

ACL SEMICONDUCTORS INC  
Form 10-Q  
May 15, 2012

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, 2012

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

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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):

Large accelerated filer       Accelerated filer       Non-accelerated filer       Smaller reporting company   
(Do not check if a 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 29,025,436 shares of common stock outstanding as of May 14, 2012.

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## TABLE OF CONTENTS

	<u>Page</u>
<u>PART I</u>	
<u>FINANCIAL INFORMATION</u>	
<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>	23
<u>Item 3.</u>	
<u>Quantitative and Qualitative Disclosures about Market Risk</u>	32
<u>Item 4.</u>	
<u>Controls and Procedures</u>	33
<u>PART II</u>	
<u>OTHER INFORMATION</u>	
<u>Item 1.</u>	
<u>Legal Proceedings</u>	34
<u>Item 2.</u>	
<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	34
<u>Item 3.</u>	
<u>Defaults Upon Senior Securities</u>	34
<u>Item 4.</u>	
<u>Mine Safety Disclosures</u>	34
<u>Item 5.</u>	
<u>Other Information</u>	34
<u>Item 6.</u>	
<u>Exhibits</u>	35
<u>SIGNATURES</u>	36

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## PART I FINANCIAL INFORMATION

## ACL SEMICONDUCTORS INC. AND SUBSIDIARIES

## Item 1. Financial Statements

## Condensed Consolidated Balance Sheets (Unaudited)

	Notes	As of March 31, 2012 (Unaudited)	As of December 31, 2011 (Audited)
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents		\$ 680,905	\$ 672,819
Restricted cash		2,089,041	2,089,041
Accounts receivable, net of allowance for doubtful accounts of \$1,812,248 for 2012 and \$1,760,709 for 2011		13,267,511	25,756,889
Inventories, net	3	3,070,879	3,094,267
Other current assets		320,149	144,642
Total current assets		\$ 19,428,485	\$ 31,757,658
Property, plant and equipment, net	4	9,673,650	9,794,517
Other deposits		122,162	64,579
Amounts due from Aristo / Mr. Yang	7	5,653,102	5,780,400
<b>TOTAL ASSETS</b>		<b>\$ 34,877,399</b>	<b>\$ 47,397,154</b>
<b>LIABILITIES</b>			
Current liabilities			
Accounts payable		\$ 15,078,281	\$ 23,809,295
Accruals		396,640	470,676
Lines of credit and loan facilities	8	11,189,333	13,642,578
Bank loan	9	3,599,311	3,689,240
Current portion of capital lease	5	108,517	109,872
Income tax payable		(320,707)	(202,068)
Due to shareholders for converted pledged collateral		112,385	112,385
Other current liabilities		348,795	509,095
Total current liabilities		\$ 30,512,555	\$ 42,141,073

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, 2012 (Unaudited)	As of December 31, 2011 (Audited)
Long-term liabilities			
Capital lease, less current portion	5	\$ 204,365	229,934
Deferred tax liabilities		63,245	63,245
Total long-term liabilities		267,610	293,179
<b>TOTAL LIABILITIES</b>		<b>\$ 30,780,165</b>	<b>42,434,252</b>
<b>NET ASSETS</b>		<b>\$ 4,097,234</b>	<b>4,962,902</b>
Commitments and contingencies		\$	\$
<b>STOCKHOLDERS EQUITY</b>			
Preferred stock, 20,000,000 shares authorized; 0 shares issued and outstanding as of March 31, 2012 and December 31, 2011			
Common stock, \$0.001 par value; 50,000,000 shares authorized; 29,025,436 and 29,025,436 shares issued and outstanding as of March 31, 2012 and December 31, 2011		29,026	29,026
Additional paid in capital		3,753,577	3,753,577
Retained earnings		314,631	1,180,299
<b>TOTAL STOCKHOLDERS EQUITY</b>		<b>\$ 4,097,234</b>	<b>\$ 4,962,902</b>

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, 2012 (Unaudited)	Three months ended March 31, 2011 (Unaudited)
Net sales		\$ 42,413,020	\$ 120,991,594
Costs of sales		(42,048,249)	(118,051,463)
Gross profit		\$ 364,771	\$ 2,940,131
Selling and distribution costs		(12,883)	(22,330)
General and administrative expenses		(1,182,119)	(1,308,539)
(Loss) Income from operation		\$ (830,231)	\$ 1,609,262
Other income (expenses)			
Rental income		45,192	31,896
Interest expenses		(133,226)	(108,781)
Management and service income		23,193	10,885
Interest income		827	451
Profit on disposals of equipment		256	18,024
Exchange differences		(12,550)	(5,507)
Miscellaneous		40,871	8,884
(Loss) Income before income taxes		\$ (865,668)	\$ 1,565,114
Income taxes			(192,308)
Net (loss) income		\$ (865,668)	\$ 1,372,806
(Loss) Earnings per share basic and diluted		\$ (0.03)	\$ 0.05
Weighted average number of shares basic and diluted	12	29,025,436	28,779,936

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, 2012 (Unaudited)	As of March 31, 2011 (Unaudited)
Cash flows provided by (used for) operating activities:		
Net (loss) income	\$ (865,668)	\$ 1,372,806
Adjustments to reconcile net income to net cash provided by (used for) operating activities:		
Allowance for doubtful accounts	51,539	
Depreciation and amortization	120,995	82,601
Change in inventory reserve		70,513
(Gain) / loss on disposal of fixed assets	(256)	(18,024)
Changes in assets and liabilities:		
(Increase) decrease in assets		
Accounts receivable - other	12,437,839	4,925,080
Inventories	23,388	(3,173,054)
Other current assets	(175,507)	3,357
Other assets	(57,583)	8,092
Increase (decrease) in liabilities		
Accounts payable	(8,731,014)	395,970
Accrued expenses	(74,036)	(378,707)
Income tax payable	(118,638)	47,832
Other current liabilities	(44)	(201,661)
Net cash provided by operating activities	\$ 2,611,015	\$ 3,134,805
Cash flows provided by (used for) investing activities:		
Advanced from Aristo / Mr. Yang	\$ 2,243,891	\$ 4,021,688
Advanced to Aristo / Mr. Yang	(2,116,593)	(4,972,655)
Cash proceeds from sales of fixed assets	256	107,692
Purchase of fixed assets	(128)	(38,206)
Net cash provided by (used for) investing activities	\$ 127,426	\$ (881,481)

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	\$ (2,453,245)	\$ 258,548
Principal payments to bank	(250,185)	(80,087)
Principal payments under capital lease obligation	(26,925)	(166,519)
	<u>                    </u>	<u>                    </u>
Net cash provided by (used for) financing activities	\$ (2,730,355)	\$ 11,942
	<u>                    </u>	<u>                    </u>
	<u>                    </u>	<u>                    </u>
Net increase in cash and cash equivalents	\$ 8,086	\$ 2,265,266
Cash and cash equivalents beginning of year	672,819	1,579,416
	<u>                    </u>	<u>                    </u>
Cash and cash equivalents end of year	\$ 680,905	\$ 3,844,682
	<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. Chung-Lun Yang, the Company's Chairman and Chief Executive Officer ( 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.

On March 9, 2012, ACL Holdings entered into an agreement with Tomen Devices Corporation ( Tomen ) to create a joint venture, ATMD (Hong Kong) Limited ( ATMD ), which became effective as of April 1, 2012. As of the date of this quarterly ATMD issued USD10,000,000 in share capital, with ACL Holdings owning 30% and Tomen owning 70%, respectively of ATMD. ATMD will enter into a distribution agreement with Samsung Electronics Hong Kong Co., Ltd. ( Samsung ) in the second quarter of 2012 and start to sell and distribute Samsung's products to the Greater China market, as consented to and approved by Samsung. Atlantic is expected to discontinue its contractual relationship with Samsung under its distribution agreement. Mr. Yang, the Company's Chief Executive Officer was appointed the Chief Executive Officer of ATMD.

**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, 2012. 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

6

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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 2011 and 2010 sales were around 14 million and 15 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 Aristo, in turn, sells to its customers. The sales to Aristo during the first quarter of 2012 were \$102,876 with accounts receivable of \$18,000,113 as of March 31, 2012. For fiscal year 2011, sales to Aristo were \$7,086,379 with accounts receivable of \$16,871,739 as of December 31, 2011. For fiscal year 2010, sales to Aristo were \$7,123,769 with accounts receivable of \$14,073,937 as of December 31, 2010.

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 the 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 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 no change during the first three months of 2012 and decreased by \$315,082 for the same period of 2011. Inventory obsolescence reserves totaled \$709,374 as of March 31, 2012 and December 31, 2011.

*(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 or penalty recognized in the income statements for the period ended March 31, 2012 and March 31, 2011, or the balance sheet as of March 31, 2012 and December 31, 2011. The Company did not have uncertainty tax positions or events leading to uncertainty tax position within the next 12 months. The Company's 2009, 2010 and 2011 U.S. federal income tax returns are subject to U.S. Internal Revenue Service examination and the Company's 2005/6, 2006/7, 2007/8, 2008/9, 2009/2010, 2010/11 and 2011/12 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 \$683 and \$691 as of March 31, 2012 and 2011 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*

In April 2011, the FASB issued ASU 2011-02, A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring, which clarifies when creditors should classify loan modifications as troubled debt restructurings. The guidance is effective for interim and annual periods beginning on or after June 15, 2011, and applies retrospectively to restructurings occurring on or after the beginning of the year. The guidance on measuring the impairment of a receivable restructured in a troubled debt restructuring is effective on a prospective basis. A provision in ASU 2011-02 also ends the FASB's deferral of the additional disclosures about troubled debt restructurings as required by ASU 2010-20. The adoption of ASU 2011-02 is not expected to have a material impact on the Company's financial condition or results of operations.

In April 2011, the FASB issued ASU 2011-03, Consideration of Effective Control on Repurchase Agreements, which deals with the accounting for repurchase agreements and other agreements that both entitle and obligate a transferor to repurchase or redeem financial assets before their maturity. ASU 2011-03 changes the rules for determining when these transactions should be accounted for as financings, as opposed to sales. The guidance in ASU 2011-03 is effective for the first interim or annual period beginning on or after December 15, 2011. The guidance should be applied prospectively to transactions or modifications of existing transactions that occur on or after the effective date. Early adoption is not permitted. The adoption of ASU 2011-03 is not expected to have a material impact on the Company's financial condition or results of operation.

In May 2011, the FASB issued ASU 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards (IFRS). ASU 2011-04 clarifies some existing concepts, eliminates wording differences between U.S. GAAP and IFRS, and in some limited cases, changes some principles to achieve convergence between U.S. GAAP and IFRS. ASU 2011-04 results in a consistent definition of fair value and common requirements for measurement of and disclosure about fair value between U.S. GAAP and IFRS. ASU 2011-04 also expands the disclosures for fair value measurements that are estimated using significant unobservable (Level 3) inputs. ASU 2011-04 will be effective for the Company beginning after December 15, 2011. The Company does not expect the adoption of ASU 2011-04 to have a material effect on its operating results or financial position.

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In June 2011, the Financial Accounting Standard Board ( FASB ) issued Accounting Standard Update ( ASU ) 2011-05, Presentation of Comprehensive Income, which requires an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income, or in two separate but consecutive statements. ASU 2011-05 eliminates the option to present components of other comprehensive income as part of the statement of equity. ASU 2011-05 will be effective for the Company beginning after December 15, 2011. The Company does not expect the adoption of ASU 2011-05 to have a material effect on its operating results or financial position. However, it will impact the presentation of comprehensive 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)**

(i) *Recently implemented standards (Continued)*

In July 2011, the FASB has issued Accounting Standards Update (ASU) No. 2011-06, *Other Expenses (Topic 720): Fees Paid to the Federal Government by Health Insurers*. This ASU amends the *FASB Accounting Standards Codification*<sup>TM</sup> (Codification) to provide guidance about how health insurers should recognize and classify in their income statements fees mandated by the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act. ASU 2011-06 represents a consensus of the EITF on Issue No. 10-H, Fees Paid to the Federal Government by Health Insurers. ASU 2011-06 requires that the liability for the fee be estimated and recorded in full once the entity provides qualifying health insurance in the applicable calendar year in which the fee is payable with a corresponding deferred cost that is amortized to expense using a straight-line method of allocation unless another method better allocates the fee over the calendar year that it is payable. ASU 2011-06 is effective for calendar years beginning after December 31, 2013, when the fee initially becomes effective.

In July 2011, the FASB has issued Accounting Standards Update (ASU) No. 2011-07, *Health Care Entities (Topic 954): Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities*. The ASU represents a consensus of the EITF on Issue No. 09-H, Health Care Entities: Presentation and Disclosure of Net Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts. The amendments in this ASU require certain health care entities to change the presentation in their statement of operations by reclassifying the provision for bad debts associated with patient service revenue from an operating expense to a deduction from patient service revenue (net of contractual allowances and discounts). Additionally, those health care entities are required to provide enhanced disclosure about their policies for recognizing revenue and assessing bad debts. The amendments also require disclosures of patient service revenue (net of contractual allowances and discounts) as well as qualitative and quantitative information about changes in the allowance for doubtful accounts. For public entities, the amendments in this ASU are effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2011, with early adoption permitted. For nonpublic entities, the amendments are effective for the first annual period ending after December 15, 2012, and interim and annual periods thereafter, with early adoption permitted. The amendments to the presentation of the provision for bad debts related to patient service revenue in the statement of operations should be applied retrospectively to all prior periods presented. The disclosures required by the amendments in this ASU should be provided for the period of adoption and subsequent reporting periods.

In September 2011, the FASB has issued Accounting Standards Update (ASU) No. 2011-08, *Intangibles—Goodwill and Other (Topic 350): Testing Goodwill for Impairment*. ASU 2011-08 is intended to simplify how entities, both public and nonpublic, test goodwill for impairment. ASU 2011-08 permits an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test described in Topic 350, *Intangibles—Goodwill and Other*. The more-likely-than-not threshold is defined as having a likelihood of more than 50%. ASU 2011-08 is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted, including for annual and interim goodwill impairment tests performed as of a date before September 15, 2011, if an entity's financial statements for the most recent annual or interim period have not yet been issued or, for nonpublic entities, have not yet been made available for issuance.

In September 2011, the FASB has issued Accounting Standards Update (ASU) No. 2011-09, *Compensation-Retirement Benefits—Multiemployer Plans (Subtopic 715-80): Disclosures about an Employer's Participation in a Multiemployer Plan*. ASU 2011-09 is intended to address concerns from various users of financial statements on the lack of transparency about an employer's participation in a multiemployer pension plan. Users of financial statements have requested additional disclosure to increase awareness of the commitments and risks involved with participating in multiemployer pension plans. The amendments in this ASU will require additional disclosures about an employer's participation in a multiemployer pension plan. Previously, disclosures were limited primarily to the historical contributions made to the plans. ASU 2011-09 applies to nongovernmental entities that participate in multiemployer plans. For public entities, ASU 2011-09 is effective for annual periods for fiscal years ending after December 15, 2011. For nonpublic entities, ASU 2011-09 is effective for annual periods for fiscal years ending after December 15, 2012. Early adoption is permissible for both public and nonpublic entities. ASU 2011-09 should be applied retrospectively for all prior periods presented.

## 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 December 2011, the FASB has issued Accounting Standards Update (ASU) No. 2011-10, *Property, Plant, and Equipment (Topic 360): Derecognition of in Substance Real Estate—a Scope Clarification*. ASU No. 2011-10 is intended to resolve the diversity in practice about whether the guidance in Subtopic 360-20, Property, Plant, and Equipment Real Estate Sales, applies to a parent that ceases to have a controlling financial interest (as described in Subtopic 810-10, Consolidation Overall) in a subsidiary that is in substance real estate as a result of default on the subsidiary's nonrecourse debt. This Update does not address whether the guidance in Subtopic 360-20 would apply to other circumstances when a parent ceases to have a controlling financial interest in a subsidiary that is in substance real estate. ASU 2011-10 should be applied on a prospective basis to deconsolidation events occurring after the effective date; with prior periods not adjusted even if the reporting entity has continuing involvement with previously derecognized in substance real estate entities. For public entities, ASU 2011-10 is effective for fiscal years, and interim periods within those years, beginning on or after June 15, 2012. For nonpublic entities, ASU 2011-10 is effective for fiscal years ending after December 15, 2013, and interim and annual periods thereafter. Early adoption is permitted.

In December 2011, the FASB has issued Accounting Standards Update (ASU) No. 2011-11, *Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities*. ASU No. 2011-11 is intended to provide enhanced disclosures that will enable users of its financial statements to evaluate the effect or potential effect of netting arrangements on an entity's financial position. This includes the effect or potential effect of rights of setoff associated with an entity's recognized assets and recognized liabilities within the scope of this Update. The amendments require enhanced disclosures by requiring improved information about financial instruments and derivative instruments that are either (1) offset in accordance with either Section 210-20-45 or Section 815-10-45 or (2) subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset in accordance with either Section 210-20-45 or Section 815-10-45. An entity is required to apply the amendments for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. An entity should provide the disclosures required by those amendments retrospectively for all comparative periods presented.

In December 2011, the FASB has issued Accounting Standards Update (ASU) No. 2011-12, *Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05*. ASU No. 2011-12 is intended to supersede certain pending paragraphs in Accounting Standards Update No. 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income, to effectively defer only those changes in Update 2011-05 that relate to the presentation of reclassification adjustments out of accumulated other comprehensive income. The amendments will be temporary to allow the Board time to redeliberate the presentation requirements for reclassifications out of accumulated other comprehensive income for annual and interim financial statements for public, private, and non-profit entities. All other requirements in ASU No. 2011-05 are not affected by ASU No. 2011-12, including the requirement to report comprehensive income either in a single continuous financial statement or in two separate but consecutive financial statements. Public entities should apply these requirements for fiscal years, and interim periods within those years, beginning after December 15, 2011. Nonpublic entities should begin applying these requirements for fiscal years ending after December 15, 2012, and interim and annual periods thereafter.

**Note 3. Inventories**

Inventories consisted of the following at March 31, 2012 and December 31, 2011:

	<u>March 31, 2012</u>	<u>December 31, 2011</u>
Finished goods	\$ 3,780,253	\$ 3,803,641
Less allowance for excess and obsolete inventory	(709,374)	(709,374)

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Inventories, net	\$	3,070,879	\$	3,094,267
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The following is a summary of the change in the Company's inventory valuation allowance:

	<u>March 31, 2012</u>	<u>December 31, 2011</u>
Inventory valuation allowance, beginning of the year	\$ 709,374	\$ 513,120
Obsolete inventory sold		(78,396)
Additional inventory provision		274,650
Inventory valuation allowance, end of the year	<u>\$ 709,374</u>	<u>\$ 709,374</u>

## PART I FINANCIAL INFORMATION

## ACL SEMICONDUCTORS INC. AND SUBSIDIARIES

## Notes to the Condensed Consolidated Financial Statements (Unaudited)

**Note 4. Property and Equipment, net**

Property and equipment, net consisted of the following at March 31, 2012 and December 31, 2011:

	<u>March 31, 2012</u>	<u>December 31, 2011</u>
At cost		
Land and buildings	\$ 9,375,558	\$ 9,375,558
Automobiles	643,773	741,651
Office equipment	197,919	197,919
Leasehold improvements	458,121	458,121
Furniture and fixtures	41,719	41,591
Machinery	499,614	499,614
	<u>\$ 11,216,704</u>	<u>\$ 11,314,454</u>
Less: accumulated depreciation	(1,543,054)	(1,519,937)
	<u>\$ 9,673,650</u>	<u>\$ 9,794,517</u>

Depreciation and amortization expense totaled \$120,995 and \$82,601 for the three months ended March 31, 2012 and 2011, respectively.

Automobiles include the following amounts under capital leases:

	<u>March 31, 2012</u>	<u>December 31, 2011</u>
Cost	\$ 527,390	\$ 527,390
Less accumulated depreciation	(189,654)	(125,810)
Total	<u>\$ 337,736</u>	<u>\$ 401,580</u>

## PART I FINANCIAL INFORMATION

## ACL SEMICONDUCTORS INC. AND SUBSIDIARIES

## Notes to the Condensed Consolidated Financial Statements (Unaudited)

**Note 5. Capital Lease Obligation**

The Company leases automobiles under five capital leases that expire between October 2012 and December 2015. Aggregate future obligations under the capital leases in effect as of March 31, 2012 are as follows:

The Company has several non-cancellable capital leases relating to automobiles:

	<u>March 31, 2012</u>	<u>December 31, 2011</u>
Current portion	\$ 108,517	\$ 109,872
Non-current portion	204,365	229,934
	<u>\$ 312,882</u>	<u>\$ 339,806</u>

At March 31, 2012 and December 31, 2011, the value of automobiles under capital leases as follows:

	<u>March 31, 2012</u>	<u>December 31, 2011</u>
Cost	\$ 527,390	\$ 527,390
Less: accumulated depreciation	(189,654)	(125,810)
	<u>\$ 337,736</u>	<u>\$ 401,580</u>

At March 31, 2012 and December 31, 2011, the Company had obligations under capital leases repayable as follows:

	<u>March 31, 2012</u>	<u>December 31, 2011</u>
Total minimum lease payments		
- Within one year	\$ 120,523	\$ 122,930
- After one year but within 5 years	219,232	247,320
	<u>\$ 339,755</u>	<u>\$ 370,250</u>
Interest expenses relating to future periods	(26,873)	(30,444)
Present value of the minimum lease payments	<u>\$ 312,882</u>	<u>\$ 339,806</u>

Interest expense related to capital leases totaled \$3,571 and \$10,139 for the three months ended March 31, 2012 and 2011 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, 2012, 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**

This represented Aristo transactions with various related parties of Mr. Yang.

As of March 31, 2012 and December 31, 2011, we had an outstanding receivable from Aristo / Mr. Yang, the President and Chairman of our Board of Directors, totaling \$5,653,102 and \$5,780,400, 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 April 30, 2011. The monthly lease payment for this lease is \$1,090. We incurred and paid an aggregate rent expense of \$0 and \$3,270 to Solution during the three months ended March 31, 2012 and 2011.

During the three months ended March 31, 2012 and 2011, we sold products of \$698 and \$0 respectively to Solution. As of March 31, 2012 and December 31, 2011, there were no outstanding accounts receivable from 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 April 30, 2011. The monthly lease payment for this lease totals \$641. We incurred and paid an aggregate rent expense of \$0 and \$1,923 to Systematic Information during the three months ended March 31, 2012 and 2011.

During the three months ended March 31, 2012 and 2011, 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.

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 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, 2012 and 2011, we sold products for \$20,553 and \$45 respectively, to Atlantic Storage. As of March 31, 2012 and December 31, 2011, 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.

**Note 8. Revolving Lines of Credit and Loan Facilities**

The summary of banking facilities at March 31, 2012 is as follows:

	<u>Granted facilities</u>	<u>Utilized facilities</u>	<u>Not Utilized Facilities</u>
Lines of credit and loan facilities			
Factoring Loan	\$ 4,230,769	\$ 1,451,225	\$ 2,779,544
Import/Export Loan	9,743,590	9,738,108	5,482
	<u>\$ 13,974,359</u>	<u>\$ 11,189,333</u>	<u>\$ 2,785,026</u>
Bank Loans	3,599,311(a)	3,599,311	0
Overdraft	346,154(b)	304,563	41,591
	<u>\$ 17,919,824</u>	<u>\$ 15,093,207</u>	<u>\$ 2,826,617</u>

(a) The bank loans are combined from the summary of Note 9, total bank loans amount to \$3,599,311 with a tax loan of \$320,513. The tax loan is placed under Other Current Liabilities on the balance sheet. It has a facility limit of \$320,513, bearing an interest rate of HIBOR plus 2.5% per annum.

(b) Including in cash and cash equivalents



## 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 March 31, 2012 and December 31, 2011:

	<u>March 31, 2012</u>	<u>December 31, 2011</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, 2012 and December 31, 2011) to DBS Bank payable in monthly installments of \$9,925 including interest through March 2012 without any balloon payment requirements	\$ 1,399,868	\$ 1,419,602
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, 2012 and December 31, 2011) to DBS Bank payable in monthly Installments of \$5,240 including interest through March 2012 without any balloon payment requirements	619,219	630,640
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, 2012 and December 31, 2011) to BEA Bank payable in monthly Installments of \$14,525 including interest through March 2012 without any balloon payment Requirements	358,974	397,436
Installment loan having a maturity date in June 2026 and carrying an Interest rate of 2% per annum over one month HIBOR (0.3% at March 31, 2012 and 0.24% December 31, 2011) to DBS Bank payable in monthly Installments of \$5,077 including interest through March 2012 without any balloon Payment requirements	736,600	747,497
Installment loan having a maturity date in June 2023 and carrying an Interest rate of 2% per annum over one month HIBOR (0.3% at March 31, 2012 and 0.24% December 31, 2011) to DBS Bank payable in monthly Installments of \$4,092 including interest through March 2012 without any balloon Payment requirements	484,650	494,065
	<u>\$ 3,599,311</u>	<u>\$ 3,689,240</u>

## PART I FINANCIAL INFORMATION

## ACL SEMICONDUCTORS INC. AND SUBSIDIARIES

## Notes to the Condensed Consolidated Financial Statements (Unaudited)

**Note 9. Bank Loan (Continued)**

An analysis on the repayment of bank loan as of March 31, 2012 and December 31, 2011 are as follow:

	<u>March 31, 2012</u>	<u>December 31, 2011</u>
Carrying amount that are repayable on demand or within twelve months from March 31, 2012 containing a repayable on demand clause:		
Within twelve months	\$ 362,992	\$ 361,734
Carrying amount that are not repayable within twelve months from March 31, 2012 containing a repayable on demand clause but shown in current liabilities:		
After 1 year, but within 2 years	\$ 640,198	\$ 676,286
After 2 years, but within 5 years	458,270	455,607
After 5 years	2,137,851	2,195,613
	<u>\$ 3,236,319</u>	<u>\$ 3,327,506</u>
	<u>\$ 3,599,311</u>	<u>\$ 3,689,240</u>

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 and BEA 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, a security interest on two 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 DBS Bank; and
2. a fixed cash deposit of \$1,383,400 (HK\$10,790,522), 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.

**Note 10. Cash Flow Information**

Cash paid during the three months ended March 31, 2012 and 2011 is as follows:

	Three Months Ended	
	<u>March 31, 2012</u>	<u>March 31, 2011</u>
Interest paid	\$ 133,226	\$ 108,781
Income taxes paid	\$ 118,638	\$ 126,187

**Non-Cash Activities:**



## PART I FINANCIAL INFORMATION

## ACL SEMICONDUCTORS INC. AND SUBSIDIARIES

## Notes to the Condensed Consolidated Financial Statements (Unaudited)

**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.

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, 2012:

	Level 1	Level 2	Level 3	Total
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Cash and cash equivalents	680,905			680,905
Restricted cash	2,089,041			2,089,041
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total assets	\$ 2,769,946	\$	\$	\$ 2,769,946
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>

**Note 12. Weighted 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, 2012 and December 31, 2011 since there were no outstanding options at March 31, 2012 and December 31, 2011.

**Note 13. Derivative instruments**

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As of March 31, 2012, the Company does not have any outstanding foreign currency exchange agreements. All foreign currency exchange agreements have been matured before April 1, 2010.

**PART I FINANCIAL INFORMATION**

**ACL SEMICONDUCTORS INC. AND SUBSIDIARIES**

**Notes to the Condensed Consolidated Financial Statements (Unaudited)**

**Note 14. Common Stock**

On August 8, 2011, the company issued 145,500 shares of common stock for a cash payment of \$56,745.

**Note 15. Subsequent Events**

In preparing these financial statements, the Company evaluated the events and transactions that occurred from April 1, 2012 through May 14, 2012, the date these financial statements were issued. The Company has made the required additional disclosures in reporting periods in which subsequent events occur.

On April 24, 2012, the Company has approved a 20% stock dividend. The dividend will be payable on May 28, 2012 to shareholders of record at the close of business on May 14, 2012. Fractional shares will be paid in cash, which amount will be calculated by multiplying the fractional share interest by the average closing prices for the 10 trading days ending on (and including) May 23, 2012, the third trading day prior to the Payment Date.

**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, 2011, (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, a Hong Kong corporation, 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, 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 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 become an indirect wholly-owned subsidiary of the Company. The restructuring has no effect on the Company's financial statements.

**PART I FINANCIAL INFORMATION**

**ACL SEMICONDUCTORS INC. AND SUBSIDIARIES**

On March 9, 2012, ACL Holdings entered into an agreement with Tomen Devices Corporation to create a joint venture, ATMD (Hong Kong) Limited, which became effective as of April 1 2012. As of the date of this quarterly report, ATMD issued USD10,000,000 in share capital, with ACL Holdings owning 30% and Tomen owning 70%, respectively of ATMD. ATMD will enter into a distribution agreement with Samsung Electronics Hong Kong Co., Ltd. in the second quarter of this year and start to sell and distribute Samsung's products to the Greater China market, as consented to and approved by Samsung. Atlantic is expected to discontinue its contractual relationship with Samsung under its distribution agreement. Mr. Yang was appointed the Chief Executive Officer of ATMD.

As of March 31, 2012, ACL had more than 100 customers in Hong Kong and Southern China.

Subsequent to the start of the operation of ATMD, the relationships between sales, cost of sales, and operating expenses reflected in the financial information included in this document regarding the Company are expected to change in accordance with the transition of the Company's business as described above.

**Overview**

*Net sales*

As the weak and volatile global economic conditions continue, manufacturers have decreased their demand for electronic products and substantially lowered their purchasing volume. With the early Chinese New Year holiday in 2012, most of the factories' production lines were closed from January 2012 to February 2012. We also experienced strong reluctance on part of the customers, due to economic concerns, to maintain inventory during the Chinese New Year holiday. These major factors contributed to the significant reduction in the general demand for both DRAM and NAND Flash. Hence, the Company recorded a substantial drop for the net sales from \$120,991,594 for the three months ended March 31, 2011 ( first quarter of 2011 ) to \$42,413,020 for the three months ended March 31, 2012 ( first quarter of 2012 ), down 64.9%.

The Company's gross profit for the first quarter of 2012 was \$364,771, representing a decrease of \$2,575,360 or 87.6% over \$2,940,131 in the same period of 2011. First quarter gross profit margin for 2012 decreased to 0.86% from 2.43% in the same period of 2011. These results are due to the reduction in sales volume as well as tight profit margin due to the weakened market condition.

Operating expenses for the first quarter of 2012 was \$1,195,002, a decrease of \$135,867 or 10.2% from \$1,330,869 in the first quarter of 2011. The decrease was directly attributable to the decrease of sales volume during the first quarter 2012.

Compared with the small reduction in operating expenses, the large reduction in net sales and gross profit have caused the Company to record a net loss of \$865,668 in the first quarter of 2012, down \$2,238,474 from the net income of \$1,372,806 in the first quarter of 2011.

Although the market condition is still volatile, the Company believes the increasing demand of Ultrabooks, smartphones and tablets will drive the revenue growth for the sales of NAND Flash in 2012. However, revenues generated from the sales of DRAM are expected to remain to be influenced by global economic conditions.

*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 99.1% for the three months ended March 31, 2012 and approximately 97.6% for the three months ended March 31, 2011.

*Operating expenses*

Our operating expenses for the three months ended March 31, 2012 and 2011 consisted of sales and marketing and general and administrative expenses only.



## PART I FINANCIAL INFORMATION

## ACL SEMICONDUCTORS INC. AND SUBSIDIARIES

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, 2012	March 31, 2011
Net sales	\$ 42,413,020	\$ 120,991,594
Cost of sales	42,048,249	118,051,463
Gross profit	364,771	2,940,131
Operating expenses		
Selling	12,883	22,330
General and administrative	1,182,119	1,308,539
(Loss) Income from operations	(830,231)	1,609,262
Other income (expenses)	(35,437)	(44,148)
(Loss) Income before income taxes provision	(865,668)	1,565,114
Income taxes provision		(192,308)
Net (loss) income	(865,668)	\$ 1,372,806
(Loss) Earnings per share - basic and diluted	(0.03)	\$ 0.05

## PART I FINANCIAL INFORMATION

## ACL SEMICONDUCTORS INC. AND SUBSIDIARIES

## Unaudited Comparisons for Three Months ended March 31, 2012, to the Three Months Ended March 31, 2011

*Net Sales*

The following table presents our net sales for the three months ended March 31, 2012 and 2011, respectively:

Three Months Ended March 2012,		
2012	2011	% Change
\$ 42,413,020	\$ 120,991,594	-64.9%

Net sales decreased by \$78,578,574 or 64.9%, from \$120,991,594 for the three months ended March 31, 2011 to \$42,413,020 in the three months ended March 31, 2012. This decrease in net sales was due to the reduced demand caused by the weak and volatile market conditions, and the temporary closure of production lines during the Chinese New Year holiday.

*Cost of sales*

The following table presents our cost of sales for the three months ended March 31, 2012 and 2011, respectively:

Three Months Ended March 2012,		
2012	2011	% Change
\$ 42,048,249	\$ 118,051,463	-64.4%

Cost of sales decreased by \$76,003,214, or 64.4%, from \$118,051,463 for the three months ended March 31, 2011 to \$42,048,249 for the three months ended March 31, 2012. The decrease was mainly due to the decrease in the sales volume.

*Gross Profit*

The following table presents our gross profit for the three months ended March 31, 2012 and 2011, respectively:

Three Months Ended March 2012,		
2012	2011	% Change
\$ 364,771	\$ 2,940,131	-87.6%

Gross profit decreased by \$2,575,360, or 87.6%, from \$2,940,131 for the three months ended March 31, 2011 to \$364,771 for the three months ended March 31, 2012. The decrease was mainly due to the decrease in the sales volume as well as tight profit margin.

*Sales and Marketing Expenses*

The following table presents the sales and marketing expenses for the three months ended March 31, 2012 and 2011, respectively:

Three Months Ended March 2012,	
2012	2011

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%  
Change

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\$ 12,883	\$ 22,330	-42.3%
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For the three months ended March 31, 2012, sales and marketing expenses decreased by \$9,447, or 42.3%, as compared to the three months ended March 31, 2011. The decrease was directly attributable to the decrease in sales volume during the first quarter 2012.

## PART I FINANCIAL INFORMATION

## ACL SEMICONDUCTORS INC. AND SUBSIDIARIES

*General and Administrative Expenses*

The following table presents the general and administrative expenses for the three months ended March 31, 2012 and 2011, respectively:

Three Months Ended March 2012,		
2012	2011	% Change
\$ 1,182,119	\$ 1,308,539	-9.7%

For the three months ended March 31, 2012, general and administrative expenses decreased by \$126,420, or 9.7%, as compared to the three months ended March 31, 2011. This decrease was principally attributable to the decrease of directors' remuneration.

*(Loss) Income from Operations*

The following table presents the income from operations for the three months ended March 31, 2012 and 2011, respectively:

Three Months Ended March 2012,		
2012	2011	% Change
\$ (830,231)	\$ 1,609,262	-151.6%

(Loss) income from operations for the three months ended March 31, 2012 decreased by \$2,439,493, or 151.6%, from income \$1,609,262 for the three months ended March 31, 2011 to loss \$830,231 in the three months ended March 31, 2012. Such decrease was mainly due to the decreased in our gross margin.

*Interest Income*

The following table presents the interest income for the three months ended March 31, 2012 and 2011, respectively:

Three Months Ended March 2012,		
2012	2011	% Change
\$ 827	\$ 451	83.4%

For the three months ended March 31, 2012, interest income increased \$376 or 83.4%, as compared to the three months ended March 31, 2011. This increase was due to increase of average bank balance when compared to the same period in 2011.

*Interest Expense*

The following table presents the interest expense for the three months ended March 31, 2012 and 2011, respectively:

Three Months Ended March 2012,		
2012	2011	% Change

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\$ 133,226 \$ 108,781 22.5%

For the three months ended March 31, 2012, interest expense increased by \$24,445 or 22.5%, from \$108,781 in the three months ended March 31, 2011 to \$133,226 in the three months ended March 31, 2012. These increases were mainly due to an increase in the amount of interest payment in connection with the use of letters of credit and mortgage loan interest.

## PART I FINANCIAL INFORMATION

## ACL SEMICONDUCTORS INC. AND SUBSIDIARIES

*(Loss) Income Tax Provision*

The following table presents the income tax provision for the three months ended March 31, 2012 and 2011, respectively:

Three Months Ended March 2012,		
2012	2011	% Change
\$	\$ 192,308	-100.0%

Income tax provision decreased by \$192,308 or 100% from \$192,308 for the three months ended March 31, 2011 to \$0 for the three months ended March 31, 2012. The decrease was due to no Hong Kong income taxes provided by Atlantic as there was no income generated during the first quarter 2012.

**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, 2012, we had revolving lines of credit and loan facilities in the aggregate amount of \$17,919,824 of which \$2,826,617 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, 2012, including the amounts of facilities, outstanding balances, maturity date, and pledges of assets.

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.

**PART I FINANCIAL INFORMATION**

**ACL SEMICONDUCTORS INC. AND SUBSIDIARIES**

*Net Cash Provided by Operating Activities*

In the three months ended March 31, 2012, net cash provided by operating activities was \$2,611,015 as compared to \$3,134,805 for the three months ended March 31, 2011, a decrease of \$523,790. This decrease was primarily due to decrease in operating income and accounts payable net of increase in accounts receivable as of March 31, 2012.

*Net Cash Provided by (Used for) Investing Activities*

For the three months ended March 31, 2012, net cash provided by investing activities was \$127,426 while in the three months ended March 31, 2011, net cash used for investing activities was \$881,481, an increase of the amount of \$1,008,907. This increase was primarily due to the decrease in the amounts due from Aristo / Mr. Yang as of March 31, 2012.

*Net Cash Provided by (Used for) Financing Activities*

In the three months ended March 31, 2012, net cash used for financing activities was \$2,730,355 while in the three months ended March 31, 2011, net cash provided by financing activities was \$11,942, an increase of the amount of \$2,742,297. This increase was due to the increase in the use of bank lines of credit and notes payable usage of March 31, 2012.

**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.

*Impairment of long-lived assets*

We account for impairment of property, plant and equipment in accordance with FASB ASC 360. 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 incurred. Competitive pricing pressure and changes in interest rates, could materially and adversely affect our estimates of future net cash flows to be generated by our long-lived assets.





**PART I FINANCIAL INFORMATION**

**ACL SEMICONDUCTORS INC. AND SUBSIDIARIES**

*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 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.

**New Accounting Pronouncements**

In April 2011, the FASB issued ASU 2011-02, A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring, which clarifies when creditors should classify loan modifications as troubled debt restructurings. The guidance is effective for interim and annual periods beginning on or after June 15, 2011, and applies retrospectively to restructurings occurring on or after the beginning of the year. The guidance on measuring the impairment of a receivable restructured in a troubled debt restructuring is effective on a prospective basis. A provision in ASU 2011-02 also ends the FASB's deferral of the additional disclosures about troubled debt restructurings as required by ASU 2010-20. The adoption of ASU 2011-02 is not expected to have a material impact on the Company's financial condition or results of operations.

In April 2011, the FASB issued ASU 2011-03, Consideration of Effective Control on Repurchase Agreements, which deals with the accounting for repurchase agreements and other agreements that both entitle and obligate a transferor to repurchase or redeem financial assets before their maturity. ASU 2011-03 changes the rules for determining when these transactions should be accounted for as financings, as opposed to sales. The guidance in ASU 2011-03 is effective for the first interim or annual period beginning on or after December 15, 2011. The guidance should be applied prospectively to transactions or modifications of existing transactions that occur on or after the effective date. Early adoption is not permitted. The adoption of ASU 2011-03 is not expected to have a material impact on the Company's financial condition or results of operation.

In May 2011, the FASB issued ASU 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards (IFRS). ASU 2011-04 clarifies some existing concepts, eliminates wording differences between U.S. GAAP and IFRS, and in some limited cases, changes some principles to achieve convergence between U.S. GAAP and IFRS. ASU 2011-04 results in a consistent definition of fair value and common requirements for measurement of and disclosure about fair value between U.S. GAAP and IFRS. ASU 2011-04 also expands the disclosures for fair value measurements that are estimated using significant unobservable (Level 3) inputs. ASU 2011-04 will be effective for the Company beginning after December 15, 2011. The Company does not expect the adoption of ASU 2011-04 to have a material effect on its operating results or financial position.

In June 2011, the Financial Accounting Standard Board (FASB) issued Accounting Standard Update (ASU) 2011-05, Presentation of Comprehensive Income, which requires an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income, or in two separate but consecutive statements. ASU 2011-05 eliminates the option to present components of other comprehensive income as part of the statement of equity. ASU 2011-05 will be effective for the Company beginning after December 15, 2011. The Company does not expect the adoption of ASU 2011-05 to have a material effect on its operating results or financial position. However, it will impact the presentation of comprehensive income.

**PART I FINANCIAL INFORMATION**

**ACL SEMICONDUCTORS INC. AND SUBSIDIARIES**

In July 2011, the FASB has issued Accounting Standards Update (ASU) No. 2011-06, Other Expenses (Topic 720): Fees Paid to the Federal Government by Health Insurers. This ASU amends the FASB Accounting Standards Codification™ (Codification) to provide guidance about how health insurers should recognize and classify in their income statements fees mandated by the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act. ASU 2011-06 represents a consensus of the EITF on Issue No. 10-H, Fees Paid to the Federal Government by Health Insurers. ASU 2011-06 requires that the liability for the fee be estimated and recorded in full once the entity provides qualifying health insurance in the applicable calendar year in which the fee is payable with a corresponding deferred cost that is amortized to expense using a straight-line method of allocation unless another method better allocates the fee over the calendar year that it is payable.

ASU 2011-06 is effective for calendar years beginning after December 31, 2013, when the fee initially becomes effective.

In July 2011, the FASB has issued Accounting Standards Update (ASU) No. 2011-07, Health Care Entities (Topic 954): Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities. The ASU represents a consensus of the EITF on Issue No. 09-H, Health Care Entities: Presentation and Disclosure of Net Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts. The amendments in this ASU require certain health care entities to change the presentation in their statement of operations by reclassifying the provision for bad debts associated with patient service revenue from an operating expense to a deduction from patient service revenue (net of contractual allowances and discounts). Additionally, those health care entities are required to provide enhanced disclosure about their policies for recognizing revenue and assessing bad debts. The amendments also require disclosures of patient service revenue (net of contractual allowances and discounts) as well as qualitative and quantitative information about changes in the allowance for doubtful accounts. For public entities, the amendments in this ASU are effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2011, with early adoption permitted. For nonpublic entities, the amendments are effective for the first annual period ending after December 15, 2012, and interim and annual periods thereafter, with early adoption permitted. The amendments to the presentation of the provision for bad debts related to patient service revenue in the statement of operations should be applied retrospectively to all prior periods presented. The disclosures required by the amendments in this ASU should be provided for the period of adoption and subsequent reporting periods.

In September 2011, the FASB has issued Accounting Standards Update (ASU) No. 2011-08, Intangibles—Goodwill and Other (Topic 350): Testing Goodwill for Impairment. ASU 2011-08 is intended to simplify how entities, both public and nonpublic, test goodwill for impairment. ASU 2011-08 permits an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test described in Topic 350, Intangibles—Goodwill and Other. The more-likely-than-not threshold is defined as having a likelihood of more than 50%. ASU 2011-08 is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted, including for annual and interim goodwill impairment tests performed as of a date before September 15, 2011, if an entity's financial statements for the most recent annual or interim period have not yet been issued or, for nonpublic entities, have not yet been made available for issuance.

In September 2011, the FASB has issued Accounting Standards Update (ASU) No. 2011-09, Compensation—Retirement Benefits—Multiemployer Plans (Subtopic 715-80): Disclosures about an Employer's Participation in a Multiemployer Plan. ASU 2011-09 is intended to address concerns from various users of financial statements on the lack of transparency about an employer's participation in a multiemployer pension plan. Users of financial statements have requested additional disclosure to increase awareness of the commitments and risks involved with participating in multiemployer pension plans. The amendments in this ASU will require additional disclosures about an employer's participation in a multiemployer pension plan. Previously, disclosures were limited primarily to the historical contributions made to the plans. ASU 2011-09 applies to nongovernmental entities that participate in multiemployer plans. For public entities, ASU 2011-09 is effective for annual periods for fiscal years ending after December 15, 2011. For nonpublic entities, ASU 2011-09 is effective for annual periods for fiscal years ending after December 15, 2012. Early adoption is permissible for both public and nonpublic entities. ASU 2011-09 should be applied retrospectively for all prior periods presented.

**PART I FINANCIAL INFORMATION**

**ACL SEMICONDUCTORS INC. AND SUBSIDIARIES**

In December 2011, the FASB has issued Accounting Standards Update (ASU) No. 2011-10, Property, Plant, and Equipment (Topic 360): Derecognition of in Substance Real Estate—a Scope Clarification. ASU No. 2011-10 is intended to resolve the diversity in practice about whether the guidance in Subtopic 360-20, Property, Plant, and Equipment—Real Estate Sales, applies to a parent that ceases to have a controlling financial interest (as described in Subtopic 810-10, Consolidation—Overall) in a subsidiary that is in substance real estate as a result of default on the subsidiary's nonrecourse debt. This Update does not address whether the guidance in Subtopic 360-20 would apply to other circumstances when a parent ceases to have a controlling financial interest in a subsidiary that is in substance real estate. ASU 2011-10 should be applied on a prospective basis to deconsolidation events occurring after the effective date; with prior periods not adjusted even if the reporting entity has continuing involvement with previously derecognized in substance real estate entities. For public entities, ASU 2011-10 is effective for fiscal years, and interim periods within those years, beginning on or after June 15, 2012. For nonpublic entities, ASU 2011-10 is effective for fiscal years ending after December 15, 2013, and interim and annual periods thereafter. Early adoption is permitted.

In December 2011, the FASB has issued Accounting Standards Update (ASU) No. 2011-11, Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities. ASU No. 2011-11 is intended to provide enhanced disclosures that will enable users of its financial statements to evaluate the effect or potential effect of netting arrangements on an entity's financial position. This includes the effect or potential effect of rights of setoff associated with an entity's recognized assets and recognized liabilities within the scope of this Update. The amendments require enhanced disclosures by requiring improved information about financial instruments and derivative instruments that are either (1) offset in accordance with either Section 210-20-45 or Section 815-10-45 or (2) subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset in accordance with either Section 210-20-45 or Section 815-10-45. An entity is required to apply the amendments for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. An entity should provide the disclosures required by those amendments retrospectively for all comparative periods presented.

In December 2011, the FASB has issued Accounting Standards Update (ASU) No. 2011-12, Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05. ASU No. 2011-11 is intended to supersede certain pending paragraphs in Accounting Standards Update No. 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income, to effectively defer only those changes in Update 2011-05 that relate to the presentation of reclassification adjustments out of accumulated other comprehensive income. The amendments will be temporary to allow the Board time to redeliberate the presentation requirements for reclassifications out of accumulated other comprehensive income for annual and interim financial statements for public, private, and non-profit entities. All other requirements in ASU No. 2011-05 are not affected by ASU No. 2011-12, including the requirement to report comprehensive income either in a single continuous financial statement or in two separate but consecutive financial statements. Public entities should apply these requirements for fiscal years, and interim periods within those years, beginning after December 15, 2011. Nonpublic entities should begin applying these requirements for fiscal years ending after December 15, 2012, and interim and annual periods thereafter.

**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.

**PART I FINANCIAL INFORMATION**

**ACL SEMICONDUCTORS INC. AND SUBSIDIARIES**

**Item 4. 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.

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, 2012, 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 officer's 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, as described below.

**(b) 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, 2012 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. Mine Safety Disclosures**

Not applicable.

**Item 5. Other Information**

None

**PART II OTHER INFORMATION**

**ACL SEMICONDUCTORS INC. AND SUBSIDIARIES**

**Item 6. Exhibits**

Exhibits:

- 10.1 Shareholders Agreement, dated as of March 9, 2012 between Tomen Devices Corporation and ACL International Holdings Limited.
- 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.
- \* 101.INS XBRL Instance Document
- \* 101.SCH XBRL Taxonomy Extension Schema Document
- \* 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document
- \* 101.DEF XBRL Taxonomy Extension Definition Linkbase Document.
- \* 101.LAB XBRL Taxonomy Extension Label Linkbase Document
- \* 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

\* Furnished herewith. Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of any registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, and otherwise are not subject to liability under those sections.

**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 15, 2012

By: /s/Chung-Lun Yang

Chung-Lun Yang  
Chief Executive Officer

Date: May 15, 2012

By: /s/ Kun Lin Lee

Kun Lin Lee  
Chief Financial Officer