Inventories

Inventories are stated at the lower of cost or market and are comprised of purchased computer technology resale products. Cost is determined using the first-in, first-out method. The reserve for obsolescence was increased by \$70,513 during the first three months of 2011 and decreased by \$315,082 for the same period of 2010. Inventory obsolescence reserves totaled \$583,633 as of March 31, 2011 and \$513,120 as of December 31, 2010.

(j) Lease assets

Leases that substantially transfer all the benefits and risks of ownership of assets to the company are accounted for as capital leases. At the inception of a capital lease, the asset is recorded together with its long term obligation (excluding interest element) to reflect the purchase and the financing.

Leases which do not transfer substantially all the risks and rewards of ownership to the company are classified as operating leases. Payments made under operating leases are charged to income statement in equal installments over the accounting periods covered by the lease term. Lease incentives received are recognized in income statement as an integral part of the aggregate net lease payments made. Contingent rentals are charged to income statement in the accounting period which they are incurred.

PART I FINANCIAL INFORMATION

ACL SEMICONDUCTORS INC. AND SUBSIDIARIES

Notes to the Condensed Consolidated Financial Statements (Unaudited)

Note 2. Summary of Significant Accounting Policies (Continued)

(k) Income taxes

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets, including tax loss and credit carry forwards, and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Deferred income tax expense represents the change during the period in the deferred tax assets and deferred tax liabilities. The components of the deferred tax assets and liabilities are individually classified as current and non-current based on their characteristics. Realization of the deferred tax asset is dependent on generating sufficient taxable income in future years. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

The Company did not have any interest and penalty recognized in the income statements for the period ended March 31, 2011 and March 31, 2010, or balance sheet as of March 31, 2011 and December 31, 2010. The Company did not have uncertainty tax positions or events leading to uncertainty tax position within the next 12 months. The Company's 2008, 2009 and 2010 U.S. federal income tax returns are subject to U.S. Internal Revenue Service examination and the Company's 2004/5, 2005/6, 2006/7, 2007/8, 2008/9, 2009/2010 and 2010/11 Hong Kong Company Income Tax filing are subject to Hong Kong Inland Revenue Department examination.

(l) Foreign currency translation

The accompanying consolidated financial statements are presented in United States dollars. The functional currency of the Company is the Hong Kong Dollar (HK\$). The consolidated financial statements are translated into United States dollars from HK\$ with a ratio of US\$1.00=HKD7.80, a fixed exchange rate maintained between Hong Kong and United States derived from the Hong Kong Monetary Authority pegging HKD and USD monetary policy.

(m) Revenue recognition

The Company derives revenues from resale of computer memory products. The Company recognizes revenue in accordance with the ASC 605 Revenue Recognition. Under ASC 605, revenue is recognized when there is persuasive evidence of an arrangement, delivery has occurred or services are rendered, the sales price is determinable, and collectability is reasonably assured. Revenue typically is recognized at time of shipment. Sales are recorded net of discounts, rebates, and returns, which historically were not material.

(n) Advertising

The Group expensed all advertising costs as incurred. Advertising expenses included in general and administrative expenses were \$691 and \$539 as of March 31, 2011 and 2010 respectively.

(o) Segment reporting

The Company's sales are generated from Hong Kong and the rest of China and substantially all of its assets are located in Hong Kong.

PART I FINANCIAL INFORMATION

ACL SEMICONDUCTORS INC. AND SUBSIDIARIES

Notes to the Condensed Consolidated Financial Statements (Unaudited)

Note 2. Summary of Significant Accounting Policies (Continued)

(p) Fair value of financial instruments

The carrying amount of the Company's cash and cash equivalents, accounts receivable, lines of credit, convertible debt, accounts payable, accrued expenses, and long-term debt approximates their estimated fair values due to the short-term maturities of those financial instruments.

(q) Comprehensive income

Comprehensive income is defined to include all changes in equity except those resulting from investments by owners and distributions to owners. Among other disclosures, all items that are required to be recognized under current accounting standards as components of comprehensive income are required to be reported in a financial statement that is presented with the same prominence as other consolidated financial statements. The Company has no items that represent other comprehensive income and, therefore, has not included a schedule of comprehensive income in the consolidated financial statements.

(r) Basic and diluted earnings (loss) per share

In accordance with ASC No. 260 (formerly SFAS No. 128), Earnings Per Share, the basic earnings (loss) per common share is computed by dividing net earnings (loss) available to common stockholders by the weighted average number of common shares outstanding. Diluted earnings (loss) per common share is computed similarly to basic earnings (loss) per common share, except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potential common shares had been issued and if the additional common shares were dilutive.

(s) Reclassification

Certain amounts in the prior period have been reclassified to conform to the current consolidated financial statement presentation.

(t) Recently implemented standards

ASC 105, Generally Accepted Accounting Principles (ASC 105) (formerly Statement of Financial Accounting Standards No. 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles a replacement of FASB Statement No. 162) reorganized by topic existing accounting and reporting guidance issued by the Financial Accounting Standards Board (FASB) into a single source of authoritative generally accepted accounting principles (GAAP) to be applied by nongovernmental entities. All guidance contained in the Accounting Standards Codification (ASC) carries an equal level of authority. Rules and interpretive releases of the Securities and Exchange Commission (SEC) under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. Accordingly, all other accounting literature will be deemed non-authoritative. ASC 105 is effective on a prospective basis for financial statements issued for interim and annual periods ending after September 15, 2009. The Company has implemented the guidance included in ASC 105 as of July 1, 2009. The implementation of this guidance changed the Company's references to GAAP authoritative guidance but did not impact the Company's financial position or results of operations.

ASC 855 Subsequent Events codified SFAS No. 165, Subsequent Events, which establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements. The standard was subsequently amended by FASB ASU 2010-09 which exempts an entity that is an SEC filer from the requirement to disclose the date through which subsequent events have been evaluated. In February 2010, the FASB issued Accounting Standards Update 2010-09 (ASU 2010-09), Subsequent Events (Topic 855). The amendments remove the requirements for an SEC filer to disclose a date, in both issued and revised financial statements, through which subsequent events have been reviewed. Revised financial statements include financial statements revised as a result of either correction of an error or retrospective application of U.S. GAAP. ASU 2010-09 is effective for interim or annual financial periods ending after June 15, 2010. The provisions of ASU 2010-09 did not have a material effect on the Company's consolidated financial statements.

PART I FINANCIAL INFORMATION

ACL SEMICONDUCTORS INC. AND SUBSIDIARIES

Notes to the Condensed Consolidated Financial Statements (Unaudited)

Note 2. Summary of Significant Accounting Policies (Continued)

(t) Recently implemented standards (Continued)

ASC 805, Business Combinations (ASC 805) (formerly included under Statement of Financial Accounting Standards No. 141 (revised 2007), Business Combinations) contains guidance that was issued by the FASB in December 2007. It requires the acquiring entity in a business combination to recognize all assets acquired and liabilities assumed in a transaction at the acquisition-date fair value, with certain exceptions. Additionally, the guidance requires changes to the accounting treatment of acquisition related items, including, among other items, transaction costs, contingent consideration, restructuring costs, indemnification assets and tax benefits. ASC 805 also provides for a substantial number of new disclosure requirements. ASC 805 also contains guidance that was formerly issued as FSP FAS 141(R)-1, Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies which was intended to provide additional guidance clarifying application issues regarding initial recognition and measurement, subsequent measurement and accounting, and disclosure of assets and liabilities arising from contingencies in a business combination. ASC 805 was effective for business combinations initiated on or after the first annual reporting period beginning after December 15, 2008. The Company implemented this guidance effective January 1, 2009. Implementing this guidance did not have an effect on the Company's financial position or results of operations; however it will likely have an impact on the Company's accounting for future business combinations, but the effect is dependent upon acquisitions, if any, that are made in the future.

ASC 810, Consolidation (ASC 810) includes new guidance issued by the FASB in December 2007 governing the accounting for and reporting of noncontrolling interests (previously referred to as minority interests). This guidance established reporting requirements which include, among other things, that noncontrolling interests be reflected as a separate component of equity, not as a liability. It also requires that the interests of the parent and the noncontrolling interest be clearly identifiable. Additionally, increases and decreases in a parent's ownership interest that leave control intact shall be reflected as equity transactions, rather than step acquisitions or dilution gains or losses. This guidance also requires changes to the presentation of information in the financial statements and provides for additional disclosure requirements. ASC 810 was effective for fiscal years beginning on or after December 15, 2008. The Company implemented this guidance as of January 1, 2010 and made all necessary changes accordingly including but not limited to filing amendments for the prior relevant periods to comply with all applicable requirements.

ASC 825, Financial Instruments (ASC 825) includes guidance which was issued in February 2007 by the FASB and was previously included under Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115. The related sections within ASC 825 permit a company to choose, at specified election dates, to measure at fair value certain eligible financial assets and liabilities that are not currently required to be measured at fair value. The specified election dates include, but are not limited to, the date when an entity first recognizes the item, when an entity enters into a firm commitment or when changes in the financial instrument causes it to no longer qualify for fair value accounting under a different accounting standard. An entity may elect the fair value option for eligible items that exist at the effective date. At that date, the difference between the carrying amounts and the fair values of eligible items for which the fair value option is elected should be recognized as a cumulative effect adjustment to the opening balance of retained earnings. The fair value option may be elected for each entire financial instrument, but need not be applied to all similar instruments. Once the fair value option has been elected, it is irrevocable. Unrealized gains and losses on items for which the fair value option has been elected will be reported in earnings. This guidance was effective as of the beginning of fiscal years that began after November 15, 2007. The Company does not have eligible financial assets and liabilities, and, accordingly, the implementation of ASC 825 did not have an effect on the Company's results of operations or financial position.

PART I FINANCIAL INFORMATION

ACL SEMICONDUCTORS INC. AND SUBSIDIARIES

Notes to the Condensed Consolidated Financial Statements (Unaudited)

Note 2. Summary of Significant Accounting Policies (Continued)

(t) Recently implemented standards (Continued)

ASC 820, Fair Value Measurements and Disclosures (ASC 820) (formerly included under Statement of Financial Accounting Standards No. 157, Fair Value Measurements) includes guidance that was issued by the FASB in September 2006 that created a common definition of fair value to be used throughout generally accepted accounting principles. ASC 820 applies whenever other standards require or permit assets or liabilities to be measured at fair value, with certain exceptions. This guidance established a hierarchy for determining fair value which emphasizes the use of observable market data whenever available. It also required expanded disclosures which include the extent to which assets and liabilities are measured at fair value, the methods and assumptions used to measure fair value and the effect of fair value measures on earnings. ASC 820 also provides additional guidance for estimating fair value when the volume and level of activity for the asset or liability have significantly decreased. The emphasis of ASC 820 is that fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between willing market participants, under current market conditions. ASC 820 also further clarifies the guidance to be considered when determining whether or not a transaction is orderly and clarifies the valuation of securities in markets that are not active. This guidance includes information related to a company's use of judgment, in addition to market information, in certain circumstances to value assets which have inactive markets.

Fair value guidance in ASC 820 was initially effective for fiscal years beginning after November 15, 2007 and for interim periods within those fiscal years for financial assets and liabilities. The effective date of ASC 820 for all non-recurring fair value measurements of nonfinancial assets and nonfinancial liabilities was fiscal years beginning after November 15, 2008. Guidance related to fair value measurements in an inactive market was effective in October 2008 and guidance related to orderly transactions under current market conditions was effective for interim and annual reporting periods ending after June 15, 2009.

The Company applied the provisions of ASC 820 to its financial assets and liabilities upon adoption at January 1, 2008 and adopted the remaining provisions relating to certain nonfinancial assets and liabilities on January 1, 2009. The difference between the carrying amounts and fair values of those financial instruments held upon initial adoption, on January 1, 2008, was recognized as a cumulative effect adjustment to the opening balance of retained earnings and was not material to the Company's financial position or results of operations. The Company implemented the guidance related to orderly transactions under current market conditions as of April 1, 2009, which also was not material to the Company's financial position or results of operations.

In August 2009, the FASB issued ASC Update No. 2009-05, Fair Value Measurements and Disclosures (Topic 820): Measuring Liabilities at Fair Value (ASC Update No. 2009-05). This update amends ASC 820, Fair Value Measurements and Disclosures and provides further guidance on measuring the fair value of a liability. The guidance establishes the types of valuation techniques to be used to value a liability when a quoted market price in an active market for the identical liability is not available, such as the use of an identical or similar liability when traded as an asset. The guidance also further clarifies that a quoted price in an active market for the identical liability at the measurement date and the quoted price for the identical liability when traded as an asset in an active market when no adjustments to the quoted price of the asset are required are both Level 1 fair value measurements. If adjustments are required to be applied to the quoted price, it results in a level 2 or 3 fair value measurement. The guidance provided in the update is effective for the first reporting period (including interim periods) beginning after issuance. The Company does not expect that the implementation of ASC Update No. 2009-05 will have a material effect on its financial position or results of operations.

PART I FINANCIAL INFORMATION

ACL SEMICONDUCTORS INC. AND SUBSIDIARIES

Notes to the Condensed Consolidated Financial Statements (Unaudited)

Note 2. Summary of Significant Accounting Policies (Continued)

(t) Recently implemented standards (Continued)

In September 2009, the FASB issued ASC Update No. 2009-12, Fair Value Measurements and Disclosures (Topic 820): Investments in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent) (ASC Update No. 2009-12). This update sets forth guidance on using the net asset value per share provided by an investee to estimate the fair value of an alternative investment. Specifically, the update permits a reporting entity to measure the fair value of this type of investment on the basis of the net asset value per share of the investment (or its equivalent) if all or substantially all of the underlying investments used in the calculation of the net asset value is consistent with ASC 820. The update also requires additional disclosures by each major category of investment, including, but not limited to, fair value of underlying investments in the major category, significant investment strategies, redemption restrictions, and unfunded commitments related to investments in the major category. The amendments in this update are effective for interim and annual periods ending after December 15, 2009 with early application permitted. The Company does not expect that the implementation of ASC Update No. 2009-12 will have a material effect on its financial position or results of operations.

ASC 810-10-5 to 10-65 Variable Interest Entity codified Statement of Financial Accounting Standards No. 167, Amendments to FASB Interpretation No. 46(R), FASB Interpretation No. 46R, Consolidation of Variable Interest Entities an interpretation of ARB No. 51 (FIN 46R) to require an analysis to determine whether a company has a controlling financial interest in a variable interest entity. This analysis identifies the primary beneficiary of a variable interest entity as the enterprise that has a) the power to direct the activities of a variable interest entity that most significantly impact the entity s economic performance and b) the obligation to absorb losses of the entity that could potentially be significant to the variable interest entity or the right to receive benefits from the entity that could potentially be significant to the variable interest entity. The statement requires an ongoing assessment of whether a company is the primary beneficiary of a variable interest entity when the holders of the entity, as a group, lose power, through voting or similar rights, to direct the actions that most significantly affect the entity s economic performance. The Company has adopted ASC 810-10-5 to 10-65 and filed all necessary amendments to comply with ASC 810-10-5 to 10-65.

In 2010, the FASB issued ASC Update (ASU) No.2010-21, Accounting for Technical Amendments to Various SEC Rules and Schedules. This update amends various SEC paragraphs in the FASB Accounting Standards Codification pursuant to SEC Final Rule, Technical Amendments to Rules Forms, Schedules and Codification of Financial Reporting Policies . The adoption of this update did not have any material impact on the Company s financial statements.

In 2010, the FASB issued ASC Update (ASU) No.2010-22, Accounting for Various Topics. This update amends various SEC paragraphs in the FASB Accounting Standards Codification based on external comments received and the issuance of Staff Accounting Bulletin (SAB) No. 112 which amends or rescinds portion of certain SAB topics. SAB 112 was issued to existing SEC guidance into conformity with ASC 805 Business Combination and ASC 810 Consolidation . The adoption of this update did not have any material impact on the Company s financial statements.

PART I FINANCIAL INFORMATION

ACL SEMICONDUCTORS INC. AND SUBSIDIARIES

Notes to the Condensed Consolidated Financial Statements (Unaudited)

Note 3. Inventories

Inventories consisted of the following at March 31, 2011 and December 31, 2010:

| | <u>March 31, 2011</u> | <u>December 31, 2010</u> |
|--|-----------------------|--------------------------|
| Finished goods | \$ 6,750,741 | \$ 3,577,687 |
| Less allowance for excess and obsolete inventory | (583,633) | (513,120) |
| Inventories, net | <u>\$ 6,167,108</u> | <u>\$ 3,064,567</u> |

The following is a summary of the change in the Company's inventory valuation allowance:

| | <u>March 31, 2011</u> | <u>December 31, 2010</u> |
|--|-----------------------|--------------------------|
| Inventory valuation allowance, beginning of the year | \$ 513,120 | \$ 347,133 |
| Obsolete inventory sold | (13,780) | (30,215) |
| Additional inventory provision | 84,293 | 196,202 |
| Inventory valuation allowance, end of the year | <u>\$ 583,633</u> | <u>\$ 513,120</u> |

Note 4. Property and Equipment, net

Property and equipment, net consisted of the following at March 31, 2011 and December 31, 2010:

| | <u>March 31, 2011</u> | <u>December 31, 2010</u> |
|--|-----------------------|--------------------------|
| Land and Buildings | \$ 7,663,340 | \$ 7,663,340 |
| Furniture and fixtures | 31,230 | 31,230 |
| Office equipment | 193,712 | 191,206 |
| Leasehold improvements | 458,121 | 422,420 |
| Automobiles | 588,204 | 565,412 |
| Machinery | 499,614 | 499,614 |
| Total property and equipment | <u>9,434,221</u> | <u>9,373,222</u> |
| Less accumulated depreciation and amortization | <u>(1,178,174)</u> | <u>(1,145,676)</u> |

Edgar Filing: ACL SEMICONDUCTORS INC - Form 10-Q

| | | |
|-----------------------------|-----------|-----------|
| Property and equipment, net | 8,256,047 | 8,227,546 |
|-----------------------------|-----------|-----------|

Depreciation and amortization expense totaled \$82,601 and \$72,298 for the three months ended March 31, 2011 and 2010, respectively.

PART I FINANCIAL INFORMATION

ACL SEMICONDUCTORS INC. AND SUBSIDIARIES

Notes to the Condensed Consolidated Financial Statements (Unaudited)

Note 4. Property and Equipment, net (Continued)

Automobiles and machinery include the following amounts under capital leases:

| | <u>March 31, 2011</u> | <u>December 31, 2010</u> |
|-------------------------------|-----------------------|--------------------------|
| Cost | \$ 848,709 | \$ 842,698 |
| Less accumulated depreciation | (151,281) | (133,165) |
| | <u>697,428</u> | <u>709,533</u> |
| Total | <u>697,428</u> | <u>709,533</u> |

Note 5. Capital Lease Obligation

The Company leases automobiles and machinery under six capital leases that expire between April 2011 and July 2015. Aggregate future obligations under the capital leases in effect as of March 31, 2011 are as follows:

| | <u>Capital Lease</u> |
|--|----------------------|
| Year ending March 31, | |
| 2011 | 130,543 |
| 2012 | 75,145 |
| 2013 | 94,942 |
| | <u>300,630</u> |
| Total minimum lease obligations | 300,630 |
| Less amounts representing interest | (25,010) |
| | <u>275,620</u> |
| Present value of future minimum lease payments | 275,620 |
| Less current portion of capital lease obligation | (119,921) |
| | <u>155,699</u> |
| Capital lease obligation, less current portion | 155,699 |

Interest expense related to capital leases totaled \$10,139 and \$8,476 for the three months ended March 31, 2011 and 2010 respectively.

PART I FINANCIAL INFORMATION

ACL SEMICONDUCTORS INC. AND SUBSIDIARIES

Notes to the Condensed Consolidated Financial Statements (Unaudited)

Note 6. Stock Options

On March 31, 2006, the Board of Directors adopted the 2006 Equity Incentive Stock Plan (the Plan) and the majority stockholder approved the Plan by written consent. The purpose of the Plan is to provide additional incentive to employees, directors and consultants and to promote the success of the Company's business. The Plan permits the Company to grant both incentive stock options (Incentive Stock Options or ISOs) within the meaning of Section 422 of the Internal Revenue Code (the Code), and other options which do not qualify as Incentive Stock Options (the Non-Qualified Options) and stock awards.

Unless earlier terminated by the Board of Directors, the Plan (but not outstanding options) terminates on March 31, 2016, after which no further awards may be granted under the Plan. The Plan is administered by the full Board of Directors or, at the Board of Director's discretion, by a committee of the Board of Directors consisting of at least two persons who are disinterested persons defined under Rule 16b-2(c)(ii) under the Securities Exchange Act of 1934, as amended (the Committee).

Recipients of options under the Plan (Optionees) are selected by the Board of Directors or the Committee. The Board of Directors or Committee determines the terms of each option grant, including (1) the purchase price of shares subject to options, (2) the dates on which options become exercisable and (3) the expiration date of each option (which may not exceed ten years from the date of grant). The minimum per share purchase price of options granted under the Plan for Incentive Stock Options and Non-Qualified Options is the fair market value (as defined in the Plan) on the date the option is granted.

Optionees will have no voting, dividend or other rights as stockholders with respect to shares of Common Stock covered by options prior to becoming the holders of record of such shares. The purchase price upon the exercise of options may be paid in cash, by certified bank or cashier's check, by tendering stock held by the Optionee, as well as by cashless exercise either through the surrender of other shares subject to the option or through a broker. The total number of shares of Common Stock available under the Plan, and the number of shares and per share exercise price under outstanding options will be appropriately adjusted in the event of any stock dividend, reorganization, merger or recapitalization or similar corporate event.

The Board of Directors may at any time terminate the Plan or from time to time make such modifications or amendments to the Plan as it may deem advisable and the Board of Directors or Committee may adjust, reduce, cancel and regrant an unexercised option if the fair market value declines below the exercise price except as may be required by any national stock exchange or national market association on which the Common Stock is then listed. In no event may the Board of Directors, without the approval of stockholders, amend the Plan if required by any federal, state, local or foreign laws or regulations or any stock exchange or quotation system on which the Common Stock is listed or quoted and the applicable laws of any other country or jurisdiction where options or stock purchase rights are granted under the Plan.

Subject to limitations set forth in the Plan, the terms of option agreements will be determined by the Board of Directors or Committee, and need not be uniform among Optionees.

As of March 31, 2011, there were no options outstanding under the Plan.

PART I FINANCIAL INFORMATION

ACL SEMICONDUCTORS INC. AND SUBSIDIARIES

Notes to the Condensed Consolidated Financial Statements (Unaudited)

Note 7. Related Party Transactions

Related party receivables are payable on demand upon the same terms as receivables from unrelated parties.

Transactions with Aristo Technologies Limited / Mr. Yang

As of March 31, 2011 and December 31, 2010, we had an outstanding receivable from Aristo / Mr. Yang, the President and Chairman of our Board of Directors, totaling \$14,598,794 and \$13,647,827, respectively. These advances bear no interest and are payable on demand. The receivable due from Aristo / Mr. Yang to the Company is derived from the consolidation of the financial statements of Aristo, a variable interest entity, with the Company. A repayment plan has been entered with Mr. Yang.

Transactions with Solution Semiconductor (China) Limited

Mr. Yang is a director and the sole beneficial owner of the equity interests of Solution Semiconductor (China) Ltd. (Solution). On April 1, 2009, we entered into a lease agreement with Solution pursuant to which we lease one facility. The lease agreement for this facility expires on March 31, 2012. The monthly lease payment for this lease is \$1,090. We incurred and paid an aggregate rent expense of \$3,270 to Solution during the three months ended March 31, 2011 and 2010.

During the three months ended March 31, 2011 and 2010, we purchased inventories of \$0 and \$43,123 respectively from Solution. As of March 31, 2011 and December 31, 2010, there were no outstanding accounts payable to Solution.

Two facilities located in Hong Kong owned by Solution were used by the Company as collateral for loans from DBS Bank (Hong Kong) Limited (DBS Bank) (formerly Overseas Trust Bank Limited) and The Bank of East Asia, Limited (BEA Bank) respectively.

Transactions with Systematic Information Limited

Mr. Yang, the Company's Chief Executive Officer, majority shareholder and a director, is a director and shareholder of Systematic Information Ltd. (Systematic Information) with a total of 100% interest. On September 1, 2010, we entered into a lease agreement with Systematic Information pursuant to which we lease one facility. The lease agreement for this facility expires on August 31, 2012. The monthly lease payment for this lease totals \$641. We incurred and paid an aggregate rent expense of \$1,923 to Systematic Information during the three months ended March 31, 2011 and 2010.

During the three months ended March 31, 2011 and 2010, we received service charges of \$2,038 and \$2,038 respectively from Systematic Information. The service fee was charged for back office support for Systematic Information.

During the three months ended March 31, 2011 and 2010, we sold products for \$0 and \$767,981 respectively, to Systematic Information. As of March 31, 2011 and December 31, 2010, there were no outstanding accounts receivables from Systematic Information.

A workshop located in Hong Kong owned by Systematic Information was used by the Company as collateral for loans from BEA Bank.

PART I FINANCIAL INFORMATION

ACL SEMICONDUCTORS INC. AND SUBSIDIARIES

Notes to the Condensed Consolidated Financial Statements (Unaudited)

Note 7. Related Party Transactions (Continued)

Transactions with Global Mega Development Limited

Mr. Yang is the sole beneficial owner of the equity interests of Global Mega Development Ltd. (Global). During the three months ended March 31, 2011 and 2010, we sold products for \$426 and \$3,580 respectively, to Global. As of March 31, 2011 and December 31, 2010, there were no outstanding accounts receivables from Global.

Transactions with Systematic Semiconductor Limited

Mr. Yang is a director and sole beneficial owner of the equity interests of Systematic Semiconductor Ltd. (Systematic). During the three months ended March 31, 2011 and 2010, we received a management fee of \$1,923 and \$1,923 respectively from Systematic. The management fee was charged for back office support for Systematic.

Transactions with Atlantic Storage Devices Limited

Mr. Yang is a director and 40% shareholder of Atlantic Storage Devices Ltd. (Atlantic Storage). The remaining 60% of Atlantic Storage is owned by a non-related party. During the three months ended March 31, 2011 and 2010, we sold products for \$45 and \$440 respectively, to Atlantic Storage. As of March 31, 2011 and December 31, 2010, there were no outstanding accounts receivables from Atlantic Storage.

Transactions with City Royal Limited

Mr. Yang, the Company's Chief Executive Officer, majority shareholder and a director, is a 50% shareholder of City Royal Limited (City). The remaining 50% of City is owned by the wife of Mr. Yang. A residential property located in Hong Kong owned by City was used by the Company as collateral for loans from DBS Bank.

Transactions with Kasontech Electronics Limited

Mr. Kenneth Lap-Yin Chan, the Company's Director and Chief Operating Officer, is a 33% shareholder of Kasontech Electronics Limited (Kasontech). During the three months ended March 31, 2011 and 2010, we received a management fee of \$3,846 and \$1,282 respectively from Kasontech. The management fee was charged for back office support for Kasontech. As of March 31, 2011 and December 31, 2010, there were no outstanding accounts receivables from Kasontech.

PART I FINANCIAL INFORMATION

ACL SEMICONDUCTORS INC. AND SUBSIDIARIES

Notes to the Condensed Consolidated Financial Statements (Unaudited)

Note 8. Revolving Lines of Credit and Loan Facilities

The summary of banking facilities at March 31, 2011 is as follows:

| | <u>Granted facilities</u> | <u>Utilized facilities</u> | <u>Not Utilized Facilities</u> |
|-------------------------------------|---------------------------|----------------------------|------------------------------------|
| Lines of credit and loan facilities | | | |
| Factoring Loan | \$ 8,076,923 | \$ 2,953,175 | \$ 5,123,748 |
| Import/Export Loan | 8,459,923 | 8,458,393 | 1,530 |
| | <u>\$ 16,536,846</u> | <u>\$ 11,411,568</u> | <u>\$ 5,125,278</u> |
| Bank Loans | 3,270,516 (a) | 3,270,516 | 0 |
| Overdraft | 602,564 (b) | 532,106 | 70,458 |
| Letter of Guarantee | 384,615 (c) | 384,615 | 0 |
| | <u>\$ 20,794,541</u> | <u>\$ 15,598,805</u> | <u>\$ 5,195,736</u> |

(a) The bank loans are combined from the summary of Note 9, total bank loans amount to USD2,669,937 with a tax loan of USD600,579. The tax loan is placed under Other Current Liabilities on the balance sheet. It has a facility limit of USD600,579, bearing an interest rate of 2% per annum below the Hong Kong Prime Rate.

(b) Including on cash and cash equivalents

(c) Guarantee granted to a supplier, no accounting entry make on the book

With the exception of the \$384,615 letter of guarantee issued by DBS Bank, which will expire on 31 October, 2011, amounts borrowed by the Company under the revolving lines of credit and loan facilities described above are repayable within a period of three (3) months of drawdown

PART I FINANCIAL INFORMATION

ACL SEMICONDUCTORS INC. AND SUBSIDIARIES

Notes to the Condensed Consolidated Financial Statements (Unaudited)

Note 9. Bank Loan

Bank loans were comprised of the following as of March 31, 2011 and December 31, 2010:

| | <u>March 31, 2011</u> | <u>December 31, 2010</u> |
|--|-----------------------|--------------------------|
| Installment loan having a maturity date in July 2026 and carrying an interest rate of 2.4% below the Hong Kong dollar Prime Rate (5.25% at March 31, 2011 and December 31, 2010) to DBS Bank payable in monthly installments of \$9,925 including interest through December 2010 without any balloon payment requirements | \$ 1,477,749 | \$ 1,497,047 |
| Installment loan having a maturity date in July 2011 and carrying an interest rate of 2% below the Hong Kong dollar Prime Rate (5.25% at March 31, 2011 and December 31, 2010) to DBS Bank payable in monthly installments of \$3,782 including interest through December 2010 without any balloon payment requirements | 15,024 | 26,189 |
| Installment loan having a maturity date in July 2023 and carrying an interest rate of 2.5% below the Hong Kong dollar Prime Rate (5.25% at March 31, 2011 and December 31, 2010) to DBS Bank payable in monthly installments of \$5,240 including interest through December 2010 without any balloon payment requirements | 664,343 | 675,506 |
| Installment loan having a maturity date in July 2014 and carrying an interest rate of 0.25% plus the Hong Kong dollar Prime Rate (5.25% at March 31, 2011 and December 31, 2010) to BEA Bank payable in monthly installments of \$15,230 including interest through December 2010 without any balloon payment requirements | 512,821 | 551,282 |
| | <u>\$ 2,669,937</u> | <u>\$ 2,750,024</u> |

An analysis on the repayment of bank loan as of March 31, 2011 and December 31, 2010 are as follow:

| | <u>March 31, 2011</u> | <u>December 31, 2010</u> |
|---|-----------------------|--------------------------|
| Carrying amount that are repayable on demand or within twelve months from March 31, 2011 containing a repayable on demand clause: | | |
| Within twelve months | \$ 291,629 | \$ 302,346 |
| Carrying amount that are not repayable within twelve months from March 31, 2011 containing a repayable on demand clause but shown in current liabilities: | | |
| After 1 year, but within 2 years | \$ 563,544 | \$ 561,671 |
| After 2 years, but within 5 years | 321,999 | 358,564 |
| After 5 years | 1,492,765 | 1,527,443 |
| | <u>\$ 2,378,308</u> | <u>\$ 2,447,678</u> |
| | <u>\$ 2,669,937</u> | <u>\$ 2,750,024</u> |

PART I FINANCIAL INFORMATION

ACL SEMICONDUCTORS INC. AND SUBSIDIARIES

Notes to the Condensed Consolidated Financial Statements (Unaudited)

Note 9. Bank Loan (Continued)

With respect to all of the debt and credit arrangements referred to in this Note 8 and Note 9, the Company pledged its assets to a bank group in Hong Kong comprised of DBS Bank (formerly Overseas Trust Bank Limited), BEA Bank, Standard Chartered Bank (Hong Kong) Limited (SCB) and Fubon Bank (Hong Kong) Limited (Fubon Bank), as collateral for all current and future borrowings from the bank group by the Company. In addition to the above pledged collateral, the debt is also secured by:

1. a fixed cash deposit of \$705,641 (HK\$5,504,000), a security interest on two residential properties and a workshop located in Hong Kong owned by Atlantic, a wholly owned subsidiary of ACL, a security interest on a residential property located in Hong Kong owned by City, a related party, a workshop located in Hong Kong owned by Solution, a related party, plus a personal guarantee by Mr. Yang as collateral for loans from DBS Bank;
2. a fixed cash deposit of \$1,382,733 (HK\$10,785,318), a workshop located in Hong Kong owned by Systematic Information, a related party, a workshop located in Hong Kong owned by Solution, a related party, plus an unlimited personal guarantee by Mr. Yang as collateral for loans from BEA Bank;
3. an unlimited personal guarantee by Mr. Yang as collateral for loans from SCB;
4. a security interest on residential properties located in Hong Kong owned by Aristo, a wholly owned company by Mr. Yang plus a personal guarantee by Mr. Yang as collateral for loans from Fubon Bank.

PART I FINANCIAL INFORMATION

ACL SEMICONDUCTORS INC. AND SUBSIDIARIES

Notes to the Condensed Consolidated Financial Statements (Unaudited)

Note 10. Cash Flow Information

Cash paid during the three months ended March 31, 2011 and 2010 is as follows:

| | Three Months Ended | |
|--|--------------------|-------------------|
| | March 31, 2011 | March 31, 2010 |
| | _____ | _____ |
| Interest paid | \$ 108,781 | \$ 95,164 |
| | _____ | _____ |
| Income taxes paid | \$ 126,187 | \$ 28,337 |
| | _____ | _____ |
| Non-Cash Activities: | | |
| Capital lease obligations incurred when capital lease were entered for new automobiles | \$ 162,564 | \$ 122,213 |
| | _____ | _____ |
| Income tax provision | \$ 192,308 | \$ 256,066 |
| | _____ | _____ |

Note 11. Fair Value of Financial Instruments

Fair value measurements are determined under a three-level hierarchy for fair value measurements that prioritizes the inputs to valuation techniques used to measure fair value, distinguishing between market participant assumptions developed based on market data obtained from sources independent of the reporting entity (observable inputs) and the reporting entity's own assumptions about market participant assumptions developed based on the best information available in the circumstances (unobservable inputs).

Fair value is the price that would be received from sale of an asset or would be paid for transfer of a liability (i.e., the exit price) in an orderly transaction between market participants at the measurement date. In determining fair value, we primarily use prices and other relevant information generated by market transactions involving identical or comparable assets (market approach). We also consider the impact of a significant decrease in volume and level of activity for an asset or liability when compared with normal activity to identify transactions that are not orderly.

The highest priority is given to unadjusted quoted prices in active markets for identical assets (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). Securities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

The three hierarchy levels are defined as follows:

Level 1 - Quoted prices in active markets that are unadjusted and accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2 - Quoted prices for identical assets and liabilities in markets that are not active, quoted prices for similar assets and liabilities in active markets or financial instruments for which significant inputs are observable, either directly or indirectly;

Level 3 - Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

PART I FINANCIAL INFORMATION

ACL SEMICONDUCTORS INC. AND SUBSIDIARIES

Notes to the Condensed Consolidated Financial Statements (Unaudited)

Note 11. Fair Value of Financial Instruments (Continued)

Credit risk adjustments are applied to reflect the company's own credit risk when valuing all liabilities measured at fair value. The methodology is consistent with that applied in developing counterparty credit risk adjustments, but incorporates the company's own credit risk as observed in the credit default swap market.

The following table presents the Company's assets and liabilities that are measured at fair value on a recurring basis at March 31, 2011:

| | Level 1 | Level 2 | Level 3 | Total |
|---------------------------|-------------------|-------------------|-------------------|-------------------|
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Cash and cash equivalents | 3,844,682 | | | 3,844,682 |
| Restricted cash | 2,088,374 | | | 2,088,374 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Total assets | \$ 5,933,056 | \$ | \$ | \$ 5,933,056 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |

Note 12. Weight Average Number of Shares

The Company has a 2006 Incentive Equity Stock Plan, under which the Company may grant options to its employees for up to 5 million shares of common stock. There was no dilutive effect to the weighted average number of shares for the period ended March 31, 2011 and December 31, 2010 since there were no outstanding options at March 31, 2011 and December 31, 2010.

Note 13. Derivative instruments

On February 1, 2009, the Company adopted ASC 815 (formerly SFAS No. 161) as referenced in Note 2. The adoption of ASC 815 requires additional disclosures about Company's objectives and strategies for using derivative instruments, the accounting for the derivative instruments and related hedged items under ASC 815 (formerly SFAS No. 133), *Accounting for Derivative Instruments and Hedging Activities*, and the effect of derivative instruments and related hedged items on the financial statements. The adoption had no financial impact on the consolidated condensed financial statements.

Since all of the Company's sales are done in USD, the bank is exposed to foreign currency exchange rate fluctuations in the normal course of its business. As part of its risk management strategy, the Company purchases FX forward contracts from the banks to secure the exchange rate for a period of time in order to hedge any FX exposure between HKD and USD throughout the purchase and sale period. The Company applies hedge accounting based upon the criteria established by ASC 815, whereby the Company designates its derivatives as cash flow hedges. Cash flows from the derivative programs were classified as operating activities in the Consolidated Statement of Cash Flows.

As of March 31, 2011, the Company does not have any outstanding foreign currency exchange agreements. All foreign currency exchange agreements have been matured before April 1, 2010.

The before-tax effect of derivative instruments in cash flow and net investment hedging relationships for the three months ended March 31, 2011 and 2010 was as follows:

| Gain Recognized in Income on Derivative Location | Three months ended March 31, | |
|--|------------------------------|-------------|
| <u> </u> | <u>2011</u> | <u>2010</u> |

Cash flow hedges:

Edgar Filing: ACL SEMICONDUCTORS INC - Form 10-Q

| | | | | |
|---|-------------------------|----|-----------------------------|-----------------------------|
| Foreign exchange contract US\$500,000 | Interest and other, net | \$ | \$ | 1,231 |
| Foreign exchange contract US\$1,000,000 | Interest and other, net | | | 14,179 |
| Total cash flow hedges | | \$ | \$ | 15,410 |
| | | | <u> </u> | <u> </u> |

PART I FINANCIAL INFORMATION

ACL SEMICONDUCTORS INC. AND SUBSIDIARIES

Notes to the Condensed Consolidated Financial Statements (Unaudited)

Note 14. Subsequent Events

In preparing these financial statements, the Company evaluated the events and transactions that occurred from April 1, 2011 through May 15, 2011, the date these financial statements were issued. The Company has made the required additional disclosures in reporting periods in which subsequent events occur.

The Company is dependent on a single vendor, Samsung, to supply the majority of its inventories. This vendor accounted for the majority of the Company's purchases for 2010. The Company's non-exclusive distributorship agreement with this vendor has a one-year term. This agreement has been renewed more than ten times, most recently on March 1, 2010 and expired on February 28, 2011. As of March 1, 2011, this vendor has confirmed the annual renewal of such agreement for one year. The Company has already signed the renewal agreement and is waiting to receive the fully executed agreement from Samsung. Termination of such distributorship agreement by this vendor would have a material adverse effect on the operations of the Company.

PART I FINANCIAL INFORMATION

ACL SEMICONDUCTORS INC. AND SUBSIDIARIES

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion highlights the principal factors that have affected our financial condition and results of operations as well as our liquidity and capital resources for the periods described.

The information contained in this Form 10-Q is intended to update the information contained in our annual report on Form 10-K for the year ended December 31, 2010, (the Form 10-K), filed with the Securities and Exchange Commission, and presumes that readers have access to, and will have read, the Management's Discussion and Analysis of Financial Condition and Results of Operation, our consolidated financial statements and the notes thereto, and other information contained in the Form 10-K. The following discussion and analysis also should be read together with our condensed consolidated financial statements and the notes to the condensed consolidated financial statements and the notes thereto included elsewhere in this Form 10-Q.

Forward-Looking Statements

Information included in this Form 10-Q may contain forward-looking statements. Except for the historical information contained in this discussion of the business and the discussion and analysis of financial condition and results of operations, the matters discussed herein are forward looking statements. These forward looking statements include but are not limited to the Company's plans for sales growth and expectations of gross margin, expenses, new product introduction, and the Company's liquidity and capital needs. This information may involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements to be materially different from future results, performance or achievements expressed or implied by any forward-looking statements. Forward-looking statements, which involve assumptions and describe our future plans, strategies and expectations, are generally identifiable by use of the words may, will, should, expect, anticipate, estimate, believe, intend or project or the negative of these words or other variations on these words or comparable terminology. In addition to the risks and uncertainties described in Risk Factors contained in the Form 10-K, these risks and uncertainties may include consumer trends, business cycles, scientific developments, changes in governmental policy and regulation, currency fluctuations, economic trends in the United States and inflation. Forward-looking statements are based on assumptions that may be incorrect, and there can be no assurance that any projections or other expectations included in any forward-looking statements will come to pass. Our actual results could differ materially from those expressed or implied by the forward-looking statements as a result of various factors. Except as required by applicable laws, we undertake no obligation to update publicly any forward-looking statements for any reason, even if new information becomes available or other events occur in the future.

Company Overview and Background

The Company, through its wholly-owned subsidiary Atlantic Components Limited, a Hong Kong corporation (Atlantic), is engaged primarily in the business of distribution of memory products under Samsung brand name which principally comprise DRAM, Graphic RAM and Flash for the Hong Kong and Southern China markets. Our wholly-owned subsidiary, Alpha Perform Technology Limited (Alpha), which previously engaged in this business, ceased activities as of January 1, 2004, and all its operations were consolidated with those of Atlantic.

On March 23, 2010, the Company concluded that Aristo is a variable interest entity under FASB ASC 810-10-25 and is therefore subject to consolidation with the Company beginning fiscal year 2007 under the guidance applicable to variable interest entities.

Aristo is engaged in the marketing, selling and servicing of computer products and accessories including semiconductors, LCD products, mass storage devices, consumer electronics, computer peripherals and electronic components for different generations of computer related products. In addition to Samsung-branded products, Aristo sells Hynix, Micron, Elpida, Qimonda, Lexar, Dane-Elec, Elixir, SanDisk and Winbond branded products. Aristo will provide value-added services to its products and resell it to its customers.

On December 14, 2010, the Company set up a wholly-owned subsidiary, ACL International Holdings Limited (ACL Holdings) in Hong Kong. On December 17, 2010 the Company restructured the group; the Company's wholly owned subsidiary, Atlantic, was transferred to become a wholly owned subsidiary of ACL Holdings, therefore Atlantic became an indirect wholly-owned subsidiary of the Company. This restructuring has no effect on the Company's financial statements.

PART I FINANCIAL INFORMATION

ACL SEMICONDUCTORS INC. AND SUBSIDIARIES

As of March 31, 2011, ACL had more than 150 customers in Hong Kong and Southern China.

ACL is in the mature stage of operations. As a result, the relationships between sales, cost of sales, and operating expenses reflected in the financial information included in this document to a large extent represent future expected financial relationships. Many of the cost of sales and operating expenses reflected in our financial statements are recurring in nature.

Overview

Net sales

Net sales for the three months ended March 31, 2011 (first quarter of 2011) were \$120,991,594, up \$21,980,532 or 22.2% from the three months ended March 31, 2010 (first quarter of 2010). This compares favorably to the global semiconductor market where sales in the first quarter of 2011 were up only 8.6% compared to the first quarter of 2010. Growth in net sales provides higher rebate income from Samsung. This increase in net sales was largely due to renewed demand from consumers and businesses for electronics, and an associated increase in the average semiconductor content within those products. The company expects this demand growth to continue.

The Company's gross profit for the first quarter of 2011 was \$2,940,131, representing an increase of \$113,527 or 4.0% over \$2,826,604 in the same period of 2010. First quarter gross profit margin for 2011 eased to 2.43% from 2.85% in 2010. These results are due to increasing costs of sale associated with the Company's continued focus on the promotion of Samsung's high density NAND Flash (4GB and above), which has greatly increased our sales volume but lowered our profit margin. Additionally, semiconductor average selling prices, particularly DRAM, had been low in the first quarter of 2011, preceding the Japan earthquake, following robust inventories in 2010 and seasonality effects.

Income before income taxes for the three months ended March 31, 2011 was down \$131,928 or 7.8% to \$1,565,114 from \$1,697,042 for three months ended March 31, 2010. This was largely due to an increase in general and administrative expenses to \$1,308,539 in the three months ended March 31, 2011 from \$1,057,869 in the three months ended March 31, 2010. This increase in general and administrative expense was mainly due to directors' remuneration and entertainment expenses. The Company recorded a net income of \$1,372,806 for the three months ended March 31, 2011, down \$68,170 or 4.7% from \$1,440,976 in the three months ended March 31, 2010.

The Company anticipates increased revenue from NAND Flash in 2011, due particularly to the rapidly expanding smartphone and tablet markets. However, we suspect this revenue increase may be offset by slightly reduced revenue from DRAM, as despite also benefiting from growth throughout the consumer electronics markets, average selling prices of DRAM were in steady decline preceding the March 11, 2011 Japan earthquake.

The biggest impact of the March 11, 2011 Japan earthquake on the global semiconductor market has been the increasing average selling prices of DRAM. Supply chain disruption in parts of Japan has created a threat of semiconductor supply shortages; Japan is the world's leading producer of the silicon wafers required to produce semiconductors. Wafer output has been significantly reduced and if this persists, a supply shortage of DRAM may occur potentially by October, further increasing DRAM prices. The Japan earthquake is estimated to have caused a 1.1% reduction in global DRAM shipments in April and the second half of March.

The Company's supply of semiconductors from Samsung has not been affected by the March 11, 2011 Japan earthquake. Neither has the Company experienced a reduction in demand for its products from its customers located in southern China and Hong Kong. Stabilization of infrastructure and continued recovery efforts in Japan have mitigated some of the impact that the March 11, 2011 Japan earthquake could have had on the global semiconductor market.

PART I FINANCIAL INFORMATION

ACL SEMICONDUCTORS INC. AND SUBSIDIARIES

Cost of sales

Cost of sales consists of costs of goods purchased from Samsung, and purchases from other Samsung authorized distributors. Many factors affect our gross margin, including, but not limited to, the volume of production orders placed on behalf of its customers, the competitiveness of the memory products industry and the availability of cheaper Samsung memory products from overseas Samsung distributors due to regional demand and supply situations. Nevertheless, our procurement operations are supported by Samsung pursuant to a distributorship agreement between the Company and Samsung. Our cost of goods, as a percentage of total revenues, amounted to approximately 97.5% for the three months March 31, 2011 and approximately 97.1% for the three months ended March 31, 2010. This 2.3% reduction was due to the promotion of high density NAND flash memory which provided a very low profit margin with high turnover value.

Operating expenses

Our operating expenses for the three months ended March 31, 2011 and 2010 were comprised of sales and marketing and general and administrative expenses only.

Sales and marketing expenses consisted primarily of costs associated with advertising and marketing activities.

General and administrative expenses include all corporate and administrative functions that serve to support our current and future operations and provide an infrastructure to support future growth. Major items in this category include management and staff salaries, rent/leases, professional services, and travel and entertainment. We expect these expenses to increase as a result of increasing legal and accounting fees anticipated in connection with our compliance with ongoing reporting and accounting requirements of the Securities and Exchange Commission and as a result of anticipated expansion by the Company of its business operations. Sales and marketing expenses are expected to fluctuate as a percentage of sales due to the addition of sales personnel and various marketing activities planned throughout the year.

Interest expense, including finance charges, relates primarily to the Company's short-term and long-term bank borrowings.

Results of Operations

| | Three Months Ended | |
|--------------------------------------|--------------------|-------------------|
| | March 31, 2011 | March 31, 2010 |
| Net sales | \$ 120,991,594 | \$ 99,011,062 |
| Cost of sales | <u>118,051,463</u> | <u>96,184,458</u> |
| Gross profit | 2,940,131 | 2,826,604 |
| Operating expenses | | |
| Selling | 22,330 | 24,802 |
| General and administrative | <u>1,308,539</u> | <u>1,057,869</u> |
| Income from operations | 1,609,262 | 1,743,933 |
| Other income (expenses) | <u>(44,148)</u> | <u>(46,891)</u> |
| Income before income taxes provision | 1,565,114 | 1,697,042 |
| Income taxes provision | <u>(192,308)</u> | <u>(256,066)</u> |
| Net income | 1,372,806 | \$ 1,440,976 |

Edgar Filing: ACL SEMICONDUCTORS INC - Form 10-Q

| | | | |
|--|-------------|----|-------------|
| Earnings per share - basic and diluted | <u>0.05</u> | \$ | <u>0.05</u> |
|--|-------------|----|-------------|

PART I FINANCIAL INFORMATION

ACL SEMICONDUCTORS INC. AND SUBSIDIARIES

Unaudited Comparisons for Three Months ended March 31, 2011, to the Three Months Ended March 31, 2010

Net Sales

The following table presents our net sales for the three months ended March 31, 2011 and 2010, respectively:

| Three Months Ended March 2011, 2011 | 2010 | % Change |
|--|---------------|----------|
| \$ 120,991,594 | \$ 99,011,062 | 22.2% |

Net sales increased by \$21,980,532 or 22.2%, from \$99,011,062 for the three months ended March 31, 2010 to \$120,991,594 in the three months ended March 31, 2011. This increase in net sales was largely due to renewed demand from consumers and businesses for electronics, and an associated increase in the average semiconductor content within those products.

Cost of sales

The following table presents our cost of sales for the three months ended March 31, 2011 and 2010, respectively:

| Three Months Ended March 2011, 2011 | 2010 | % Change |
|--|---------------|----------|
| \$ 118,051,463 | \$ 96,184,458 | 22.7% |

Cost of sales increased by \$21,867,005, or 22.7%, from \$96,184,458 for the three months ended March 31, 2010 to \$118,051,463 for the three months ended March 31, 2011. The increase was mainly due to increase of sales volume and higher cost of sales.

Gross Profit

The following table presents our gross profit for the three months ended March 31, 2011 and 2010, respectively:

| Three Months Ended March 2011, 2011 | 2010 | % Change |
|--|--------------|----------|
| \$ 2,940,131 | \$ 2,826,604 | 4.0% |

Gross profit increased by \$113,527, or 4%, from \$2,826,604 for the three months ended March 31, 2010 to \$2,940,131 for the three months ended March 31, 2011. Although we experienced a significant increase in net sales during the first quarter of 2011 when compared to the same period in 2010, this did not result in a corresponding increase in gross profit. This result is due to increasing costs of sale associated with the Company's continued focus on the promotion of Samsung's high density NAND Flash (4GB and above), which has greatly increased our sales volume but lowered our profit margin.

PART I FINANCIAL INFORMATION

ACL SEMICONDUCTORS INC. AND SUBSIDIARIES

Sales and Marketing Expenses

The following table presents the sales and marketing expenses for the three months ended March 31, 2011 and 2010, respectively:

| Three Months Ended March 2011, 2011 | 2010 | % Change |
|--|-----------|----------|
| \$ 22,330 | \$ 24,802 | -10.0% |

For the three months ended March 31, 2011, sales and marketing expenses decreased \$2,472, or 10%, as compared to the three months ended March 31, 2010. The decrease was directly attributable to effective controlling of transportation expenses during the first quarter 2011.

General and Administrative Expenses

The following table presents the general and administrative expenses for the three months ended March 31, 2011 and 2010, respectively:

| Three Months Ended March 2011, 2011 | 2010 | % Change |
|--|--------------|----------|
| \$ 1,308,539 | \$ 1,057,869 | 23.7% |

For the three months ended March 31, 2011, general and administrative expenses increased \$250,670, or 23.7%, as compared to the three months ended March 31, 2010. This increase was principally attributable to an increase in directors' remuneration and entertainment expenses.

Income from Operations

The following table presents the income from operations for the three months ended March 31, 2011 and 2010, respectively:

| Three Months Ended March 2011, 2011 | 2010 | % Change |
|--|--------------|----------|
| \$ 1,609,262 | \$ 1,743,933 | -7.7% |

Income from operations for the three months ended March 31, 2011 decreased by \$134,671, or 7.7%, from \$1,743,933 for the three months ended March 31, 2010 to \$1,614,819 in the three months ended March 31, 2011. Such decrease was mainly due to an increase of general and administrative expenses which decreased our gross margin.

Interest Income

The following table presents the interest income for the three months ended March 31, 2011 and 2010, respectively:

| Three Months Ended March 2011, 2011 | 2010 | % Change |
|--|-------|----------|
| \$ 451 | \$ 93 | 384.9% |

For the three months ended March 31, 2011, interest income increased \$358 or 384.9%, as compared to the three months ended March 31, 2010. This increase was due to increase of average bank balance when compared to the same period in 2010.

PART I FINANCIAL INFORMATION

ACL SEMICONDUCTORS INC. AND SUBSIDIARIES

Interest Expense

The following table presents the interest expense for the three months ended March 31, 2011 and 2010, respectively:

| Three Months Ended March 2011, 2011 | 2010 | % Change |
|--|-----------|----------|
| \$ 108,781 | \$ 95,164 | 14.3% |

For the three months ended March 31, 2011, interest expense increased by \$13,617 or 14.3%, from \$95,164 in the three months ended March 31, 2010 to \$108,781 in the three months ended March 31, 2011. These increases were mainly due to an increase in the use of letters of credit to obtain goods from suppliers.

Net Income on Cash Flow Hedge

The following table presents the net income on cash flow hedge for the three months ended March 31, 2011 and 2010, respectively:

| Three Months Ended March 2011, 2011 | 2010 | % Change |
|--|-----------|----------|
| \$ | \$ 15,410 | -100.0% |

For the three months ended March 31, 2011, income on cash flow hedge decreased by \$15,410, or 100%, as compared to the three months ended March 31, 2010. The decreases were due to all currency hedging contracts had matured in the first quarter of 2010.

Income Tax Provision

The following table presents the income tax provision for the three months ended March 31, 2011 and 2010, respectively:

| Three Months Ended March 2011, 2011 | 2010 | % Change |
|--|------------|----------|
| \$ 192,308 | \$ 256,066 | -24.9% |

Income tax provision decreased by \$63,758 or 24.9% from \$256,066 for the three months ended March 31, 2010 to \$192,308 for the three months ended March 31, 2011. The decrease was due to a decrease in the estimated Hong Kong taxes payable by Atlantic.

Liquidity and Capital Resources

Our principal sources of liquidity have been cash from operations, bank lines of credit and credit terms from suppliers. Our principal uses of cash have been for operations and working capital. We anticipate these uses will continue to be our principal uses of cash in the future.

As of March 31, 2011, we had revolving lines of credit and loan facilities in the aggregate amount of \$20,794,541, of which \$5,195,736 was available for drawdown as short-term loans repayable within 90 days. Detailed disclosures on credit facilities are made in Note 8 and Note 9 of Notes to the Condensed Consolidated Financial Statements (Unaudited) for the quarter ended March 31, 2011, including the amounts of facilities, outstanding balances, maturity date, and pledges of assets.

PART I FINANCIAL INFORMATION

ACL SEMICONDUCTORS INC. AND SUBSIDIARIES

Our ability to draw down under our various credit and loan facilities is, in each case, subject to the prior consent of the relevant lending institution to make advances at the time of the requested advance and each facility (other than with respect to certain long term mortgage loans) is payable within 90 days of drawdown. As a result of the general tightening of credit markets in Hong Kong and Asia, many lenders have revised the terms of their revolving credit lines to levels we did not deem commercially reasonable. Accordingly, on a case by case basis, we may elect to terminate or not renew several of our credit facilities resulting in significant reduction in our available short term borrowings.

To address the reduction in available credit facilities, we are relying on our own cash reserves and cash flows from operations to fund our ongoing operations and have tightened the credit terms we extend to our customers. As a result, the Company does not expect that the reduction in available credit facilities is going to have a materially adverse impact upon our operations for the foreseeable future.

We will continue to seek additional sources of available financing on acceptable terms; however, there can be no assurance that we will be able to obtain the necessary additional capital on a timely basis or on acceptable terms, if at all. In addition, if the results are negatively impacted and delayed as a result of political and economic factors beyond management's control, our capital requirements may increase.

The short-term borrowings from banks to finance the cash flow required to finance the purchase of Samsung memory products from Samsung must be made a day in advance of the release of goods from Samsung's warehouse before receiving payments from customers upon physical delivery of such goods in Hong Kong which, in most instances, take approximately two days from the date of such delivery.

The following factors, among others, could have negative impacts on our results of operations and financial position: the termination or change in terms of the Distributorship Agreement; pricing pressures in the industry; a continued downturn in the economy in general or in the memory products sector; an unexpected decrease in demand for Samsung's memory products; our ability to attract new customers; an increase in competition in the memory products market; and the ability of some of our customers to obtain financing.

Although we believe the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. We are under no duty to update any of the forward-looking statements after the date of this report to conform them to actual results or to make changes in our expectations.

Net Cash provided by Operating Activities

In the three months ended March 31, 2011, net cash provided by operating activities was \$3,134,805 while in the three months ended March 31, 2010, net cash used for operating activities was \$436,143, an increase of \$3,570,948. This increase was primarily due to decrease of accounts receivable and increase of accounts payable net of increase of inventories as of March 31, 2011.

Net Cash Used for Investing Activities

For the three months ended March 31, 2011, net cash used for investing activities was \$881,481 while in the three months ended March 31, 2010, net cash provided by investing activities was \$757,263, an increase in cash used of \$1,638,744. This increase was primarily due to the increase of amounts due from Aristo / Mr. Yang as of March 31, 2011.

Net Cash Provided by Financing Activities

In the three months ended March 31, 2011, net cash provided by financing activities was \$11,942 while in the three months ended March 31, 2010, net cash provided by financing activities was \$1,007,350, a decrease of \$995,408. This decrease was due to decrease in the balance of bank lines of credit and notes payable as of March 31, 2011.

PART I FINANCIAL INFORMATION

ACL SEMICONDUCTORS INC. AND SUBSIDIARIES

Principles of Consolidation

The consolidated financial statements of ACL Semiconductors Inc. include the accounts of Atlantic Components Ltd., a Hong Kong subsidiary, ACL Holdings International Ltd., a Hong Kong subsidiary, Alpha Perform Technology Limited, a BVI subsidiary, and Aristo Technologies Ltd., a Hong Kong company, a variable interest entity deemed to be a subsidiary. All significant inter-company transactions and balances are eliminated in consolidation.

Critical Accounting Policies

The U.S. Securities and Exchange Commission (SEC) recently issued Financial Reporting Release No. 60, *Cautionary Advice Regarding Disclosure About Critical Accounting Policies* (FRR 60), suggesting companies provide additional disclosure and commentary on their most critical accounting policies. In FRR 60, the SEC defined the most critical accounting policies as the ones that are most important to the portrayal of a company's financial condition and operating results, and require management to make its most difficult and subjective judgments, often as a result of the need to make estimates of matters that are inherently uncertain. Based on this definition, our most critical accounting policies include: inventory valuation, which affects cost of sales and gross margin; policies for revenue recognition, allowance for doubtful accounts, and stock-based compensation. The methods, estimates and judgments we use in applying these most critical accounting policies have a significant impact on the results we report in our consolidated financial statements.

Revenue Recognition

The Company derives revenues from resale of computer memory products. The Company recognizes revenue in accordance with the ASC 605 Revenue Recognition . Under ASC 605, revenue is recognized when there is persuasive evidence of an arrangement, delivery has occurred or services are rendered, the sales price is determinable, and collectability is reasonably assured. Revenue typically is recognized at time of shipment. Sales are recorded net of discounts, rebates, and returns, which historically were not material.

Inventory Valuation

Our policy is to value inventories at the lower of cost or market on a part-by-part basis. In addition, we write down unproven, excess and obsolete inventories to net realizable value. This policy requires us to make a number of estimates and assumptions including market and economic conditions, product lifecycles and forecast demand for our product to value our inventory. To the extent actual results differ from these estimates and assumptions, the balances of reported inventory and cost of products sold will change accordingly. Since Aristo supplies different generations of computer related products, older generation products will sell more slowly owing to lower market demand. According to the management's experience and estimation of the actual market situation, old generation products carrying on hand for ten years will have no re-sell value. Therefore, these inventories on hand over ten years will be written off by Aristo immediately.

Allowance for Doubtful Accounts.

We maintain an allowance for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. Our allowance for doubtful accounts is based on our assessment of the collectability of specific customer accounts, the aging of accounts receivable, our history of bad debts, and the general condition of the industry. If a major customer's credit worthiness deteriorates, or our customers' actual defaults exceed our historical experience, our estimates could change and impact our reported results.

PART I FINANCIAL INFORMATION

ACL SEMICONDUCTORS INC. AND SUBSIDIARIES

New Accounting Pronouncements

ASC 105, Generally Accepted Accounting Principles (ASC 105) (formerly Statement of Financial Accounting Standards No. 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles a replacement of FASB Statement No. 162) reorganized by topic existing accounting and reporting guidance issued by the Financial Accounting Standards Board (FASB) into a single source of authoritative generally accepted accounting principles (GAAP) to be applied by nongovernmental entities. All guidance contained in the Accounting Standards Codification (ASC) carries an equal level of authority. Rules and interpretive releases of the Securities and Exchange Commission (SEC) under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. Accordingly, all other accounting literature will be deemed non-authoritative . ASC 105 is effective on a prospective basis for financial statements issued for interim and annual periods ending after September 15, 2009. The Company has implemented the guidance included in ASC 105 as of July 1, 2009. The implementation of this guidance changed the Company s references to GAAP authoritative guidance but did not impact the Company s financial position or results of operations.

ASC 855, Subsequent Events (ASC 855) (formerly Statement of Financial Accounting Standards No. 165, Subsequent Events) includes guidance that was issued by the FASB in May 2009, and is consistent with current auditing standards in defining a subsequent event. Additionally, the guidance provides for disclosure regarding the existence and timing of a company s evaluation of its subsequent events. ASC 855 defines two types of subsequent events, recognized and non-recognized . Recognized subsequent events provide additional evidence about conditions that existed at the date of the balance sheet and are required to be reflected in the financial statements. Non-recognized subsequent events provide evidence about conditions that did not exist at the date of the balance sheet but arose after that date and, therefore; are not required to be reflected in the financial statements. However, certain non-recognized subsequent events may require disclosure to prevent the financial statements from being misleading. This guidance was effective prospectively for interim or annual financial periods ending after June 15, 2009. The Company implemented the guidance included in ASC 855 as of April 1, 2009. The effect of implementing this guidance was not material to the Company s financial position or results of operations.

ASC 944, Financial Services – Insurance (ASC 944) contains guidance that was previously issued by the FASB in May 2008 as Statement of Financial Accounting Standards No. 163, Accounting for Financial Guarantee Insurance Contracts – an interpretation of FASB Statement No. 60 that provides for changes to both the recognition and measurement of premium revenues and claim liabilities for financial guarantee insurance contracts that do not qualify as a derivative instrument in accordance with ASC 815, Derivatives and Hedging (formerly included under Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities). This financial guarantee insurance contract guidance also expands the disclosure requirements related to these contracts to include such items as a company s method of tracking insured financial obligation with credit deterioration, financial information about insured financial obligations, and management s policies for placing and monitoring the insured financial obligations. ASC 944, as it relates to financial guarantee insurance contracts, was effective for fiscal years beginning after December 15, 2008, except for certain disclosures related to the insured financial obligations, which were effective for the third quarter of 2008. The Company does not have financial guarantee products, and, accordingly, the implementation of this portion of ASC 944 did not have an effect on the Company s results of operations or financial position.

PART I FINANCIAL INFORMATION

ACL SEMICONDUCTORS INC. AND SUBSIDIARIES

ASC 805, Business Combinations (ASC 805) (formerly included under Statement of Financial Accounting Standards No. 141 (revised 2007), Business Combinations) contains guidance that was issued by the FASB in December 2007. It requires the acquiring entity in a business combination to recognize all assets acquired and liabilities assumed in a transaction at the acquisition-date fair value, with certain exceptions. Additionally, the guidance requires changes to the accounting treatment of acquisition related items, including, among other items, transaction costs, contingent consideration, restructuring costs, indemnification assets and tax benefits. ASC 805 also provides for a substantial number of new disclosure requirements. ASC 805 also contains guidance that was formerly issued as FSP FAS 141(R)-1, Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies which was intended to provide additional guidance clarifying application issues regarding initial recognition and measurement, subsequent measurement and accounting, and disclosure of assets and liabilities arising from contingencies in a business combination. ASC 805 was effective for business combinations initiated on or after the first annual reporting period beginning after December 15, 2008. The Company implemented this guidance effective January 1, 2009. Implementing this guidance did not have an effect on the Company's financial position or results of operations; however it will likely have an impact on the Company's accounting for future business combinations, but the effect is dependent upon acquisitions, if any, that are made in the future.

ASC 810, Consolidation (ASC 810) includes new guidance issued by the FASB in December 2007 governing the accounting for and reporting of noncontrolling interests (previously referred to as minority interests). This guidance established reporting requirements which include, among other things, that noncontrolling interests be reflected as a separate component of equity, not as a liability. It also requires that the interests of the parent and the noncontrolling interest be clearly identifiable. Additionally, increases and decreases in a parent's ownership interest that leave control intact shall be reflected as equity transactions, rather than step acquisitions or dilution gains or losses. This guidance also requires changes to the presentation of information in the financial statements and provides for additional disclosure requirements. ASC 810 was effective for fiscal years beginning on or after December 15, 2008. The Company implemented this guidance as of January 1, 2010 and made necessary changes accordingly including but not limited to filing amendments for the prior periods to comply with all applicable requirements.

ASC 825, Financial Instruments (ASC 825) includes guidance which was issued in February 2007 by the FASB and was previously included under Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115. The related sections within ASC 825 permit a company to choose, at specified election dates, to measure at fair value certain eligible financial assets and liabilities that are not currently required to be measured at fair value. The specified election dates include, but are not limited to, the date when an entity first recognizes the item, when an entity enters into a firm commitment or when changes in the financial instrument causes it to no longer qualify for fair value accounting under a different accounting standard. An entity may elect the fair value option for eligible items that exist at the effective date. At that date, the difference between the carrying amounts and the fair values of eligible items for which the fair value option is elected should be recognized as a cumulative effect adjustment to the opening balance of retained earnings. The fair value option may be elected for each entire financial instrument, but need not be applied to all similar instruments. Once the fair value option has been elected, it is irrevocable. Unrealized gains and losses on items for which the fair value option has been elected will be reported in earnings. This guidance was effective as of the beginning of fiscal years that began after November 15, 2007. The Company does not have eligible financial assets and liabilities, and, accordingly, the implementation of ASC 825 did not have an effect on the Company's results of operations or financial position.

PART I FINANCIAL INFORMATION

ACL SEMICONDUCTORS INC. AND SUBSIDIARIES

ASC 820, Fair Value Measurements and Disclosures (ASC 820) (formerly included under Statement of Financial Accounting Standards No. 157, Fair Value Measurements) includes guidance that was issued by the FASB in September 2006 that created a common definition of fair value to be used throughout generally accepted accounting principles. ASC 820 applies whenever other standards require or permit assets or liabilities to be measured at fair value, with certain exceptions. This guidance established a hierarchy for determining fair value which emphasizes the use of observable market data whenever available. It also required expanded disclosures which include the extent to which assets and liabilities are measured at fair value, the methods and assumptions used to measure fair value and the effect of fair value measures on earnings. ASC 820 also provides additional guidance for estimating fair value when the volume and level of activity for the asset or liability have significantly decreased. The emphasis of ASC 820 is that fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between willing market participants, under current market conditions. ASC 820 also further clarifies the guidance to be considered when determining whether or not a transaction is orderly and clarifies the valuation of securities in markets that are not active. This guidance includes information related to a company's use of judgment, in addition to market information, in certain circumstances to value assets which have inactive markets.

Fair value guidance in ASC 820 was initially effective for fiscal years beginning after November 15, 2007 and for interim periods within those fiscal years for financial assets and liabilities. The effective date of ASC 820 for all non-recurring fair value measurements of nonfinancial assets and nonfinancial liabilities was fiscal years beginning after November 15, 2008. Guidance related to fair value measurements in an inactive market was effective in October 2008 and guidance related to orderly transactions under current market conditions was effective for interim and annual reporting periods ending after June 15, 2009.

The Company applied the provisions of ASC 820 to its financial assets and liabilities upon adoption at January 1, 2008 and adopted the remaining provisions relating to certain nonfinancial assets and liabilities on January 1, 2009. The difference between the carrying amounts and fair values of those financial instruments held upon initial adoption, on January 1, 2008, was recognized as a cumulative effect adjustment to the opening balance of retained earnings and was not material to the Company's financial position or results of operations. The Company implemented the guidance related to orderly transactions under current market conditions as of April 1, 2009, which also was not material to the Company's financial position or results of operations.

In August 2009, the FASB issued ASC Update No. 2009-05, Fair Value Measurements and Disclosures (Topic 820): Measuring Liabilities at Fair Value (ASC Update No. 2009-05). This update amends ASC 820, Fair Value Measurements and Disclosures and provides further guidance on measuring the fair value of a liability. The guidance establishes the types of valuation techniques to be used to value a liability when a quoted market price in an active market for the identical liability is not available, such as the use of an identical or similar liability when traded as an asset. The guidance also further clarifies that a quoted price in an active market for the identical liability at the measurement date and the quoted price for the identical liability when traded as an asset in an active market when no adjustments to the quoted price of the asset are required are both Level 1 fair value measurements. If adjustments are required to be applied to the quoted price, it results in a level 2 or 3 fair value measurement. The guidance provided in the update is effective for the first reporting period (including interim periods) beginning after issuance. The Company does not expect that the implementation of ASC Update No. 2009-05 will have a material effect on its financial position or results of operations.

In September 2009, the FASB issued ASC Update No. 2009-12, Fair Value Measurements and Disclosures (Topic 820): Investments in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent) (ASC Update No. 2009-12). This update sets forth guidance on using the net asset value per share provided by an investee to estimate the fair value of an alternative investment. Specifically, the update permits a reporting entity to measure the fair value of this type of investment on the basis of the net asset value per share of the investment (or its equivalent) if all or substantially all of the underlying investments used in the calculation of the net asset value is consistent with ASC 820. The update also requires additional disclosures by each major category of investment, including, but not limited to, fair value of underlying investments in the major category, significant investment strategies, redemption restrictions, and unfunded commitments related to investments in the major category. The amendments in this update are effective for interim and annual periods ending after December 15, 2009 with early application permitted. The Company does not expect that the implementation of ASC Update No. 2009-12 will have a material effect on its financial position or results of operations.

PART I FINANCIAL INFORMATION

ACL SEMICONDUCTORS INC. AND SUBSIDIARIES

ASC 810-10-05 to 10-65 Variable Interest Entity codified No. 167, Amendments to FASB Interpretation No. 46(R) and FASB Interpretation No. 46R, Consolidation of Variable Interest Entities an interpretation of ARB No. 51 (FIN 46R) to require an analysis to determine whether a company has a controlling financial interest in a variable interest entity. This analysis identifies the primary beneficiary of a variable interest entity as the enterprise that has a) the power to direct the activities of a variable interest entity that most significantly impact the entity's economic performance and b) the obligation to absorb losses of the entity that could potentially be significant to the variable interest entity or the right to receive benefits from the entity that could potentially be significant to the variable interest entity. The statement requires an ongoing assessment of whether a company is the primary beneficiary of a variable interest entity when the holders of the entity, as a group, lose power, through voting or similar rights, to direct the actions that most significantly affect the entity's economic performance. The Company has adopted ASC 810-10-5 to 10-65 and filed all necessary amendments to comply with ASC 810-10-5 to 10-65.

In 2010, the FASB issued ASC Update (ASU) No.2010-21, Accounting for Technical Amendments to Various SEC Rules and Schedules. This update amends various SEC paragraphs in the FASB Accounting Standards Codification pursuant to SEC Final Rule, Technical Amendments to Rules Forms, Schedules and Codification of Financial Reporting Policies . The adoption of this update did not have any material impact on the Company's financial statements.

In 2010, the FASB issued ASC Update (ASU) No.2010-22, Accounting for Various Topics. This update amends various SEC paragraphs in the FASB Accounting Standards Codification based on external comments received and the issuance of Staff Accounting Bulletin (SAB) No. 112 which amends or rescinds portion of certain SAB topics. SAB 112 was issued to existing SEC guidance into conformity with ASC 805 Business Combination and ASC 810 Consolidation . The adoption of this update did not have any material impact on the Company's financial statements.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

We are a smaller reporting company as defined by Rule 12b-2 of the Exchange Act and are not required to provide the information required under this item.

Item 4T. Controls and Procedures

(a) Disclosure Controls and Procedures

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

Limitations on the Effectiveness of Disclosure Controls. In designing and evaluating the Company's disclosure controls and procedures, management recognized that disclosure controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the disclosure controls and procedures are met. Additionally, in designing disclosure controls and procedures, Company management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible disclosure controls and procedures. The design of any disclosure controls and procedures also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

PART I FINANCIAL INFORMATION

ACL SEMICONDUCTORS INC. AND SUBSIDIARIES

Evaluation of Disclosure Controls and Procedures. The Company's CEO and CFO have evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures as defined in Exchange Act Rules 13a-15(e) and 15d-15(e) as of March 31, 2011, and based on this evaluation, the Company's principal executive and financial officers have concluded that the Company's disclosure controls and procedures were not effective to ensure that material information is recorded, processed, summarized and reported by management of the Company on a timely basis in order to comply with the Company's disclosure obligations under the Exchange Act and the rules and regulations promulgated thereunder. The Company's principal executive and financial officers conclusion regarding the Company's disclosure controls and procedures is based on management's conclusion that the Company's internal control over financial reporting are ineffective, based on their evaluation as described in the Company's annual report on Form 10-K for the fiscal year ended December 31, 2010 which discloses the following material weaknesses:

Company-level controls. We did not maintain effective company-level controls as defined in the Internal Control Integrated Framework published by COSO. These deficiencies related to each of the five components of internal control as defined by COSO (control environment, risk assessment, control activities, information and communication, and monitoring). These deficiencies resulted in more than a remote likelihood that a material misstatement of our annual or interim financial statements would not be prevented or detected. Specifically,

Our control environment did not sufficiently promote effective internal control over financial reporting throughout our organizational structure, and this material weakness was a contributing factor to the other material weaknesses described in this Item 4;

Our board of directors has not established adequate financial reporting monitoring activities to mitigate the risk of management override, specifically:

- no formally documented financial analysis was presented to our board of directors, specifically fluctuation, variance, trend analysis or business performance reviews;

- an effective whistleblower program had not been established;

- there was insufficient oversight of external audit specifically related to fees, scope of activities, executive sessions, and monitoring of results;

- there was insufficient oversight of accounting principle implementation;

- there was insufficient review of related party transactions; and

- there was insufficient review of recording of stock transactions.

We did not maintained sufficient competent evidence to support the effective operation of our internal controls over financial reporting, specifically related to our board of directors' oversight of quarterly and annual SEC filings; and management's review of SEC filings, journal entries, account analyses and reconciliations, and critical spreadsheet controls;

We had inadequate risk assessment controls, including inadequate mechanisms for anticipating and identifying financial reporting risks; and for reacting to changes in the operating environment that could have a material effect on financial reporting;

There was inadequate communication from management to employees regarding the general importance of controls and employees duties and control responsibilities;

We had inadequate monitoring controls, including inadequate staffing and procedures to ensure periodic evaluations of internal controls to ensure that appropriate personnel regularly obtain evidence that controls are functioning effectively and that identified control deficiencies are remediated timely;

We had an inadequate number of trained finance and accounting personnel with appropriate expertise in U.S. generally accepted accounting principles. Accordingly, in certain circumstances, an effective secondary review of technical accounting matters was not performed;

We had inadequate controls over our management information systems related to program changes, segregation of duties, and access controls;

PART I FINANCIAL INFORMATION

ACL SEMICONDUCTORS INC. AND SUBSIDIARIES

We had inadequate access and change controls over end-user computing spreadsheets. Specifically, our controls over the completeness, accuracy, validity and restricted access and review of certain spreadsheets used in the period-end financial statement preparation and reporting process were not designed appropriately or did not operate as designed; and

We were unable to assess effectiveness of our internal control over financial reporting in a timely matter.

Financial statement preparation and review procedures. We had inadequate policies, procedures and personnel to ensure that accurate, reliable interim and annual consolidated financial statements were prepared and reviewed on a timely basis. Specifically, we had insufficient: a) levels of supporting documentation; b) review and supervision within the accounting and finance departments; c) preparation and review of footnote disclosures accompanying our financial statements; and d) technical accounting resources. These deficiencies resulted in errors in the financial statements and more than a remote likelihood that a material misstatement of our annual or interim financial statements would not be prevented or detected. In addition, as discussed in Note 2 of Notes to the Condensed Consolidated Financial Statements (Unaudited) of this Form 10-Q, we determined that Aristo Technologies Limited (Aristo), a related party, is a variable interest entity under FASB ASC 810-10-25. Consequently, we are consolidating the financial statements of Aristo with those of the Company for the period effective and are restating our previously filed annual and interim financial statements in amended Form 10-Ks for years ended 2007 and 2008 to reflect the disclosure in accordance with ASC 810-10-25.

Inadequate reviews of account reconciliations, analyses and journal entries. We had inadequate review procedures over account reconciliations, account and transaction analyses, and journal entries. Specifically, deficiencies were noted in the following areas: a) management review of supporting documentation, calculations and assumptions used to prepare the financial statements, including spreadsheets and account analyses; and b) management review of journal entries recorded during the financial statement preparation process. These deficiencies resulted in a more than a remote likelihood that a material misstatement of our annual or interim financial statements would not be prevented or detected.

Inadequate controls over purchases and disbursements. We had inadequate controls over the segregation of duties and authorization of purchases, and the disbursement of funds. These weaknesses increase the likelihood that misappropriation of assets and/or unauthorized purchases and disbursements could occur and not be detected in a timely manner. These deficiencies resulted in errors in the financial statements and in more than a remote likelihood that a material misstatement of our annual or interim financial statements would not be prevented or detected. Specifically,

We had inadequate procedures and controls to ensure proper segregation of duties within our purchasing and disbursements processes and accounting systems;

We had inadequate procedures and controls to ensure proper authorization of purchase orders; and

We had inadequate approvals for payment of invoices and wire transfers.

This quarterly report does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our registered public accounting firm pursuant to temporary rules of the SEC that permit us to provide only management's report in this quarterly report.

As of March 31, 2011, we had not completed the remediation of any of these material weaknesses.

We are addressing the outstanding material weaknesses described above, as well as our control environment. We also expect to undertake the following remediation efforts:

We plan on formalizing quarterly financial statement variance analysis of actual versus budget with relevant explanations of variances for distribution to our board of directors.

We are in the process of developing, documenting, and communicating a formal whistleblower program to employees. We expect to post the policy on the Company web site in the governance section and in the common areas in the office. We plan on providing a toll free number for reporting complaints and will hire a specific third party whistleblower company to monitor the hotline and provide monthly reports of activity to our board of directors.

PART I FINANCIAL INFORMATION

ACL SEMICONDUCTORS INC. AND SUBSIDIARIES

Management intends to continue to provide SEC and US GAAP training for employees and retain external consultants with appropriate SEC and US GAAP expertise to assist in financial statement review, account analysis review, review and filing of SEC reports, policy and procedure compilation assistance, and other related advisory services.

We intend on developing an internal control over financial reporting evidence policy and procedures which contemplates, among other items, a listing of all identified key internal controls over financial reporting, assignment of responsibility to process owners within the Company, communication of such listing to all applicable personnel, and specific policies and procedures around the nature and retention of evidence of the operation of controls.

We have restricted access to all financial modules. In order to mitigate the risks of management or other override, only authorized persons have edit access to each. We will remove or add authorized personnel as appropriate to mitigate the risks of management or other override; and

We have re-assign roles and responsibilities, and intend to continue improving segregation of duties.

These specific actions are part of an overall program that we are currently developing in an effort to remediate the material weaknesses described above.

Attached as exhibits to this report are certifications of our CEO and CFO, which are required in accordance with Rule 13a-14 of Securities Exchange Act of 1934, as amended. The discussion above in this Item 4 includes information concerning the controls and controls evaluation referred to in the certifications and those certifications should be read in conjunction with this Item 4 for a more complete understanding of the topics presented.

We are committed to improving our internal control processes and will continue to diligently review our internal control over financial reporting and our disclosure controls and procedures. The failure to implement adequate controls may result in deficient and inaccurate reports under the Exchange Act.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended March 31, 2011, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

ACL SEMICONDUCTORS INC. AND SUBSIDIARIES

Item 1. Legal Proceedings

None

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None

Item 3. Defaults Upon Senior Securities

None

Item 4. (Removed and Reserved)

Item 5. Other Information

None

PART II OTHER INFORMATION

ACL SEMICONDUCTORS INC. AND SUBSIDIARIES

Item 6. Exhibits

Exhibits:

31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32.1 Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification by Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

42

SIGNATURES

Pursuant to the requirements 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.

ACL SEMICONDUCTORS INC.

Date: May 16, 2011

By: /s/Chung-Lun Yang

Chung-Lun Yang
Chief Executive Officer

Date: May 16, 2011

By: /s/ Kun Lin Lee

Kun Lin Lee
Chief Financial Officer