

ACL SEMICONDUCTOR INC  
Form 10-Q/A  
January 07, 2010

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

**FORM 10-Q/A**  
**(Amendment No. 1)**

(Mark One)

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

**For the quarterly period ended June 30, 2009**

OR

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

**Commission file number: 000-50140**

**ACL Semiconductors Inc.**

(Exact name of Registrant as specified in its charter)

Delaware	16-1642709
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

B24-B27, 1/F., Block B  
Proficient Industrial Centre, 6 Wang Kwun Road  
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  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Edgar Filing: ACL SEMICONDUCTOR INC - Form 10-Q/A

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  
Yes  No

The Registrant had 28,729,936 shares of common stock outstanding as of August 13, 2009.

---

EXPLANATORY NOTE

This Amendment No. 1 to ACL Semiconductors, Inc.'s (the "Company") Quarterly Report on Form 10-Q/A for the quarterly period ended June 30, 2009 is being made to respond to certain comments received from the Staff of the Securities and Exchange Commission ("SEC").

This Form 10-Q/A amends and restates Item 1, Item 2 and Item 4 of Part I and Exhibits 31.1 and Exhibits 31.2 of the original Form 10-Q, and no other information included in the original Form 10-Q is amended hereby.

For convenience and ease of reference, the Company is filing the Quarterly Report in its entirety with applicable changes. Unless otherwise stated, all information contained in this amendment is as of August 13, 2009, the filing date of the original Quarterly Report. This Form 10-Q/A does not reflect events or transactions occurring after such filing date or modify or update those disclosures in the Quarterly Report that may have been affected by events or transactions occurring subsequent to such filing date. No information in the Quarterly Report other than as set forth above is amended hereby. Currently-dated certifications from our Chief Executive Officer and our Chief Financial Officer have been included as exhibits to this amendment.

Management has examined the corrections, which were inadvertently omitted from the previously filed report. The corrections do not affect the reported results of the Company's operations and the Company does not believe that they are material to the condensed consolidated financial statements.

---

**TABLE OF CONTENTS**

Part I	FINANCIAL INFORMATION	
	Item 1.	Financial Statements (Unaudited)
		Condensed Consolidated Balance Sheets (Unaudited)
		Condensed Consolidated Statements of Operations (Unaudited)
		Condensed Consolidated Statements of Cash Flows (Unaudited)
		Notes to the Condensed Consolidated Financial Statements (Unaudited)
	Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations
	Item 3.	Quantitative and Qualitative Disclosures about Market Risk
	Item 4.	Controls and Procedures

Part II	OTHER INFORMATION	
	Item 1.	Legal Proceedings
	Item 1A.	Risk Factors
	Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds
	Item 3.	Defaults Upon Senior Securities
	Item 4.	Submission of Matters to a Vote of Security Holders
	Item 5.	Other Information
	Item 6.	Exhibits

SIGNATURES

EXHIBIT INDEX

---

**PART I FINANCIAL STATEMENTS.****Item 1. Financial Statements.**

**ACL SEMICONDUCTORS INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)**

**ASSETS**

	<b>As of June 30, 2009 (Unaudited)</b>	<b>As of December 31, 2008</b>
<b>Current assets:</b>		
Cash and cash equivalents	\$ 1,068,951	\$ 1,784,355
Restricted cash	2,086,504	5,169,753
Accounts receivable, net of allowance for doubtful accounts of \$0 for 2009 and 2008	9,232,076	10,230,464
Accounts receivable, related parties	9,582,171	8,412,729
Inventories, net	1,762,732	2,060,195
Restricted marketable securities	□	500,000
Other current assets	28,171	30,051
 Total current assets	 23,760,605	 28,187,547
<b>Property, equipment and improvements</b> , net of accumulated depreciation and amortization	5,946,867	6,007,456
<b>Other deposits</b>	49,390	392,069
	\$ 29,756,862	\$ 34,587,072

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

## ACL SEMICONDUCTORS INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED) (CONTINUED)

## LIABILITIES AND STOCKHOLDERS' EQUITY

	<b>As of June 30, 2009 (Unaudited)</b>	<b>As of December 31, 2008</b>
<b>Current liabilities:</b>		
Accounts payable	\$ 14,661,745	\$ 13,669,779
Accrued expenses	838,631	396,755
Lines of credit and notes payable	7,982,178	16,447,742
Current portion of long-term debt	162,672	160,447
Current portion of capital lease	64,493	58,683
Income tax payable	403,024	5,588
Due to stockholders for converted pledged collateral	112,385	112,385
Other current liabilities	175,862	301,076
 Total current liabilities	 24,400,990	 31,152,455
<b>Long-term liabilities</b>		
Long-term debts, less current portion	2,279,729	2,361,711
Capital lease, less current portion	34,043	43,055
Total long-term liabilities	2,313,772	2,404,766
 <b>Deferred tax</b>	 8,343	 8,343
	26,723,105	33,565,564
<b>Stockholders' equity:</b>		
Common stock - \$0.001 par value, 50,000,000 shares authorized, 28,729,936 and 28,329,936 issued and outstanding at June 30, 2009 and December 31, 2008	28,730	28,330
Additional paid in capital	3,658,627	3,593,027
Amount due from stockholder/director	(39,633)	(39,633)
Accumulated deficit	(613,967)	(2,560,216)
 Total stockholders' equity	 3,033,757	 1,021,508
	\$ 29,756,862	\$ 34,587,072

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

## ACL SEMICONDUCTORS INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

	Three Months Ended		Six Months Ended	
	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008
<b>Net sales:</b>				
Related parties	\$ 4,267,650	\$ 3,731,920	\$ 6,505,899	\$ 5,496,41
Other	69,736,839	41,518,721	128,926,206	92,662,73
Less discounts to customers	(449)	(4,948)	(7,438)	(4,94
	74,004,040	45,245,693	135,424,667	98,154,19
<b>Cost of sales</b>	71,796,523	43,850,748	130,551,426	96,239,08
<b>Gross profit</b>	2,207,517	1,394,945	4,873,241	1,915,11
<b>Operating expenses:</b>				
Selling	29,361	19,159	48,780	36,93
General and administrative	1,148,439	750,417	2,304,128	1,525,21
<b>Income from operations</b>	1,029,717	625,369	2,520,333	352,96
<b>Other income (expenses):</b>				
Interest expense	(115,918)	(276,477)	(282,810)	(500,30
Interest income	2,093	17,527	7,014	44,93
Rental income	22,308	22,308	44,615	44,61
Management fee income	19,179	6,538	25,718	10,38
Profit on disposal of equipment & improvements	21,350	□	21,350	
Income from participating forward	28,372	15,237	48,721	60,35
Unrealized loss	□	(14,190)	□	(218,07
Miscellaneous	7,711	(885)	24,744	(1,22
<b>Income (loss) before income taxes provision</b>	1,014,812	395,427	2,409,685	(206,35
<b>Income taxes provision</b>	179,487	□	397,436	
<b>Net income (loss)</b>	\$ 835,325	\$ 395,427	\$ 2,012,249	\$ (206,35
<b>Earnings per share - basic and diluted</b>	\$ 0.03	\$ 0.01	\$ 0.07	\$ (0.0
<b>Weighted average number of shares - basic and diluted</b>	28,729,936	28,329,936	28,729,936	28,329,93

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

## ACL SEMICONDUCTORS INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	Six months ended	
	June 30, 2009	June 30, 2008
<b>Cash flows provided by (used for) operating activities:</b>		
Net income (loss)	\$ 1,946,249	\$ (206,353)
<b>Adjustments to reconcile net income to net cash provided by (used for) operating activities:</b>		
Depreciation and amortization	130,780	133,176
Change in inventory reserve	149,743	□
Gain on disposal of equipment and improvements	(21,350)	□
Issuance of common stocks consultant as professional fee Under share option scheme	66,000	
<b>Changes in assets and liabilities:</b>		
<b>(Increase) decrease in assets</b>		
Accounts receivable - other	998,387	(3,434,725)
Accounts receivable - related parties	(1,169,443)	(570,164)
Inventories	147,720	(3,027,915)
Other current assets	1,880	32,302
Deposits	342,679	(4,824)
<b>Increase (decrease) in liabilities</b>		
Accounts payable	991,966	2,030,329
Accrued expenses	441,876	74,397
Income tax payable	397,436	□
Other current liabilities	(125,214)	(128,299)
Total adjustments	2,286,460	(4,895,723)
Net cash provided by (used for) operating activities	4,298,709	(5,102,076)
<b>Cash flows provided by (used for) investing activities:</b>		
Repayments from stockholders	□	34,359
Decrease (increase) of restricted cash	3,083,250	(141,025)
Investment in Securities	□	218,073
Decrease (increase) of investment in Securities (Restricted)	500,000	(500,000)
Proceeds received from sale of equipment and improvements	37,820	□
Purchases of property, equipment and improvements	(86,662)	(191,859)
Net cash provided by (used for) investing activities	3,534,408	(580,452)

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



## ACL SEMICONDUCTORS INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED) (CONTINUED)

	Six Months Ended	
	June 30, 2009	June 30, 2008
<b>Cash flows (used for) provided by financing activities:</b>		
(Repayment) proceeds on lines of credit and notes payable	(8,465,563)	5,087,947
Principal loan repayments on long-term debt	(79,757)	(73,621)
Principal payments under capital lease obligation	(3,201)	□
Net cash (used for) provided by financing activities	(8,548,521)	5,014,326
<b>Net decrease in cash and cash equivalents</b>	(715,404)	(668,202)
<b>Cash and cash equivalents</b> , beginning of the period	1,784,355	1,597,674
<b>Cash and cash equivalents</b> , end of the period	\$ 1,068,951	\$ 929,472
<b>Supplemental disclosure of cash flow information:</b>		
Interest paid	\$ 282,810	\$ 500,304
Income tax paid	\$ □	\$ □

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

**ACL SEMICONDUCTORS INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**NOTE 1. The Company**

ACL Semiconductors, Inc. 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 were consolidated with those of Atlantic.

**NOTE 2. Summary of Significant Accounting Policies**

**Basis of Presentation** - The condensed consolidated financial statements include the financial statements of ACL Semiconductors Inc., a Delaware corporation, and its subsidiaries, Atlantic and Alpha (collectively, "ACL" or the "Company"). The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete consolidated financial statements. These condensed consolidated financial statements and related notes should be read in conjunction with the Company's audited financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2008 filed with the Securities and Exchange Commission (the "SEC"). In the opinion of management, these condensed consolidated financial statements reflect all adjustments which are of a normal recurring nature and which are necessary to present fairly the consolidated financial position of ACL as of June 30, 2009 and December 31, 2008, and the results of operations for the three-month and six-month periods ended June 30, 2009 and 2008 and the cash flows for the six-month periods ended June 30, 2009 and 2008.

The results of operations for six months ended June 30, 2009 are not necessarily indicative of the results to be expected for the entire fiscal year.

**Basis of Consolidation** - The condensed consolidated financial statements include the accounts of ACL Semiconductors Inc. and its subsidiaries. Intercompany transactions and balances have been eliminated.

**Use of Estimates** - Preparing condensed consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues recognition, allowance for doubtful account, long lived assets impairment, inventories, and disclosure of contingent assets and liabilities, the date of the condensed consolidated financial statements, as well as the reported amounts of revenues and expenses during the reporting periods. Actual results and outcomes could differ from these estimates and assumptions.

**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 collectibility 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.

**Currency Reporting** - Amounts reported in the accompanying condensed consolidated financial statements and disclosures are stated in U.S. Dollars, unless stated otherwise. The functional currency of the Company's subsidiaries is Hong Kong dollars ("HKD") as most of the Company's operations are conducted in HKD. Foreign currency transactions (outside Hong Kong) during the period are translated into HKD according to the prevailing exchange rate at the relevant transaction dates. Assets and liabilities denominated in foreign currencies at the balance sheet dates are translated into HKD at period-end exchange rates

Edgar Filing: ACL SEMICONDUCTOR INC - Form 10-Q/A

For the purpose of preparing these consolidated financial statements, the financial statements of ACL reported in HKD have been translated into U.S. Dollars at US\$1.00=HKD7.8, a fixed exchange rate maintained between the United States and China.

**ACL SEMICONDUCTORS INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**Concentration of Risk** - The Company's distribution operations are dependent on the availability of an adequate supply of electronic components under the "Samsung" brand name which have historically been principally supplied to the Company by Samsung Electronics H.K. Co., Ltd. ("Samsung HK"), a subsidiary of Samsung Electronics Co., Ltd., a Korean public company, pursuant to a distributorship agreement between the Company and Samsung HK (the "Distributorship Agreement"). Samsung HK supplied approximately 58% and 52% of materials acquired by the Company for the six months ended June 30, 2009 and 2008, respectively. The Distributorship Agreement has a one-year term and contains certain sales quotas to be met by the Company. The Distributorship Agreement has been renewed for one-year terms more than ten times, most recently on March 1, 2009. The Company has never failed to meet the sales quotas set forth in the Distributorship Agreement, however, there is no assurance that Samsung HK will continue to supply sufficient electronic components to the Company on terms and prices acceptable to the Company or in volumes sufficient to meet the Company's current and anticipated demand, nor can assurance be given that the Company would be able, in the event Samsung does not supply sufficient volumes, to secure sufficient products from other third party supplier(s) on acceptable terms. In addition, the Company's operations and business viability are to a large extent dependent on the provision of management services and financial support by Mr. Yang.

For the three months ended June 30, 2009 and 2008, and the six months ended June 30, 2009 and 2008, the Company purchased \$37,923,496, \$26,518,758, \$76,658,088 and \$52,417,810, respectively, of components from Samsung HK. At June 30, 2009 and December 31, 2008, the Company's accounts payable, net of rebate receivable, due from Samsung HK totaled \$9,657,924 and \$6,695,409, respectively.

**Reclassifications** - Certain reclassifications were made to the prior period consolidated financial statements in order to conform the current consolidated financial statement presentation.

**Earnings Per Common Share** - In accordance with SFAS No. 128, "Earnings Per Share," the basic earnings (loss) per common share is computed by dividing net earnings (loss) 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 subject to outstanding options or that would have been outstanding if the potential common shares had been issued and if the additional common shares were dilutive.

**Recent Accounting Pronouncements**

In June 2009, the Financial Accounting Standards Board ("FASB") issued SFAS 168, "The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles a replacement of FASB Statement No. 168" ("SFAS 168"). SFAS 168 establishes the FASB Accounting Standard Codification as the single source of authoritative accounting principles in the preparation of financial statements in conformity with GAAP. SFAS 168 explicitly recognizes rules and interpretive releases of the Securities and Exchange Commission ("SEC") under federal securities laws as authoritative GAAP for SEC registrants. SFAS 168 is effective for financial statements issued for periods ending after September 15, 2009, and will become effective for us on October 1, 2009. We expect the adoption of SFAS 168 will not have a material impact on our consolidated financial condition or results of operations.

In June 2009, the FASB issued SFAS 167, "Amendments to FASB Interpretation No. 46(R)" ("SFAS 167"), which 1) replaces the quantitative-based risks and rewards calculation for determining whether an enterprise is the primary beneficiary in a variable interest entity ("VIE") with an approach that is primarily qualitative, 2) requires ongoing assessments of whether an enterprise is the primary beneficiary of a VIE, and 3) requires additional disclosures about and enterprise's involvement in VIEs. SFAS 167 is effective for financial statements issued for fiscal years beginning after November 15, 2009, and will become effective for us on January 1, 2010. We expect the adoption of SFAS 167 will not have a material impact on our consolidated financial condition or results of operations, as we have not engaged in transactions with VIEs.

In June 2009, the FASB issued SFAS 166, "Accounting for Transfers of Financial Assets" an amendment of FASB Statement No. 140 ("SFAS 166"). SFAS 166 required enhanced disclosures about transfers of financial assets and a company's continuing involvement in transferred assets. SFAS 166 is effective for financial statements issued for fiscal years beginning after November 15, 2009 and will become effective for us on January 1, 2010. We expect

the adoption of SFAS 166 will not have a material impact on our disclosures, since we have not engaged in transfers of financial assets.

In May 2009, the FASB issued SFAS 165, "Subsequent Events" (SFAS 165) SFAS 165 sets forth general standards accounting for, and disclosure of, events that occur after the balance sheet date but before financial statements are issued or are available to be issued. SFAS 165 is effective for period ending after June 15, 2009. The adoption of SFAS 165 did not have an impact on our consolidated financial condition or results of operations. We evaluated subsequent events through August 12, 2009.

## ACL SEMICONDUCTORS INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

On April 9, 2009, the FASB issued FSP FAS 157-4, "Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly". This FASB FSP provides additional guidance for estimating fair value in accordance with FASB Statement No. 157, "Fair Value Measurements", when the volume and level of activity for the asset or liability have significantly decreased. This FSP also includes guidance on identifying circumstances that indicate that a transaction is not orderly. This FSP will be effective for interim and annual reporting periods ending after June 15, 2009, and will be applied prospectively. The Company does not anticipate that this FSP will have any material impact upon its preparation of its financial statements.

On April 1, 2009, the FASB issued FSP FAS 141(R)-1, "Accounting for Assets and Liabilities Assumed in a Business Combination That Arise from Contingencies". This FASB FSP amends and clarifies FASB Statement No. 141 (revised 2007), "Business Combinations", to address application issues raised by preparers, auditors, and members of the legal profession on initial recognition and measurement, subsequent measurement and accounting, and disclosure of assets and liabilities arising from contingencies in a business combination. This FSP will be effective for assets or liabilities arising from contingencies in business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The Company does not anticipate that this FSP will have any material impact upon its preparation of its financial statements.

On April 9, 2009, the FASB issued FSP FAS 115-2 and FAS 124-2, "Recognition and Presentation of Other-Than-Temporary Impairments". This FSP amends the other-than-temporary impairment guidance in U.S. GAAP for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements. This FSP does not amend existing recognition and measurement guidance related to other-than-temporary of equity securities. This FSP will be effective for interim and annual reporting periods ending after June 15, 2009. The Company does not anticipate that this FSP will have any material impact upon its preparation of its financial statements.

On April 9, 2009, the FASB issued FSP FAS 107-1 and APB 28-1, "Interim Disclosures about Fair Value of Financial Instruments". This FSP amends FASB Statement No. 107, "Disclosures about Fair Value of Financial Instruments", to require disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. This FSP also amends APB Opinion No. 28, "Interim Financial Reporting", to require those disclosures in summarized financial information at interim reporting periods. This FSP will be effective for interim reporting periods ending after June 15, 2009. The Company does not anticipate that this FSP will have any material impact upon its preparation of its financial statements.

In January 2009, the FASB issued FSP EITF 99-20-1, "Amendments to the Impairment Guidance of EITF Issue No. 99-20". This FSP amends the impairment guidance in EITF issue No. 99-20, "Recognition of Interest Income and Impairment on Purchased Beneficial Interests and Beneficial Interests That Continue to Be Held by a Transferor in Securitized Financial Assets", to achieve more consistent determination of whether an other-than-temporary impairment has occurred. This FSP also retains and emphasizes the objective of an other-than-temporary impairment assessment and the related disclosure requirements in FASB Statement No. 115, "Accounting for Certain Investments in Debt and Equity Securities", and other related guidance. This FSP will be effective for interim and annual reporting periods ending after December 15, 2009, and will be applied prospectively. The Company does not anticipate that this FSP will have any material impact upon its preparation of its financial statements.

**NOTE 3. Inventories**

Inventories consisted of the following at June 30, 2009 and December 31, 2008:

	<b>June 30, 2009</b>	<b>December 31, 2008</b>
Finished goods	\$ 1,987,091	\$ 2,434,297
Less allowance for excess and obsolete inventory	(224,359)	(374,102)

Edgar Filing: ACL SEMICONDUCTOR INC - Form 10-Q/A

Inventories, net	\$	1,762,732	\$	2,060,195
------------------	----	-----------	----	-----------

## ACL SEMICONDUCTORS INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

Property and equipment, net consisted of the following at June 30, 2009 and December 31, 2008:

	<b>June 30, 2009</b>	<b><u>December 31, 2008</u></b>
Land and Buildings	\$ 5,871,234	\$ 5,871,234
Office equipment	151,895	151,147
Leasehold improvements	203,738	187,627
Furniture and fixtures	13,273	13,273
Automobile	380,405	373,416
 Total property and equipment	 6,620,545	 6,596,697
 Less accumulated depreciation and amortization	 673,678	 589,241
 Property and equipment, net	 5,946,867	 6,007,456

Depreciation and amortization expense totaled \$67,030 and \$56,996 for the three months ended June 30, 2009 and 2008, respectively, and \$130,780 and \$133,176 for the six months ended June 30, 2009 and 2008, respectively.

Automobiles include the following amounts under capital leases:

	<b>June 30, 2009</b>	<b>December 31, 2008</b>
Cost	\$ 202,873	\$ 193,514
Less accumulated depreciation	89,856	51,463
 Total	 113,017	 142,051

**NOTE 5. Capital Lease Obligation**

The Company leases automobiles under five capital leases that expire between March 2010 and July 2011. Aggregate future obligations under the capital leases in effect as of June 30, 2009 are as follows:

	Capital Lease
Year ending June 30,	
2010	70,468
2011	35,695
2012	1,132
Total minimum lease obligations	107,295
 Less amounts representing interest	 (8,759)
 Present value of future minimum lease payments	 98,536
 Less current portion of capital lease obligation	 (64,493)



Capital lease obligation, less current portion	34,043
--	--------

Interest expense related to capital leases totaled \$1,396, \$1,471, \$3,810 and \$2,819 for the three months ended June 30, 2009 and 2008, and for six months ended June 30, 2009 and 2008, respectively.

**ACL SEMICONDUCTORS INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**NOTE 6. Stock Options**

On March 31, 2006, the Board of Directors adopted the 2006 Equity Incentive Stock Plan (the "Plan") and the majority stockholder approved the Plan by written consent. The purpose of the Plan is to provide additional incentive to employees, directors and consultants and to promote the success of the Company 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 Directors' discretion, by a committee of the Board of Directors consisting of at least two persons who are "disinterested persons" defined under Rule 16b-2(c)(ii) under the Securities Exchange Act of 1934, as amended (the "Committee").

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

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

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

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

There were no options outstanding as of June 30, 2009 and 2008, respectively.

**NOTE 7. Related Party Transactions**

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

**Transactions with Mr. Yang**

As of June 30, 2009 and December 31, 2008, the Company had an outstanding receivable from Mr. Yang, the Company's Chief Executive Officer, majority shareholder and a director, totaling \$39,633 and \$39,633, respectively.

Edgar Filing: ACL SEMICONDUCTOR INC - Form 10-Q/A

For the three months ended June 30, 2009 and 2008, the Company recorded and paid \$434,615 and \$200,000 respectively, to Mr. Yang as compensation. For the six months ended June 30, 2009 and 2008, the Company recorded and paid \$900,000 and \$380,026, respectively, to Mr. Yang as compensation.

**ACL SEMICONDUCTORS INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**Transactions with Classic Electronics Ltd.**

Mr. Ben Wong, a director of ACL, owns 99.9% of the equity of Classic Electronics Ltd. ("Classic"). The remaining 0.1% of Classic is owned by a non-related party. As of June 30, 2009 and December 31, 2008, the Company had outstanding accounts receivable from Classic totaling \$1,717,320 and \$1,717,320, respectively. This account receivable has been outstanding for more than 12 months.

Classic has historically met its payment obligations to the Company and the Company has no reason to believe that Classic's receivables are not collectible. Pursuant to a written personal guarantee agreement, Mr. Yang has personally guaranteed up to \$10.0 million of the outstanding accounts receivable from Classic. The Company has received verbal assurances from Mr. Yang of his intent and ability to perform under the above-referenced guarantee and based on information provided by Mr. Yang, his net worth is approximately \$17 million. In addition, as discussed in Note 13, the Company has entered into a payment plan with Classic, which payment plan contains a "due on demand" clause.

**Transactions with Solution Semiconductor (China) Ltd.**

Mr. Yang is a director and the sole beneficial owner of the equity interests of Solution Semiconductor (China) Ltd. ("Solution"). On April 1, 2009, the Company renewed a lease agreement with Solution pursuant to which the Company leases one facility. The lease agreement for this facility expires on March 31, 2012. The Company's monthly lease payment under this lease is \$1,090. The Company incurred and paid to Solution an aggregate rent expense of \$3,270 and \$3,270 for the three months ended June 30, 2009 and 2008, respectively, and \$6,540 and \$6,540 for the six months ended June 30, 2009 and 2008, respectively.

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

**Transactions with Systematic Information Ltd.**

Mr. Yang is a director and the sole beneficial owner of the equity interests of Systematic Information Ltd. ("Systematic Information"). On September 1, 2008, the Company entered into a lease agreement with Systematic pursuant to which the Company leases office space for a monthly rent of \$641. The lease agreement for this property expires on August 31, 2010. The aggregate rent expense was \$1,923, \$1,923, \$3,846 and \$3,846 for the three months ended June 30, 2009 and 2008 and the six months ended June 30, 2009 and 2008, respectively.

During the three months ended June 30, 2009 and 2008, and the six months ended June 30, 2009 and 2008, the Company received management fees of \$1,359, \$0, \$1,359 and \$0 respectively, from Systematic Information. There were \$100,000 and \$0 accounts payable due to Systematic Information as of June 30, 2009 and December 31, 2008. The management fee was charged as back office support for Systematic Information.

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

**Transactions with Systematic Semiconductor Ltd.**

Mr. Yang is the sole beneficial owner of the equity interests of Systematic Semiconductor Ltd. ("Systematic Semiconductor"). During the three months ended June 30, 2009 and 2008, and the six months ended June 30, 2009 and 2008, the Company received management fees of \$1,923, \$3,846, \$5,769 and \$7,692 respectively, from Systematic Semiconductor. There were no outstanding accounts receivable due from Systematic Semiconductor as of June 30, 2009 and December 31, 2008. The management fees were charged as the back office support to Systematic Semiconductor.



**ACL SEMICONDUCTORS INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**Transactions with Aristo Technologies Ltd.**

Mr. Yang is the sole beneficial owner of the equity interests of Aristo Technologies Ltd. (["Aristo"]). During the three months ended June 30, 2009 and 2008, and the six months ended June 30, 2009 and 2008, the Company received management fees of \$11,538, \$0, \$11,538 and \$0 respectively, from Aristo. The management fees were charged as the back office support to Aristo.

During the three months ended June 30, 2009 and 2008, and the six months ended June 30, 2009 and 2008, the Company sold \$4,200,013, \$3,731,920, \$6,505,899 and \$5,496,412 respectively, of memory products to Aristo. Outstanding accounts receivable due from Aristo totaled \$8,436,736 and \$6,695,409 as of June 30, 2009 and December 31, 2008, respectively.

During the three months ended June 30, 2009 and 2008, and the six months ended June 30, 2009 and 2008, the Company purchased \$4,819,652, \$523,757, \$7,523,791 and \$1,436,206, respectively, of memory products from Aristo. There were no outstanding accounts payable to Aristo as of June 30, 2009 and December 31, 2008.

Aristo has historically met its payment obligations to the Company and the Company has no reason to believe that Aristo's receivables are not collectible. In addition, as discussed in Note 13, the Company entered into a payment plan with Aristo according to which the outstanding balance of accounts receivable will be paid over the course of 2010 which payment plan contains a ["due on demand"] clause.

**Transactions with Aristo Components Ltd.**

Mr. Ben Wong is a 90% shareholder of Aristo Components Ltd. (["Aristo Comp"]). During the three and six months ended June 30, 2009, the Company received management fees of \$3,076 and \$5,769, respectively, from Aristo Comp. There were no outstanding accounts receivable due from Aristo Comp as of June 30, 2009 and December 31, 2008. The management fee was charged as back office support for Aristo Comp.

**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 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. For loans from DBS Bank, 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 security interest on a residential property located in Hong Kong owned by City, a security interest on a workshop located in Hong Kong owned by Solution, plus a personal guarantee of Mr. Yang;
2. For loans from BEA, a fixed cash deposit of \$1,382,529 (HK\$10,783,728) a security interest on a workshop located in Hong Kong owned by Systematic Information, a security interest on a workshop located in Hong Kong owned by Solution, plus an unlimited personal guarantee of Mr. Yang;
3. For loans from Standard Chartered Bank, an unlimited personal guarantee of Mr. Yang

The summary of banking facilities at June 30, 2009 is as follows:

	Granted facilities	Utilized facilities	Not utilized facilities
Overdraft	\$ 25,641	\$ -	\$ 25,641
Installment Loan	2,509,176	2,442,401	66,775
Factoring Loan	5,769,230	881,178	4,888,052
Import/Export Loan	7,435,897	7,101,000	334,897
Letter of Guarantee	384,615	384,615	-
	\$ 16,124,559	\$ 10,809,194	\$ 5,315,365

With the exception of the \$384,615 letter of guarantee issued by DBS Bank, which will expire on 31 October, 2009, 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 CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**NOTE 9. Long Term Debt**

Long Term Debt consisted of the following at June 30, 2009 and December 31, 2008:

	<b>Date of Maturity</b>	<b>June 30, 2009</b>	<b>December 31, 2008</b>
Installment loan to DBS bank payable in monthly installments of \$9,663 including interest at 2.75% below the Hong Kong dollar Prime Rate	July 2026	\$ 1,610,595	\$ 1,648,222
Installment loan to DBS bank payable in monthly installments of \$3,782 including interest at 2% below the Hong Kong dollar Prime Rate	July 2011	91,298	112,312
Installment loan to DBS bank payable in monthly installments of \$5,240 including interest at 2.5% below the Hong Kong dollar Prime Rate	July 2023	740,508	761,624
		2,442,401	2,522,158
Less: current maturities		162,672	160,447
		\$ 2,279,729	\$ 2,361,711
An analysis of long-term debt as of June 30, 2009 and December 31, 2008 is as follows:			
Current portion		\$ 162,672	\$ 160,447
After 1 year, but within 2 years		297,463	316,063
After 2 years, but within 5 years		261,058	257,789
After 5 years		1,721,208	1,787,859
		2,279,729	2,361,711
		\$ 2,442,401	\$ 2,522,158



## ACL SEMICONDUCTORS INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**NOTE 10. Cash Flow Information**

Cash paid during the six months ended June 30, 2009 and 2008 is as follows:

	Six Months Ended June 30,	
	2009	2008
Interest	\$ 282,810	\$ 500,304
Income taxes	\$ -	\$ -

**Non-Cash Activities:**

Income tax provision	\$ 397,436	\$ -
----------------------	------------	------

**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.

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 June 30, 2009:

	Level 1	Level 2	Level 3	Total
--	---------	---------	---------	-------

Edgar Filing: ACL SEMICONDUCTOR INC - Form 10-Q/A

Cash and cash equivalents	1,068,951	-	-	1,068,951
Restricted cash	2,086,504	-	-	2,086,504
Total assets	\$ 3,155,455	\$	- \$	\$ 3,155,455

ACL SEMICONDUCTORS INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**NOTE 12. Derivative instruments**

On February 1, 2009, the Company adopted SFAS 161 as referenced in Note 1. The adoption of SFAS 161 requires additional disclosures about the Company's objectives and strategies for using derivative instruments, the accounting for the derivative instruments and related hedged items under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"), 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 and sale period. The Company applies hedge accounting based upon the criteria established by SFAS 133, whereby the Company designates its derivatives as cash flow hedges. Cash flows from the derivative programs were classified as operating activities in the Consolidated Statement of Cash Flows.

As of June 30, 2009, there is a 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 for settlement with the bank on a monthly basis. According to the terms of the agreement, the Company agreed to buy USD in triple amounts if the spot rate is less than the contract rate at settlement dates. The gain on this forward contract during the year ended December 31, 2008 was \$36,346 and has been recorded in "Net income on cashflow hedge" under "Other income (expenses)".

As of June 30, 2009, the target redemption forward currency option agreement between the Company and Standard Chartered Bank for the Company to buy US\$750,000 from Standard Chartered Bank at a lower strike contract rate of 7.75 and an upper strike contract rate of 7.85 at specified dates up to April 29, 2010 for settlement with the bank on a monthly basis has matured and terminated on January 29, 2009. According to the terms of the agreement, the Company agreed to buy USD in triple amounts if the spot rate is less than the lower strike contract rate or greater than the upper strike contract rate at settlement dates. The gain on this forward contract has been recorded in "Net income on cashflow hedge" under "Other income (expenses)".

As of June 30, 2009, there is a pivot bonus forward currency option agreement between the Company and Standard Chartered Bank for the Company to buy US\$1,000,000 from Standard Chartered Bank at a lower strike contract rate of 7.73 and an upper strike contract rate 7.749 at specified dates up to July 2, 2009 for settlement with the bank on a monthly basis. According to the terms of the agreement, the Company agreed to buy in triple amounts if the spot rate is less than the lower strike contract rate at settlement date. The gain on this forward contract during the year ended December 31, 2008 was \$56,410 and has been recorded in "Net income on cashflow hedge" under "Other income (expenses)".

As of June 30, 2009, there is an 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 1, 2011 for settlement with the bank on a monthly basis. According to the terms of the agreement, the Company agreed to buy USD in triple amounts if the spot rate is less than the contract rate at settlement dates. The gain on this forward contract during the year ended December 31, 2008 was \$0 and has been recorded in "Net income on cashflow hedge" under "Other income (expenses)".

As of June 30, 2009, the Company has holdings of US\$500,000 Commodity Basket Linked Notes which were issued by Standard Chartered Bank at specified dates up to February 17, 2009. According to the terms of agreements, the Company agreed to receive interest at a rate equal to 6% if the Basket Return is larger than 0% and 100% redeemed if the Basket Return is less than or equal to 0% on the maturity date. The Company fully redeemed the securities at cost value on the maturity date of February 17, 2009

## ACL SEMICONDUCTORS INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

The gross notional and fair value of derivative financial instruments in the Consolidated Balance Sheet as of June 30, 2009 were as follows:

	<b>Gross Notional<sup>(1)</sup></b>	<b>Other Current Assets</b>	<b>As of June 30, 2009 Long-term Financing Receivables and Other Assets</b>
Derivatives designated as hedging instruments under SFAS 133			
Cash flow hedges:			
Foreign exchange contracts	\$ 2,500,000	-	-
Total derivatives not designated as hedging instruments under SFAS 133			
Total derivatives	\$ 2,500,000	-	-

(1) Represents the face amounts of contracts that were outstanding as of June 30, 2009.

The before-tax effect of derivative instruments in cash flow and net investment hedging relationships for the three months ended June 30, 2009 was as follows:

	<b>Gain (Loss) Recognized in OCI on Derivative (Effective Portion)</b>		<b>Gain (Loss) Reclassified from Accumulated OCI Into Income (Effective Portion)</b>	
	<b>Three months ended June 30, 2009</b>	<b>Six months ended June 30, 2009</b>	<b>Three months ended June 30, 2009</b>	<b>Six months ended June 30, 2009</b>
Cash flow hedges:				
Foreign exchange contracts US\$500,000			Interest and other, net	
Foreign exchange contracts USD750,000			Interest and other, net	
Foreign exchange contracts US\$1,000,000			Interest and other, net	
Foreign exchange contracts US\$1,000,000			Interest and other, net	
Total cash flow hedges				



**ACL SEMICONDUCTORS INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**NOTE 13. Subsequent Events**

Effective as of October 1, 2009, Classic, a related party, and the Company agreed to a payment plan for the pay down of accounts receivable from Classic of \$1,717,320 as of June 30, 2009 according to which Classic has agreed to pay to the Company \$650,000 before the end of 2009 with the remainder of the accounts receivable balance to be paid during 2010. Mr. Alan Yang, our Chief Executive Officer, director and majority stockholder has personally guaranteed up to \$10 million of outstanding accounts receivable of Classic.

Effective as of October 1, 2009, Aristo, a related party, and the Company agreed to a payment plan for the pay down of accounts receivable from Aristo that have aged more than 90 days according to which Aristo has agreed to pay to the Company over the course of 2010. Mr. Alan Yang, our Chief Executive Officer, director and majority stockholder is the sole beneficial owner of Aristo.

On November 2, 2009, the Company entered into two leases for office space. The leases expire on November 30, 2014. The monthly lease payments are \$4,487 and \$7,051, respectively.

## **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, 2008, as amended, (the "Form 10-K"), and our quarterly report on Form 10-Q for the quarter ended March 30, 2009 (the "First Quarter Form 10-Q"), both as 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 and First Quarter Form 10-Q. 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 the "Samsung" brand name which principally comprise DRAM, Graphic RAM and FLASH for the Hong Kong and Southern China markets. The Company's 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.

As of June 30, 2009, 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 the Company's 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 the Company charge its customers are subject to change by the Company based on prevailing economic conditions and their impact on the market.

Net sales for the three months ended June 30, 2009 (sometimes referred to as "2009 2Q") were \$74,004,040, representing an increase of 64% or \$28,758,347 compared to the three months ended June 30, 2008 (sometimes referred to as "2008 2Q"). The net sales for the six months ended June 30, 2009 increased by \$37,270,468, or 38% compared to the six months ended June 30, 2008. The sales increase was primarily driven by the upward trends in market prices for Samsung's products - mainly DRAM and FLASH.

The Company's gross profit for 2009 2Q was \$2,207,517, representing a 58% increase compared to \$1,394,945 for 2008 2Q. The gross profit for the six months ended June 30, 2009 increased by \$2,958,126, or 155% compared to the six months ended June 30, 2008. This increase in gross profit was mainly due to the strong demand for Graphic RAM and FLASH products. After the insolvency of Qimonda AG, the Company has recorded increasing demand for Graphic RAM products due to limited supplies. The Company also recorded increasing demands for consumer electronics products in the PRC market such products require the usage of FLASH products. In addition to strong demand in Southern China, demand by Apple for FLASH products for its newly launched iPhone 3G S was also strong.

The Company has enhanced and optimized its internal controls to minimize unnecessary costs.

### *Cost of sales*

Cost of sales consists of costs of goods purchased from Samsung HK, and purchases from other Samsung authorized distributors. Many factors affect the Company's 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, the Company's procurement operations are supported by Samsung HK pursuant to a distributorship agreement between the Company and Samsung HK. However, the distributorship is for a one-year period and even though it has been renewed more than 10 times, there is no assurance that it will be renewed again in the future.

### *Operating expenses*

The Company's operating expenses for the six months ended June 30, 2009 and 2008 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 the Company's 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. The Company expects these expenses to increase as a result of increased legal and accounting fees anticipated in connection with the Company's 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 Atlantic's short-term and long-term bank borrowings and capital lease obligations, which the Company intends to reduce. The Company recorded a decrease in interest expense of 58%, due to the reduction of external financing from banks to maximize the Company's net income.

## Results of Operations

	Three Months Ended		Six Months Ended	
	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008
Net sales	\$ 74,004,040	\$ 45,245,693	\$ 135,424,667	\$ 98,154,199
Cost of sales	71,796,523	43,850,748	130,551,426	96,239,084
	2,207,517	1,394,945	4,873,241	3,915,109
Operating expenses				
Selling	29,361	19,159	48,780	30,817
General and administrative	1,148,439	750,417	2,304,128	1,884,292
Income from operations	1,029,717	625,369	2,520,333	1,446,806
Other income (expenses)	(14,905)	(229,942)	(110,648)	(100,000)
Income before income taxes provision	1,014,812	395,427	2,409,685	1,346,806
Income taxes provision	179,487	-	397,436	100,000
Net Income	\$ 835,325	\$ 395,427	\$ 2,012,249	\$ 1,246,806
Earnings per share - basic and diluted	\$ 0.03	\$ 0.01	\$ 0.07	\$ 0.05

### Net Sales

The following table presents our net sales for the three months and six months ended June 30, 2009 and 2008, respectively:

Three Months Ended June 30,			Six Months Ended June 30,		
2009	2008	% Change	2009	2008	% Change
\$ 74,004,040	\$ 45,245,693	63.6%	\$ 135,424,667	\$ 98,154,199	38.0%

Net sales increased by \$28,758,347 or 63.6%, from \$45,245,693 in the three months ended June 30, 2008 to \$74,004,040 in the three months ended June 30, 2009. For the six months ended June 30, 2009, net sales increased by \$37,270,468 or 38%, from \$98,154,199 in the six months ended June 30, 2008 to \$135,424,667. The increase was mainly due to upward market price trends for Samsung's products and the strong demand for Graphic RAM and FLASH products during the 2009 2Q, resulting in higher sales when compared to the three months ended June 30, 2008.

### Cost of sales

The following table presents our cost of sales for the three months and six months ended June 30, 2009 and 2008, respectively:

Three Months Ended June 30,			Six Months Ended June 30,		
2009	2008	% Change	2009	2008	% Change
\$ 71,796,523	\$ 43,850,748	63.7%	\$ 130,551,426	\$ 96,239,084	35.7%

Cost of sales increased by \$27,945,775, or 63.7%, from \$43,850,748 for the three months ended June 30, 2008 to \$71,796,523 for the three months ended June 30, 2009. For the six months ended June 30, 2009, cost of sales increased by \$34,312,342, or 35.7%, as compared to the six months ended June 30, 2008. The increase in both periods was principally attributable to the increase in net sales.

*Gross Profit*

Three Months Ended June 30,			Six Months Ended June 30,		
2009	2008	% Change	2009	2008	% Change
\$ 2,207,517	\$ 1,394,945	58.3%	\$ 4,873,241	\$ 1,915,115	154.5%

Gross profit increased by \$812,572 or 58.3%, from \$1,394,945 for the three months ended June 30, 2008 to \$2,207,517 for the three months ended June 30, 2009. The gross profit margin was maintained at around 3% of net sales for the 2008 Q2 and 2009 Q2. The increase in gross profit resulted primarily from strong market demand for certain memory products, resulting in an increase in prices during the 2009 Q2.

For the six months ended June 30, 2009, gross profit increased by \$2,958,126 or 154.5%, from \$1,915,115 for the six months ended June 30, 2008 to \$4,873,241. The gross profit margin was increased from 2% of net sales in 2008 to 4.3% of net sales in 2009. The increase in gross profit resulted primarily from strong market demand for certain memory products, resulting in an increase in prices during the half year ended 2009.

*Sales and Marketing*

The following table presents the sales and marketing expenses for the three months and six months ended June 30, 2009 and 2008, respectively:

Three Months Ended June 30,			Six Months Ended June 30,		
2009	2008	% Change	2009	2008	% Change
\$ 29,361	\$ 19,159	53.2%	\$ 48,780	\$ 36,935	32.1%

Sales and marketing expenses increased by \$10,202 or 53.2%, from \$19,159 for the three months ended June 30, 2008 to \$29,361 for the three months ended June 30, 2009. For the six months ended June, 2009, sales and marketing expenses increased by \$11,845 or 32.1%, from \$36,935 for the six months ended June 30, 2008 to \$48,780. The percentage of expenses in the 2008, compared to net sales, was maintained at approximately the same level as in the 2009, and the increase was principally attributable to the increase in net sales stated above.

*General and Administrative*

The following table presents the general and administrative expenses for the three months and six months ended June 30, 2009 and 2008, respectively:

Three Months Ended June 30,			Six Months Ended June 30,		
2009	2008	% Change	2009	2008	% Change
\$ 1,148,439	\$ 750,417	53.0%	\$ 2,304,128	\$ 1,525,214	51.1%

For the three months ended June 30, 2009, general and administrative expenses increased by \$398,022 or 53%, from \$750,417 in the three months ended June 30, 2008 to \$1,148,439 in the three months ended June 30, 2009. For the six months ended June 30, 2009, general and administrative expenses increased by \$778,914 or 51.1%, from \$1,525,214 in the six months ended June 30, 2008 to \$2,304,128. The increases were principally attributable to an increase in staff salaries and remuneration paid to the Company's executive officers.

*Income from Operations*

Edgar Filing: ACL SEMICONDUCTOR INC - Form 10-Q/A

The following table presents the income from operations for the three months and six months ended June 30, 2009 and 2008, respectively:

Three Months Ended June 30,			Six Months Ended June 30,		
2009	2008	% Change	2009	2008	% Change
\$ 1,029,717	\$ 625,369	64.7%	\$ 2,520,333 23	\$ 352,966	614%

---

Income from operations for the three months ended June 30, 2009 increased by \$404,348, or 64.7%, from \$625,369 for the three months ended June 30, 2008 to \$1,029,717. For the six months ended June 30, 2009, income from operations was \$2,520,333 for the six months ended June 30, 2009 compared to \$352,966 for the six months ended June 30, 2008. The increases were principally the result of the increase in gross profit net of compensation paid to Company employees and executives increased during the half year of 2009.

#### *Interest Income*

The following table presents the interest income for the three months and six months ended June 30, 2009 and 2008, respectively:

Three Months Ended June 30,			Six Months Ended June 30,		
2009	2008	% Change	2009	2008	% Change
\$ 2,093	\$ 17,527	-88.1%	\$ 7,014	\$ 44,930	-84.4%

For the three months ended June 30, 2009, interest income decreased \$15,434, or 88.1%, as compared to the three months ended June 30, 2008. For the six months ended June, 2009, interest income decreased \$37,916, or 84.4%, as compared to the six months ended June 30, 2009. These decreases in interest income for both comparative periods were due to a reduction in interest from restricted cash and lower interest rates.

#### *Interest Expense*

The following table presents the interest expense for the three months and six months ended June 30, 2009 and 2008, respectively:

Three Months Ended June 30,			Six Months Ended June 30,		
2009	2008	% Change	2009	2008	% Change
\$ 115,918	\$ 276,477	-58.1%	\$ 282,810	\$ 500,304	-43.5%

For the three months ended June 30, 2009, interest expense decreased by \$160,559 or 58.1%, from \$276,477 in the three months ended June 30, 2008 to \$115,918 in the three months ended June 30, 2009. For the six months ended June 30, 2009, interest expense decreased by \$217,494 or 43.5%, from \$500,304 in the six months ended June 30, 2009 to \$282,810 in the six months ended June 30, 2009. These decreases were mainly due to a decrease in the Company's use of open, and draw downs on, letters of credit, to obtain goods from its suppliers, and the cancellation of certain banking facilities during the half year of 2009.

#### *Net Income on Cash Flow Hedge*

The following table presents the net income on cash flow hedge for the three months and six months ended June 30, 2009 and 2008, respectively:

Three Months Ended June 30,			Six Months Ended June 30,		
2009	2008	% Change	2009	2008	% Change
\$ 28,372	\$ 15,237	86.2%	\$ 48,721	\$ 60,352	-19.3%

For the three months ended June 30, 2009, income on cash flow hedge increased by \$13,135, or 86.2%, as compared to the three months ended June 30, 2008. The increase was due to a early terminated currency hedging contract as result of loss of \$30,000 that occurred in the second quarter of 2008. For the six months ended June 30, 2009, net income on cash flow hedge decreased by \$11,631, or 19.3%, as compared to the six months ended June 30, 2009. The decreases were due to the expiration or termination of several currency hedging contracts in the half year ended 2009.

*Income Tax Provision*

The following table presents the income tax provision for the three months and six months ended June 30, 2009 and 2008, respectively:

Three Months Ended June 30,			Six Months Ended June 30,		
2009	2008	% Change	2009	2008	% Change
\$ 179,487	\$ -	N/A	\$ 397,436	\$ -	N/A

Income tax increased by \$236,543 or 1358.6%, from \$17,411 for the three months ended June 30, 2008 to \$253,954 for the three months ended June 30, 2009. For the six months ended June 30, 2009, income tax provision increased by \$633,979 or 3641.3%, from \$17,411 for the six months ended June 30, 2008. The increases were primarily due to an increase in the estimated Hong Kong taxes payable by Atlantic.

**Liquidity and Capital Resources**

The Company's principal sources of liquidity have been cash from operations, bank lines of credit and credit terms from suppliers. The Company's principal uses of cash have been for operations and working capital. The Company anticipates these uses will continue to be its principal uses of cash in the future.

As of June 30, 2009, the Company had revolving lines of credit and loan facilities in the aggregate amount of \$16,124,559, of which \$5,315,365 was available, representing an approximately 48% reduction in the Company's borrowing lines of credit from December 31, 2008, which reduction was attributable to the termination of three lines of credit with three banks in the aggregate amount of \$14,690,825. In connection therewith, \$3,083,250 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 June 30, 2009, including the amounts of facilities, outstanding balances, maturity date, and pledges of assets.

The Company's ability to draw down under its various credit and loan facilities is, in each case, subject to the ongoing willingness of the relevant lending institution to make advances thereunder, and security coverage ratios as required from time to time 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 the Company did not deem commercially reasonable. Accordingly, on a case by case basis, the Company has elected to terminate or not renew several of its credit facilities resulting in a significant reduction in the Company's available short term borrowings.

To address the reduction in available credit facilities, the Company is relying on its own cash reserves and cash flows from operations to fund its ongoing operations and has tightened the credit terms it extends to its 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 its operations for the foreseeable future.

The Company will continue to seek additional sources of available financing on acceptable terms; however, there can be no assurance that the Company 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 the Company's results of operations and financial position: the termination or change in terms of the Distributorship Agreement; pricing pressures in the industry; a continued downturn in the economy in general or in the memory products sector; an unexpected decrease in demand for Samsung's memory products; the Company's ability to attract new customers; an increase in competition in the memory products market; and the ability of some of the Company's customers to obtain financing.

Although the Company believes its expectations of future growth are reasonable, it cannot guarantee future results, levels of activity, performance or achievements. The Company is under no duty to update our expectations to conform them to actual results or to reflect changes in expectations.

#### *Net Cash Provided by Operating Activities*

In the six months ended June 30, 2009, net cash provided by operating activities was \$4,298,709 while in the six months ended June 30, 2008, net cash used for operating activities was \$5,102,076, an increase of \$9,400,785. This increase was primarily due to an increase of accounts receivable, other liabilities and decrease of inventories.

#### *Net Cash Provided by Investing Activities*

In the six months ended June 30, 2009, net cash provided by investing activities was \$3,534,408 while in the six months ended June 30, 2008, net cash used for investing activities was \$580,452, an increase in cash provided of \$4,114,860. This increase was primarily due to released of restricted cash and restricted marketable securities due to the cancellation of certain bank facilities during the period ended June 30, 2009.

#### *Net Cash Used for Financing Activities*

In the six months ended June 30, 2009, net cash used for financing activities was \$8,548,521 while in the six months ended June 30, 2008, net cash provided by financing activities was \$5,014,326, with a decrease of cash provided by financing activities of \$13,562,847. This decrease was due to the Company's repayment of certain bank lines of credit and cancellation of certain bank facilities during the June 30, 2009.

### **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. All significant inter-company transactions and balances are eliminated in consolidation.

### **Critical Accounting Policies**

The U.S. Securities and Exchange Commission (SEC) recently issued Financial Reporting Release No. 60, *Cautionary Advice Regarding Disclosure About Critical Accounting Policies* (FRR 60), suggesting companies provide additional disclosure and commentary on their most critical accounting policies. In FRR 60, the SEC defined the most critical accounting policies as the ones that are most important to the portrayal of a company's financial condition and operating results, and require management to make its most difficult and subjective judgments, often as a result of the need to make estimates of matters that are inherently uncertain. Based on this definition, ACL's 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 ACL uses in applying these most critical accounting policies have a significant impact on the results ACL reports in its consolidated financial statements.

#### *Inventory Valuation.*

ACL's 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. ACL determines 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 ACL uses 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 its actual demand it 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.*

ACL maintains an allowance for doubtful accounts for estimated losses resulting from the inability of ACL's customers to make required payments. ACL's allowance for doubtful accounts is based on ACL's assessment of the collectability of specific customer accounts, the aging of accounts receivable, ACL's history of bad debts, and the

general condition of the industry. If a major customer's credit worthiness deteriorates, or ACL's customers' actual defaults exceed ACL's historical experience, ACL's estimates could change and impact ACL's reported results.

**Recent Accounting Pronouncements**

In June 2009, the FASB issued guidance on "Accounting for Transfers of Financial Assets" that requires enhanced disclosures about transfers of financial assets and a company's continuing involvement in transferred assets. This guidance is effective for financial statements issued for fiscal years beginning after November 15, 2009, and will become effective for us on January 1, 2010. We expect

the adoption of this guidance will not have a material impact on our disclosures, since we have not engaged in transfers of financial assets.

### 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 June 30, 2009, 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 June 30, 2009 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 June 30, 2009.

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.

*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 June 30, 2009, we had not completed the remediation of any of these material weaknesses. In addition, we failed to furnish our management report on internal control over financial reporting for the periods ended December 31, 2008 and December 31, 2007 in a timely manner which renders our disclosure controls and procedures ineffective.

## Edgar Filing: ACL SEMICONDUCTOR INC - Form 10-Q/A

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 Company web site in the governance section and in the common areas in the office. We plan on providing a toll free number for reporting complaints and will hire a specific third party whistleblower company to monitor the hotline and provide monthly reports of activity to our board of directors.
- 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.
- 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. We likely will not have sufficient time to implement our remediation plan before testing our internal control over financial reporting for our current fiscal year that will end December 31, 2009.

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 June 30, 2009 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, 2008.

**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 June 30, 2009.

**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: January 6, 2010

By: /s/ Chung-Lun Yang  
Chung-Lun Yang  
Chief Executive Officer

Date: January 6, 2010

By: /s/ Kenneth Lap-Yin Chan  
Kenneth Lap-Yin Chan  
Chief Financial Officer