ACL SEMICONDUCTOR INC
Form 10-Q
May 17, 2010

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2010

OR

o 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 Sheng Yuet Road, Kowloon Bay
Kowloon, Hong Kong

(Address of principal executive offices) (Zip code)

011-852-2799-1996

(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 x No o

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 o No o

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 o	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company x

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

Yes o No x

The Registrant had 28,729,936 shares of common stock outstanding as of May 10, 2010.

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PART I FINANCIAL INFORMATION

ITEM 1. Financial Statements

ACL SEMICONDUCTORS INC. AND SUBSIDIARIES

Condensed Consolidated Balance Sheets (Unaudited)

	As of March 31, 2010 (Unaudited)	As of December 31, 2009
Current assets:		
Cash and cash equivalents	$ 3,330,275	$ 2,001,805
Restricted cash	2,088,170	2,086,504
Accounts receivable, net of allowance for doubtful accounts of $0 for 2010 and 2009	13,492,554	12,434,386
Inventories, net	3,365,179	6,048,116
Other current assets	163,358	274,351
Total current assets	22,439,536	22,845,162
Property, equipment and improvements, net of accumulated depreciation and amortization	8,221,617	8,179,765
Other deposits	182,116	213,535
Amount due from Aristo / Mr. Yang	10,482,664	11,233,839
Total Assets	41,325,933	42,472,301

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

ACL SEMICONDUCTORS INC. AND SUBSIDIARIES

Condensed Consolidated Balance Sheets (Unaudited)

LIABILITIES AND STOCKHOLDERS EQUITY

	As of March 31, 2010 (Unaudited)	As of December 31, 2009
Current liabilities:		
Accounts payable	$ 19,802,763	$ 23,838,753
Accrued expenses	603,583	527,582
Lines of credit and loan facilities	10,230,089	9,013,813
Current portion of long-term debt	318,046	318,972
Current portion of capital lease	328,292	318,135
Income tax payable	732,807	505,078
Due to stockholders for converted pledged collateral	112,385	112,385
Other current liabilities	297,829	282,475
Total current liabilities	32,425,794	34,917,193
Long-term liabilities		
Long-term debts, less current portion	2,669,597	2,747,981
Capital lease, less current portion	128,556	146,117
Deferred tax liabilities	19,468	19,468
Total long-term liabilities	2,817,621	2,913,566
Total Liabilities	35,243,415	37,830,759
Stockholders equity:		
Common stock - $0.001 par value; 50,000,000 shares authorized; 28,729,936 issued and outstanding as of March 31, 2010 and December 31, 2009 respectively	28,730	28,730
Additional paid in capital	3,658,627	3,658,627
Retained earnings	2,395,161	954,185
Total stockholders equity	6,082,518	4,641,542
Total Liabilities and Stockholders equity	41,325,933	42,472,301

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

ACL SEMICONDUCTORS INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Income (Unaudited)

	Three Months Ended March 31, 2010	Three Months Ended March 31, 2009
		(Restated)
Net sales		
Related parties	$ 781,896	$ 316,422
Other	98,229,166	62,190,706
Less discounts to customers		(6,989)
	99,011,062	62,500,139
Cost of sales	96,184,458	59,642,180
Gross profit	2,826,604	2,857,959
Operating expenses		
Selling	24,802	22,177
General and administrative	1,057,869	1,355,453
Income from operations	1,743,933	1,480,329
Other income (expenses)		
Rental income	30,000	22,308
Interest expense	(95,164)	(166,892)
Management and service income	8,321	6,538
Net income on cash flow hedge	15,410	20,349
Interest income	93	33,631
Loss on disposal of fixed assets	(308)	
Exchange differences	(6,203)	(9,029)
Miscellaneous	960	7
Income before income taxes provision	1,697,042	1,387,241
Income taxes provision	256,066	217,949
Net Income	$ 1,440,976	$ 1,169,292
Earnings per share - basic and diluted	$ 0.05	$ 0.04
Weighted average number of shares - basic and diluted	28,729,936	28,534,380

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

ACL SEMICONDUCTORS INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows (Unaudited)

	Three months ended March 31, 2010	March 31, 2009
		(Restated)
Cash flows provided by (used for) operating activities:		
Net income	$ 1,440,976	$ 1,169,292
Adjustments to reconcile net income (loss) to net cash provided by (used for) operating activities:		
Depreciation and amortization	72,298	74,989
Change in inventory reserve	(315,082)	
Loss on disposal of fixed assets	308	
Issurance of common stocks to consultant as professional fee under share option scheme		66,000
Changes in assets and liabilities:		
(Increase) decrease in assets		
Accounts receivable - other	(1,058,166)	1,533,832
Accounts receivable - related parties		1,717,320
Inventories	2,998,018	148,606
Other current assets	110,993	80,672
Other assets	31,419	350,442
Increase (decrease) in liabilities		
Accounts payable	(4,035,991)	(325,848)
Accrued expenses	76,001	198,637
Income tax payable	227,729	217,949
Other current liabilities	15,354	(330,246)
Total adjustments	(1,877,119)	3,732,353
Net cash provided by (used for) operating activities	(436,143)	4,901,645

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

ACL SEMICONDUCTORS INC. AND SUBSIDIARIES

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

Cash flows used for investing activities:		
Advanced (to) from Aristo / Mr. Yang	751,174	(2,684,927)
Increase of restricted cash	(1,666)	1,097,436
Investment in restricted marketable securities		500,000
Cash proceeds from sale of fixed assets	81,154	
Purchases of property, equipment and improvements	(73,399)	(2,689)
Net cash used for investing activities	757,263	(1,090,180)
Cash flows provided by (used for) financing activities:		
Proceeds on lines of credit and notes payable	1,216,277	(4,127,791)
Principal payments under long-term debt	(79,310)	(39,916)
Principal payments under capital lease obligation	(129,617)	(22,182)
Net cash provided by (used for) financing activities	1,007,350	(4,189,889)
Net increase (decrease) in cash and cash equivalents	1,328,470	(378,424)
Cash and cash equivalents, beginning of period	2,001,805	1,943,463
Cash and cash equivalents, end of period	3,330,275	1,565,039

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

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 activities are distribution of electronic components under the Samsung brand name which comprise DRAM and Graphic RAM, Flash, SRAM and MASK ROM for the Hong Kong and Southern 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.

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, 2010. The following table depicts the identity of the subsidiary:

Name of Subsidiary	Place of Incorporation	Attributable Equity Interest %	Registered Capital
Alpha Perform Technology Limited	BVI	100	$ 1,000
Atlantic Components Limited	Hong Kong	100	$ 384,615
* Aristo Technologies Limited	Hong Kong	100	$ 1,282

* Note: Deemed variable interest entity

<u>Variable Interests Entities</u>

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. Based on a review of the equity investment at risk, the Company concluded that Aristo Technologies Limited (Aristo) is a variable interest entity and is therefore subject to consolidation with the Company under the guidance applicable to variable interest entities.

Aristo Technologies Limited

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 various brands such as Samsung, Hynix, Micro, Elpida, Qimonda, Lexar, Dane-Elec, Elixir, SanDisk and Winbond.

ACL SEMICONDUCTORS INC. AND SUBSIDIARIES

Notes to the Condensed Consolidated Financial Statements (Unaudited)

NOTE 2. Summary of Significant Accounting Policies (Continued)

The Company sells to Aristo in order to fulfill Aristo s periodic need for Samsung memory products based on prevailing market prices, which products Aristo, in turn, sells to its customers. The sales to Aristo during the first quarter of 2010 were $1,287,266 with accounts receivable of $11,221,505 as of March 31, 2010. For fiscal year 2009, sales to Aristo were $13,160,521 with accounts receivable of $10,315,388 as of December 31, 2009. For fiscal year 2008, sales to Aristo were $9,076,034 with accounts receivable of $6,695,409 as of December 31, 2008.

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 in conformity 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 the estimates are made; 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 locates 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 Hong Kong and China economy.

The Company s operations in Hong Kong and have large amount of customers derived from 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.

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 decreased by $315,082 during the first quarter of 2010 and increased by $26,970 for 2009. Inventory obsolescence reserves totaled $32,051 as of March 31, 2010 and $347,133 as of December 31, 2009.

(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.

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.

(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 HKUS1.00=HKD7.80, a fixed exchange rate maintained between Hong Kong and United States.

(m) Revenue recognition

The Company derives revenues from resale of computer memory products. The Company recognizes revenue in accordance with the SEC Staff Accounting Bulletin No. 104, Revenue Recognition (SAB 104). Under SAB 104, 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 $539 as of March 31, 2010 and $85 for the years ended March 31, 2009.

(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.

(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.

ACL SEMICONDUCTORS INC. AND SUBSIDIARIES

Notes to the Condensed Consolidated Financial Statements (Unaudited)

NOTE 2. Summary of Significant Accounting Policies (Continued)

(q) Comprehensive income

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

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

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

(s) Reclassification

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

(t) Recently implemented standards

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

ACL SEMICONDUCTORS INC. AND SUBSIDIARIES

Notes to the Condensed Consolidated Financial Statements (Unaudited)

NOTE 2. Summary of Significant Accounting Policies (Continued)

(t) Recently implemented standards (Continued)

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

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

ACL SEMICONDUCTORS INC. AND SUBSIDIARIES

Notes to the Condensed Consolidated Financial Statements (Unaudited)

NOTE 2. Summary of Significant Accounting Policies (Continued)

(t) Recently implemented standards (Continued)

ASC 810, Consolidation (ASC 810) includes new guidance issued by the FASB in December 2007 governing the accounting for and reporting of noncontrolling interests (previously referred to as minority interests). This guidance established reporting requirements which include, among other things, that noncontrolling interests be reflected as a separate component of equity, not as a liability. It also requires that the interests of the parent and the noncontrolling interest be clearly identifiable. Additionally, increases and decreases in a parent s ownership interest that leave control intact shall be reflected as equity transactions, rather than step acquisitions or dilution gains or losses. This guidance also requires changes to the presentation of information in the financial statements and provides for additional disclosure requirements. ASC 810 was effective for fiscal years beginning on or after December 15, 2008. The Company implemented this guidance as of January 1, 2009. The Company is in the process of evaluating ASC 810 and will make necessary changes accordingly.

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

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

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)

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

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

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

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

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 June 2009, FASB issued Statement of Financial Accounting Standards No. 167, Amendments to FASB Interpretation No. 46(R) (Statement No. 167). Statement No. 167 amends FASB Interpretation No. 46R, Consolidation of Variable Interest Entities an interpretation of ARB No. 51 (FIN 46R) to require an analysis to determine whether a company has a controlling financial interest in a variable interest entity. This analysis identifies the primary beneficiary of a variable interest entity as the enterprise that has a) the power to direct the activities of a variable interest entity that most significantly impact the entity s economic performance and b) the obligation to absorb losses of the entity that could potentially be significant to the variable interest entity or the right to receive benefits from the entity that could potentially be significant to the variable interest entity. The statement requires an ongoing assessment of whether a company is the primary beneficiary of a variable interest entity when the holders of the entity, as a group, lose power, through voting or similar rights, to direct the actions that most significantly affect the entity s economic performance. This statement also enhances disclosures about a company s involvement in variable interest entities. Statement No. 167 is effective as of the beginning of the first annual reporting period that begins after November 15, 2009. Although Statement No. 167 has not been incorporated into the Codification, in accordance with ASC 105, the standard shall remain authoritative until it is integrated. The Company is in the process of evaluating Statement No. 167 and will make necessary changes if required.

NOTE 3. Inventories

Inventories consisted of the following at March 31, 2010 and December 31, 2009:

	March 31, 2010	December 31, 2009
Finished goods	$ 3,397,230	$ 6,395,249
Less allowance for excess and obsolete inventory	(32,051)	(347,133)
Inventories, net	$ 3,365,179	$ 6,048,116

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, 2010 and December 31, 2009:

	March 31, 2010	December 31, 2009
Land and Buildings	$ 7,663,340	$ 7,663,340
Furniture and fixtures	29,231	13,273
Office equipment	188,032	168,181
Leasehold improvements	218,462	218,462
Automobiles	517,046	449,713
Machinery	499,614	499,614
Total property and equipment	9,115,725	9,012,583
Less accumulated depreciation and amortization	(894,108)	(832,818)
Property and equipment, net	8,221,617	8,179,765

Depreciation and amortization expense totaled $72,298 and $74,989 for the three months ended March 31, 2010 and 2009.

Automobiles and machinery include the following amounts under capital leases:

	March 31, 2010	December 31, 2009
Cost	$ 812,887	$ 716,855
Less accumulated depreciation	(132,708)	(106,393)
Total	680,179	610,462

ACL SEMICONDUCTORS INC. AND SUBSIDIARIES

Notes to the Condensed Consolidated Financial Statements (Unaudited)

NOTE 5. Capital Lease Obligation

The Company leases automobiles and machinery under seven capital leases that expire between August 2010 and August 2013. Aggregate future obligations under the capital leases in effect as of March 31, 2010 are as follows:

	Capital Lease
Year ending March 31,	
2010	352,431
2011	91,266
2012	47,303
Total minimum lease obligations	491,000
Less amounts representing interest	(34,152)
Present value of future minimum lease payments	456,848
Less current portion of capital lease obligation	(328,292)
Capital lease obligation, less current portion	128,556

Interest expense related to capital leases totaled $8,476 and $2,414 for the three months ended March 31, 2010 and 2009, respectively.

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.

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ACL SEMICONDUCTORS INC. AND SUBSIDIARIES

Notes to the Condensed Consolidated Financial Statements (Unaudited)

NOTE 6. Stock Options (Continued)

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, 2010, there were no options outstanding under the Plan.

NOTE 7. Related Party Transactions

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

Transactions with Aristo Technologies Limited / Mr. Yang

As of March 31, 2010 and December 31, 2009, we had an outstanding receivable from Mr. Yang, the President and Chairman of our Board of Directors, totaling $10,482,664 and $11,233,839, respectively. These advances bear no interest and are payable on demand. The receivable due from 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 into (see Note 13 to consolidated financial statements).

For the three months ended March 31, 2010 and 2009, we recorded compensation to Mr. Yang of $316,667 and $465,385 respectively, and paid $316,667 and $465,385 respectively to Mr. Yang as compensation to him.

Transactions with Solution Semiconductor (China) Limited

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

During the three months ended March 31, 2010 and 2009, we purchased inventories of $43,213 and $0 respectively from Solution. As of March 31, 2010 and December 31, 2009, there were no outstanding accounts payable to Solution.

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

ACL SEMICONDUCTORS INC. AND SUBSIDIARIES

Notes to the Condensed Consolidated Financial Statements (Unaudited)

NOTE 7. Related Party Transactions (Continued)

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, 2008, we entered into a lease agreement with Systematic Information pursuant to which we lease one facility. The lease agreement for this facility expires on August 31, 2010. The monthly lease payment for this lease totals $641. We incurred and paid an aggregate rent expense of $1,923 to Systematic Information during the three months ended March 31, 2010 and 2009, respectively.

During the three months ended March 31, 2010 and 2009, we received service charges of $2,038 and $0 respectively from Systematic Information. The service fee was charged for back office support for Systematic Information.

During the three months ended March 31, 2010 and 2009, we sold products for $767,981 and $74,688 respectively, to Systematic Information. As of March 31, 2010 and December 31, 2009, there were no outstanding accounts receivables from Systematic Information.

During the three months ended March 31, 2010 and 2009, we purchased inventories of $0 and $74,688 respectively from Systematic Information. As of March 31, 2010 and December 31, 2009, there were no outstanding accounts payable to Systematic Information.

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

Transactions with Global Mega Development Limited

Mr. Yang is the sole beneficial owner of the equity interests of Global Mega Development Ltd. (Global). During the three months ended March 31, 2010 and 2009, we sold products for $3,580 and $0 respectively, to Global. As of March 31, 2010 and December 31, 2009, there were no outstanding accounts receivables from Global.

Transactions with Systematic Semiconductor Limited

Mr. Yang is a director and sole beneficial owner of the equity interests of Systematic Semiconductor Ltd. (Systematic). During the three months ended March 31, 2010 and 2009, we received a management fee of $1,923 and $3,846 respectively from Systematic. The management fee was charged for back office support for Systematic.

During the three months ended March 31, 2010 and 2009, we sold products for $0 and $18,144 respectively, to Systematic. As of March 31, 2010 and December 31, 2009, there were no outstanding accounts receivables from Systematic.

Transactions with Aristo Components Limited

Mr. Ben Wong, one of the Company s directors, is a 90% shareholder of Aristo Components Ltd. (Aristo Comp). During the three months ended March 31, 2010 and 2009, we received a management fee of $3,077 and $2,692 respectively from Aristo Comp. The management fee was charged for back office support for Aristo Comp.

During the three months ended March 31, 2010 and 2009, we sold products for $0 and $12,060 respectively, to Aristo Comp. As of March 31, 2010 and December 31, 2009, there were no outstanding accounts receivables from Aristo Comp.

During the three months ended March 31, 2010 and 2009, we purchased inventories of $0 and $241,325 respectively from Aristo Comp. As of March 31, 2010 and December 31, 2009, there were no outstanding accounts payable to Aristo Comp.

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). During the three months ended March 31, 2010 and 2009, we sold products for $440 and $154,785 respectively, to Atlantic Storage. As of March 31, 2010 and December 31, 2009, there were no outstanding accounts receivables from Atlantic Storage.

Transactions with Rambo Technologies Limited

Mr. Ben Wong is a director and 60% shareholder of Rambo Technologies Ltd. (Rambo). During the three months ended March 31, 2010 and 2009, we sold products for $9,878 and $10,170 respectively, to Rambo. As of March 31, 2010 and December 31, 2009, there were no outstanding accounts receivables from Rambo.

During the three months ended March 31, 2010 and 2009, we purchased inventories of $0 and $54,930 respectively, from Rambo. As of December 31, 2009 and 2008, there were no outstanding accounts payable to Rambo.

Transactions with Usmart Electronic Products Limited

Mr. Yang is a director and the sole beneficial owner of the equity interests of Usmart Electronic Products Ltd. (Usmart). On October 7, 2009, we entered into a leasing payment agreement with Usmart pursuant to which we lease one lot machinery facility to Usmart. The leasing payment agreement for this facility expires on September 16, 2011. The monthly lease income for this lease totals $3,846. We received aggregate lease income of $11,538 and $0 from Usmart during the three months ended March 31, 2010 and 2009 respectively.

During the three months ended March 31, 2010 and 2009, we sold products for $17 and $0 respectively, to Usmart. As of March 31, 2010 and December 31, 2009, there were no outstanding accounts receivables from Usmart.

During the three months ended March 31, 2010 and 2009, we purchased inventories of $1,705 and $130 respectively, from Usmart. As of March 31, 2010 and December 31, 2009, there were no outstanding accounts payable to Usmart.

Transactions with Kasontech Electronics Limited

Mr. Kenneth Lap-Yin Chan, the Company Chief Financial Officer, is a 33% shareholder of Kasontech Electronics Limited (Kasontech). During the three months ended March 31, 2010 and 2009, we received a management fee of $1,282 and $0 respectively from Kasontech. The management fee was charged for back office support for Kasontech.

Transactions with Ibcom Electronics (HK) Limited

Mr. Ben Wong is a director and 50% shareholder of Ibcom Electronics (HK) Limited (Ibcom). During the three months ended March 31, 2010 and 2009, we sold products for $659,539 and $0 respectively, to Ibcom. As of March 31, 2010 and December 31, 2009, there were no outstanding accounts receivables from Ibcom.

Transactions with City Royal Limited

Mr. Yang 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.

ACL SEMICONDUCTORS INC. AND SUBSIDIARIES

Notes to the Condensed Consolidated Financial Statements (Unaudited)

NOTE 8. Bank Facilities

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, BEA and Standard Chartered 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 $703,974 (HK$5,491,000), a security interest on two residential properties and a workshop located in Hong Kong owned by Atlantic, a wholly owned subsidiary of ACL, a security interest on a residential property located in Hong Kong owned by City, a related party, a workshop located in Hong Kong owned by Solution, a related party, plus a personal guarantee by Mr. Yang as collateral for loans from DBS Bank;

2. a fixed cash deposit of $1,382,662 (HK$10,784,762), 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;

3. an unlimited personal guarantee by Mr. Yang as collateral for loans from Standard Chartered Bank;

4. a security interest on residential properties located in Hong Kong owned by Aristo, a wholly owned company by Mr. Yang plus a personal guarantee by Mr. Yang as collateral for loans from Fubon.

The summary of banking facilities at March 31, 2010 is as follows:

	Granted facilities	Utilized facilities	Not utilized facilities
Overdraft	$ 602,564	$ 477,391	$ 125,173
Installment Loan	2,320,976	2,320,976	0
Factoring Loan	8,076,923	2,033,146	6,043,777
Import/Export Loan	8,205,128	8,196,944	8,184
Letter of Guarantee	384,615	384,615	
Term Loan	778,632	778,632	
	$ 20,368,838	$ 14,191,704	$ 6,177,134

With the exception of the $384,615 letter of guarantee issued by DBS Bank, which will expire on 31 October, 2010, amounts borrowed by the Company under the revolving lines of credit described above are repayable within a period of three (3) months of drawdown. Other loan facilities repayable are referred to in Note 9 Long Term Debt.

ACL SEMICONDUCTORS INC. AND SUBSIDIARIES

Notes to the Condensed Consolidated Financial Statements (Unaudited)

NOTE 9. Long Term Debt

Long Term Debt consisted of the following at March 31, 2010 and December 31, 2009:

	March 31, 2010	December 31, 2009
Installment loan having a maturity date in July 2026 and carrying an interest rate of 2.75% below the Hong Kong dollar Prime Rate (5.25% at March 31, 2010 and December 31, 2009) to DBS Bank. The monthly installments are approximately $9,663 including interest through 2010 without any balloon payment requirements	$ 1,553,551	$ 1,572,720
Installment loan having a maturity date in July 2011 and carrying an interest rate of 2% below the Hong Kong dollar Prime Rate (5.25% at March 31, 2010 and December 31, 2009) to DBS Bank payable in monthly installments of $3,782 including interest through 2010 without any balloon payment requirements	59,135	69,949
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, 2010 and December 31, 2009) to DBS Bank payable in monthly installments of $5,240 including interest through 2010 without any balloon payment requirements	708,290	719,156
Term 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, 2010 and December 31, 2009) to BEA Bank payable in monthly installments of $15,935 including interest through 2010 without any balloon payment requirements	666,666	705,128
	2,987,642	3,066,953
Less: current maturities	(318,046)	(318,972)
	$ 2,669,596	$ 2,747,981

An analysis of long-term debt as of March 31, 2010 and December 31, 2009 is as follows:

	March 31, 2010	December 31, 2009
Current portion	$ 318,046	$ 318,972
After 1 year, but within 2 years	573,619	586,013
After 2 years, but within 5 years	470,300	508,050
After 5 years	1,625,677	1,653,918
	2,669,596	2,747,981
	$ 2,987,642	$ 3,066,953

ACL SEMICONDUCTORS INC. AND SUBSIDIARIES

Notes to the Condensed Consolidated Financial Statements (Unaudited)

NOTE 10. Cash Flow Information

Cash paid during the three months ended March 31, 2010 and 2009 is as follows:

	Three Months Ended March 31, 2010	2009
		(Restated)
Interest	$ 95,164	$ 166,892
Income taxes paid	$ 28,337	$
Non-Cash Activities:		
Capital lease obligations incurred when capital lease was entered into for new automobiles	$ 122,213	$
Income tax provision	$ 256,066	$ 217,949

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 to sell an asset or would be paid to transfer 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.

ACL SEMICONDUCTORS INC. AND SUBSIDIARIES

Notes to the Condensed Consolidated Financial Statements (Unaudited)

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 September 30, 2009:

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	3,330,275			3,330,275
Restricted cash	2,088,170			2,088,170
Total assets	$ 5,418,445	$	$	$ 5,418,445

NOTE 12. Derivative instruments

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

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

There are three foreign currency exchange agreements that matured as of March 31, 2010. These agreements are:

Participating forward currency option agreement between the Company and Standard Chartered Bank for the Company to buy US$500,000 from Standard Chartered Bank at a contract rate of 7.735 at specified dates up to January 7, 2010. According to the terms of the agreement, the Company will buy USD in triple amounts if the spot rate is less than the contract rate at specified dates. The gain on this forward contract during the three months ended March 31, 2010 was $1,231.

Autocancelable target redemption forward agreement between the Company and Standard Chartered Bank for the Company to buy US$1,000,000 from Standard Chartered Bank at a contract rate of 7.725 at specified dates up to March 3, 2011. According to the terms of the agreement, the Company will buy USD in triple amounts if the spot rate is less than the contract rate at specified dates. The gain on this forward contract during the three months ended March 31, 2010 was $14,179.

ACL SEMICONDUCTORS INC. AND SUBSIDIARIES

Notes to the Condensed Consolidated Financial Statements (Unaudited)

The before-tax effect of derivative instruments in cash flow and net investment hedging relationships for the three months ended March 31, 2010 and 2009 was as follows:

	Gain Recognized in Income on Derivative Location	Three months ended March 31, 2010		Three months ended March 31, 2009	
Cash flow hedges:					
Foreign exchange contract US$500,000	Interest and other, net	$	1,231	$	3,705
Foreign exchange contract US$750,000	Interest and other, net	$		$	1,260
Foreign exchange contract US$1,000,000	Interest and other, net	$		$	15,384
Foreign exchange contract US$1,000,000	Interest and other, net		14,179		
Total cash flow hedges		$	15,410	$	20,349

NOTE 13. Subsequent Events

In preparing these financial statements, the Company evaluated the events and transactions that occurred from April 1, 2010 through May 15, 2010, the date these financial statements were issued. The Company has made the required additional disclosures in reporting periods in which subsequent events occur.

The Company has recently received the fully executed renewal agreement from Samsung.

Aristo agreed to repay the Company a monthly payment of HK$1,000,000 (approximately $128,205) over the course of 5 years beginning June 1, 2010. The repayment plan is subject to review by the Company from time to time.

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, 2009, as amended, (the Form 10-K), filed with the Securities and Exchange Commission, and presumes that readers have access to, and will have read, the Management s Discussion and Analysis of Financial Condition and Results of Operation, our consolidated financial statements and the notes thereto, and other information contained in the Form 10-K. The following discussion and analysis also should be read together with our condensed consolidated financial statements and the notes to the condensed consolidated financial statements and the notes thereto included elsewhere in this Form 10-Q.

Forward-Looking Statements

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

Company Overview and Background

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

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. In addition to Samsung-branded products, Aristo sells Hynix, Micro, Elpida, Qimonda, Lexar, Dane-Elec, Elixir, SanDisk and Winbond branded products.

As of March 31, 2010, ACL had more than 150 active customers in Hong Kong and Southern China.

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

Overview

Net sales

Sales from Samsung HK are recognized upon the transfer of legal title of the electronic components to the customers. The quantities of memory products the Company sells fluctuate with changes in demand from its customers. The suggested prices set by Samsung HK that we charged our customers are subject to change by us based on prevailing economic conditions and their impact on the market.

Net sales for the three months ended March 31, 2010 were 58.4% greater than net sales for the three months ended March 31, 2009. This increase in net sales was mainly due to increase of the average selling prices and continuous demand in memory products in the PRC market.

Our gross profit for the first quarter of 2010 decreased by 1.1% over the gross profit for the comparable periods of the prior fiscal year. The gross profit margin for the first quarter of 2010 was 2.9%, compared to 4.6% for the corresponding quarter in 2009. The decrease in gross profit and gross profit margin were mainly due to the increase in cost of sales when compared to the cost of sales in the corresponding quarter in 2009. During the first quarter of 2009, we experienced increased gross profit as a consequence of higher average selling prices and lower cost of sales as the market experienced a rebound in increased demand together with reduced supply. As demand continued to increase through our 2009 and into 2010 to the point of market saturation, marginal costs increased resulting in increased cost of sales and corresponding reduction in gross profit margin despite increasing average selling prices.

With the increase in general and administrative expenses and interest expense, our income before income taxes provision increased by 22.3% or $309,801 to $1,697,042 in the first quarter of 2010, compared to the corresponding quarter in 2009.

We believe that the demand and average selling price will remain relatively stable for the second quarter of 2010 as a result of market saturation.

Cost of sales

Cost of sales consists of costs of goods purchased from Samsung, and purchases from other Samsung authorized distributors. Many factors affect our gross margin, including, but not limited to, the volume of production orders placed on behalf of its customers, the competitiveness of the memory products industry and the availability of cheaper Samsung memory products from overseas Samsung distributors due to regional demand and supply situations. Nevertheless, our procurement operations are supported by Samsung pursuant to a distributorship agreement between the Company and Samsung. Our cost of goods, as a percentage of total revenues, amounted to approximately 97.1% for the three months ended March 31, 2010 and approximately 95.4% for the three months ended March 31, 2009.

Operating expenses

Our operating expenses for the three months ended March 31, 2010 and 2009 were comprised of sales and marketing and general and administrative expenses only.

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

General and administrative expenses include all corporate and administrative functions that serve to support our current and future operations and provide an infrastructure to support future growth. Major items in this category include management and staff salaries, rent/leases, professional services, and travel and entertainment. We expect these expenses to increase as a result of increased 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, 2010	Three Months Ended March 31, 2009
		(Restated)
Net sales	$ 99,011,062	$ 62,500,139
Cost of sales	96,184,458	59,642,180
Gross profit	2,826,604	2,857,959
Operating expenses		
Selling	24,802	22,177
General and administrative	1,057,869	1,355,453
Income from operations	1,743,933	1,480,329
Other income (expenses)	(46,891)	(93,088)
Income before income taxes provision	1,697,042	1,387,241
Income taxes provision	(256,066)	(217,949)
Net Income	$ 1,440,976	$ 1,169,292
Earnings per share - basic and diluted	$ 0.05	$ 0.04

Net Sales

The following table presents our net sales for the three months ended March 31, 2010 and 2009, respectively:

Three Months Ended March 31, 2010	2009	% Change
$ 99,011,062	$ 62,500,139	58.4%

Net sales increased by $36,510,923 or 58.4%, from $62,500,139 for the three months ended March 31, 2009 to $99,011,062 in the three months ended March 31, 2010. The increase was mainly due to increase of the average selling prices and continuous demand in memory products in the PRC market.

Cost of sales

The following table presents our cost of sales for the three months ended March 31, 2010 and 2009, respectively:

Three Months Ended March 31, 2010	2009	% Change
$ 96,184,458	$ 59,642,180	61.3%

Cost of sales increased by $36,542,278, or 61.3%, from $59,642,180 for the three months ended March 31, 2009 to $96,184,458 for the three months ended March 31, 2010. The increase was principally attributable to the extra-ordinary low cost of sales during the three months ended March 31, 2009 when compared with the same period in 2010.

Gross Profit

The following table presents our gross profit for the three months ended March 31, 2010 and 2009, respectively:

Three Months Ended March 31, 2010	2009	% Change
$ 2,826,604	$ 2,857,959	-1.1%

Gross profit decreased by $31,355, or 1.1%, from $2,857,959 for the three months ended March 31, 2009 to $2,826,604 for the three months ended March 31, 2010. Although we experienced a significant increase in net sales during the first quarter of 2010 when compared to the same period in 2009, this did not result in a corresponding increase in gross profit. During the first quarter of 2009, we experienced increased gross profit as a consequence of higher average selling prices and lower cost of sales as the market experienced a rebound in increased demand together with reduced supply. As demand continued to increase throughout 2009 and into 2010 to the point of market saturation, marginal costs increased resulting in increased cost of sales and a corresponding reduction in gross profit margin despite increasing average selling prices.

Sales and Marketing

The following table presents the sales and marketing expenses for the three months ended March 31, 2010 and 2009, respectively:

Three Months Ended March 31, 2010	2009	% Change
$ 24,802	$ 22,177	11.8%

For the three months ended March 31, 2010, sales and marketing expenses increased $2,625, or 11.8%, as compared to the three months ended March 31, 2009. Such increase was directly attributable to and reflective of increased sales and marketing effort by the Company.

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General and Administrative

The following table presents the general and administrative expenses for the three months ended March 31, 2010 and 2009, respectively:

Three Months Ended March 31, 2010	2009	% Change
$ 1,057,869	$ 1,355,453	-22.0%

For the three months ended March 31, 2010, general and administrative expenses decreased $297,584, or 22%, as compared to the three months ended March 31, 2009. This decrease was principally attributable to a decrease in directors remuneration, staff salaries and bank charges.

Income from Operations

The following table presents the income from operations for the three months ended March 31, 2010 and 2009, respectively:

Three Months Ended March 31, 2010	2009	% Change
$ 1,743,933	$ 1,480,329	17.8%

Income from operations for the three months ended March 31, 2010 increased by $263,604, or 17.8%, from $1,480,329 for the three months ended March 31, 2009 to $1,743,933 in the three months ended March 31, 2010. Such increase was mainly due to an increase in cost of sales offset by a decrease of general and administrative expenses.

Interest Income

The following table presents the interest income for the three months ended March 31, 2010 and 2009, respectively:

Three Months Ended March 31, 2010	2009	% Change
$ 93	$ 33,631	-99.7%

For the three months ended March 31, 2010, interest income decreased $33,538, or 99.7%, as compared to the three months ended March 31, 2009. This decrease was due to bank interest refunded by customers during the period in 2009.

Interest Expense

The following table presents the interest expense for the three months ended March 31, 2010 and 2009, respectively:

Three Months Ended March 31, 2010	2009	% Change
$ 95,164	$ 166,892	-43.0%

For the three months ended March 31, 2009, interest expense decreased by $71,728 or 43%, from $166,892 in the three months ended March 31, 2009 to $95,164 in the three months ended March 31, 2010. These decreases were mainly due to a decrease in the use by the Company of letters of credit to obtain goods from suppliers.

Net Income on Cash Flow Hedge

The following table presents the net income on cash flow hedge for the three months ended March 31, 2010 and 2009, respectively:

Three Months Ended March 31, 2010	2009	% Change
$ 15,410	$ 20,439	-24.6%

For the three months ended March 31, 2009, income on cash flow hedge decreased by $5,029, or 24.6%, as compared to the three months ended March 31, 2009. t The decreases were due to the expiration or termination of several currency hedging contracts in the period 2010.

Income Tax Provision

The following table presents the income tax provision for the three months ended March 31, 2010 and 2009, respectively:

Three Months Ended March 31, 2010	2009	% Change
$ 256,066	$ 217,949	17.5%

Income tax provision increased by $38,117 or 17.5% from $217,949 for the three months ended March 31, 2009 to $256,066 for the three months ended March 31, 2010. The increases were due to an increase in the estimated Hong Kong taxes payable by Atlantic.

Liquidity and Capital Resources

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

As of March 31, 2010, we had revolving lines of credit and loan facilities in the aggregate amount of $20,368,838, of which $6,177,134 was available (representing an approximately 20.5% increase in our borrowing lines of credit from December 31, 2009), which was attributable to the increase of factoring loan. In connection therewith, $996,613 of restricted bank deposits were released to the Company. Other detailed disclosures on credit facilities are made in Note 8 and Note 9 of the Condensed Consolidated Financial Statements for the quarter ended March 31, 2010, 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 have elected to terminate or not renew several of our credit facilities resulting in a 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 HK must be made a day in advance of the release of goods from Samsung HK 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

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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 our expectations of future growth are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. We are under no duty to update our expectations to conform them to actual results or to reflect changes in expectations.

Net Cash Used for Operating Activities

In the three months ended March 31, 2010, net cash used for operating activities was $436,143 while in the three months ended March 31, 2009, net cash provided by operating activities was $4,901,645, an increase of $5,337,788. This increase was primarily due to an increase of accounts receivable and decrease of inventories and accounts payable as of March 31, 2010.

Net Cash Provided by Investing Activities

For the three months ended March 31, 2010, net cash provided by investing activities was $757,263 while in the three months ended March 31, 2009, net cash used for investing activities was $1,090,180, an increase in cash used of $1,847,443. This increase was primarily due to the decrease of amounts due from Aristo / Mr. Yang as of March 31, 2010.

Net Cash Provided by Financing Activities

In the three months ended March 31, 2010, net cash provided by financing activities was $1,007,350 while in the three months ended March 31, 2009, net cash used for financing activities was $4,189,889, an increase of $5,197,239. This increase was due to an increase in the balance of bank lines of credit and notes payable as of March 31, 2010.

Principles of Consolidation

The consolidated financial statements of ACL Semiconductors Inc. include the accounts of Atlantic Components Ltd., a Hong Kong subsidiary and 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 Polices

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.

Inventory Valuation.

Our policy is to value inventories at the lower of cost or market on a part-by-part basis. This policy requires ACL to make estimates regarding the market value of its inventories, including an assessment of excess or obsolete inventories. We determine excess and obsolete inventories based on an estimate of the future demand for its products within a specified time horizon, generally 12 months. The estimates we use for demand are also used for near-term capacity planning and inventory purchasing and are consistent with its revenue forecasts. If ACL s demand forecast is greater than our actual demand we may be required to take additional excess inventory charges, which will decrease gross margin and net operating results in the future.

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, ACL s estimates could change and impact our reported results.

New Accounting Pronouncements

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

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

ASC 810, Consolidation (ASC 810) includes new guidance issued by the FASB in December 2007 governing the accounting for and reporting of noncontrolling interests (previously referred to as minority interests). This guidance established reporting requirements which include, among other things, that noncontrolling interests be reflected as a separate component of equity, not as a liability. It also requires that the interests of the parent and the noncontrolling interest be clearly identifiable. Additionally, increases and decreases in a parent s ownership interest that leave control intact shall be reflected as equity transactions, rather than step acquisitions or dilution gains or losses. This guidance also requires changes to the presentation of information in the financial statements and provides for additional disclosure requirements. ASC 810 was effective for fiscal years beginning on or after December 15, 2008. We implemented this guidance as of January 1, 2009. We are in the process of evaluating ASC 810 and will make necessary changes accordingly.

ITEM 3. Quantitative and Qualitative Disclosures about Market Risk

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

ITEM 4T. Controls and Procedures

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.

In connection with the preparation of this Form 10-Q, we carried out an evaluation under the supervision and with the participation of our management, including the CEO and CFO, of the effectiveness of the design and operation of our disclosure controls and procedures, as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act. This evaluation was retrospective and conducted as of March 31, 2010, the last day of the fiscal quarter covered by this Form 10-Q. Based upon that evaluation, our CEO and CFO have concluded that our disclosure controls and procedures were not effective as of March 31, 2010 because we have not completed the remediation discussed elsewhere in this Item 4T of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2010.

Our management has concluded that there are material weaknesses in our internal controls over financial reporting. These weaknesses include:

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

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

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

- none of our board of directors is independent;
- no financial expert on our board of directors has been designated;
- no formally documented financial analysis is presented to our board of directors, specifically fluctuation, variance, trend analysis or business performance reviews;
- an effective whistleblower program has not been established;
- there is insufficient oversight of external audit specifically related to fees, scope of activities, executive sessions, and monitoring of results;
- there is insufficient oversight of accounting principle implementation;
- there is insufficient review of related party transactions; and
- there is insufficient review of recording of stock transactions.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

As of March 31, 2010, we had not completed the remediation of any of these material weaknesses.

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

We plan to evaluate the composition of our board of directors and to determine whether to add independent directors or to replace an inside director with an independent director, in both cases, in order to have a majority of our board of directors become independent;

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

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

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

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

We intend on undertaking a restricted access review to analyze all financial modules and the list of persons authorized to have edit access to each. We will remove or add authorized personnel as appropriate to mitigate the risks of management or other override; and

We plan to re-assign roles and responsibilities in order to improve segregation of duties.

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

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

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

Changes in Internal Control over Financial Reporting

Except as described above, 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, 2010 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

ITEM 1. Legal Proceedings

None

ITEM 1A. Risk Factors

There are no material changes from the risk factors set forth in Part I, Item 1A, in our Annual Report on Form 10K for the year ended December 31, 2009.

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

None

ITEM 3. Defaults Upon Senior Securities

None

ITEM 4. Submission of Matters to a Vote of Security Holders

No matters were submitted to a vote of security holders during the three months ended March 31, 2010.

ITEM 5. Other Information

None

ITEM 6. Exhibits

Exhibits:

31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification by Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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 17, 2010	By:	/s/ Chung-Lun Yang
		Chung-Lun Yang Chief Executive Officer
Date: May 17, 2010	By:	/s/ Kenneth Lap-Yin Chan
		Kenneth Lap-Yin Chan Chief Financial Officer