

ACL SEMICONDUCTOR INC
Form 10-Q
August 14, 2008

**U.S. SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 10-Q

(Mark One)

- QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
for the quarterly period ended June 30, 2008.
- TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ___ to ___.

Commission File Number: 000-50140

ACL Semiconductors Inc.

(Name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation)

16-1642709

(I.R.S. Employer
Identification No.)

**B24-B27,1/F., Block B
Proficient Industrial Centre, 6 Wang Kwun Road
Kowloon, Hong Kong**

(Address of principal executive offices)

011-852- 2799-1996

(Registrant's telephone number)

Indicate by check mark whether the registrant (1) 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 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 is a large accelerated filer, an accelerated filer, or non-accelerated filer.

Large accelerated filer Accelerated filer Non-accelerated filer

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

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Registrant had 28,329,936 shares of common stock, par value \$0.001 per share, outstanding as of August 14, 2008.

Transitional small business disclosure format (check one) Yes [] No []

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PART I - FINANCIAL INFORMATION

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Cautionary Note Regarding Forward-Looking Statements

The Company has included in this quarterly report certain "Forward-Looking Statements" within the meaning of the Private Securities Litigation Reform Act of 1995 concerning the Company's business, operations and financial condition. "Forward-Looking Statements" consist of all non-historical information and the analysis of historical information, including the references in this report to future revenue growth, future expense growth, future credit exposure, earning before interest, taxes, depreciation and amortization, future profitability, anticipated cash resources, anticipated capital expenditures, capital requirements, and the Company's plans for future periods. In addition, the words "could", "expects", "anticipates", "objective", "plan", "may affect", "may depend", "estimates", "projects" and similar words and phrases are also intended to identify such forward-looking statements.

Actual results could differ materially from those projected in the Company's forward-looking statements due to numerous known and unknown risks and uncertainties, including, among other things, unanticipated technological difficulties, the volatile and competitive environment for computer and consumer electronic products, changes in domestic and foreign economic, market and regulatory conditions, the inherent uncertainty of financial estimates and projections, the uncertainties involved in certain legal proceedings, instabilities arising from terrorist actions and responses thereto, and other considerations described as "Risk Factors" in other filing by the Company with the Securities and Exchange Commission including its annual report on Form 10-K. Such factors may also cause substantial volatility in the market price of the Company's common stock. All such forward-looking statements are current only as of the date on which such statements were made. The Company does not undertake any obligations to publicly update any forward looking statement to reflect events or circumstances after the date on which any such statement is made or to reflect the occurrence of unanticipated events.

Any reference to "ACL", the "Company" or the "Registrant", "we", "our" or "us" means ACL Semiconductors Inc and its subsidiaries.

ITEM 1. FINANCIAL STATEMENTS.

ACL SEMICONDUCTORS INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

ASSETS

	As of June 30, 2008 (Unaudited)	As of December 31, 2007
Current assets:		
Cash and cash equivalents	\$ 929,472	\$ 1,597,674
Restricted cash	4,344,082	4,203,057
Accounts receivable, net of allowance for doubtful accounts of \$0 for 2008 and 2007	11,067,970	7,594,784
Accounts receivable, related parties	8,487,466	7,955,764
Inventories, net	6,511,909	3,483,994
Restricted marketable securities	1,269,231	769,231
Marketable securities	186,707	404,780
Income tax refundable	49,375	49,375
Other current assets	50,759	83,061
Total current assets	32,896,971	26,141,720
Property, equipment and improvements , net of accumulated depreciation and amortization	6,992,681	6,933,998
Other deposits	392,069	387,245
	\$ 40,281,721	\$ 33,462,963

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

ACL SEMICONDUCTORS INC.
CONDENSED CONSOLIDATED BALANCE SHEETS (CONTINUED)

LIABILITIES AND STOCKHOLDERS' EQUITY

	As of June 30, 2008 (Unaudited)	As of December 31, 2007
Current liabilities:		
Accounts payable	\$ 14,623,014	\$ 12,592,685
Accrued expenses	261,135	186,738
Lines of credit and notes payable	20,698,435	15,610,488
Current portion of long-term debt	208,917	180,228
Due to stockholders for converted pledged collateral	112,385	112,385
Other current liabilities	140,273	268,573
Total current liabilities	36,044,159	28,951,097
Long-term debts, less current portion	2,486,903	2,589,213
Deferred tax	15,471	15,471
	38,546,533	31,555,781
Stockholders' equity:		
Common stock - \$0.001 par value, 50,000,000 shares authorized, 28,329,936 issued and outstanding at June 30, 2008 and December 31, 2007	28,330	28,330
Additional paid in capital	3,593,027	3,593,027
Amount due from stockholder/director	(41,639)	(75,998)
Accumulated deficit	(1,844,530)	(1,638,177)
Total stockholders' equity	1,735,188	1,907,182
	\$ 40,281,721	\$ 33,462,963

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

ACL SEMICONDUCTORS INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months Ended		
	June 30, 2008	June 30, 2007	June 2006
Net sales:			
Related parties	\$ 3,731,920	\$ 7,595,771	\$ 5,490,000
Other	41,518,721	24,155,114	92,660,000
Less discounts to customers	(4,948)	(19,401)	(10,000)
	45,245,693	31,731,484	98,150,000
Cost of sales	43,850,748	31,221,150	96,230,000
Gross profit	1,394,945	510,334	1,920,000
Operating expenses:			
Selling	19,159	16,212	30,000
General and administrative	750,417	618,108	1,520,000
Income from operations	625,369	(123,986)	350,000
Other income (expenses):			
Interest expense	(276,477)	(242,930)	(500,000)
Unrealized profits	(14,190)	154,704	(210,000)
Miscellaneous	60,725	77,867	150,000
Income (loss) before income taxes	395,427	(134,345)	(200,000)
Income taxes	-	40,053	-
Net income (loss)	\$ 395,427	\$ (174,398)	\$ (200,000)
Earnings per share - basic and diluted	\$ 0.01	\$ (0.01)	\$ (0.01)
Weighted average number of shares - basic and diluted	28,329,936	27,829,936	28,329,936

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

ACL SEMICONDUCTORS INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS
(Unaudited)

	Six months ended	
	June 30, 2008	June 30, 2007
Cash flows provided by (used for) operating activities:		
Net loss	\$ (206,353)	\$ (108,548)
Adjustments to reconcile net income to net cash provided by (used for) operating activities:		
Depreciation and amortization	133,176	93,524
Change in inventory reserve	-	(89,744)
Changes in assets and liabilities:		
(Increase) decrease in assets		
Accounts receivable - other	(3,434,725)	226,345
Accounts receivable - related parties	(570,164)	657,960
Inventories	(3,027,915)	(2,835,997)
Other current assets	32,302	(150,093)
Deposits	(4,824)	(4,364)
Increase (decrease) in liabilities		
Accounts payable	2,030,329	3,845,766
Accrued expenses	74,397	(58,040)
Income tax payable	-	20,753
Other current liabilities	(128,299)	(195,728)
Total adjustments	(4,895,723)	1,510,382
Net cash (used for) provided by operating activities	(5,102,076)	1,401,834
Cash flows used for investing activities:		
Repayments from (to) stockholders	34,359	(989,829)
Increase of restricted cash	(141,025)	(1,376,923)
Investment in Securities	218,073	-
Investment in Securities (Restricted)	(500,000)	(769,231)
Purchases of property, equipment and improvements	(191,859)	(3,100,340)
Net cash used for investing activities	(580,452)	(6,236,323)

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

ACL SEMICONDUCTORS INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS
(Unaudited)

	Six Months Ended	
	June 30, 2008	June 30, 2007
Cash flows provided by financing activities:		
Proceeds on lines of credit and notes payable	5,087,947	3,454,950
Principal loan (repayments) on long-term debt	(73,621)	774,341
Loan received from related parties	-	-
Net cash provided by financing activities	5,014,326	4,229,291
Net decrease in cash and cash equivalents	(668,202)	(605,198)
Cash and cash equivalents , beginning of the period	1,597,674	1,447,486
Cash and cash equivalents , end of the period	\$ 929,472	\$ 842,288
Supplemental disclosure of cash flow information:		
Interest paid	\$ 500,304	\$ 474,497
Income tax paid	\$ -	\$ 29,640

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

ACL SEMICONDUCTORS INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. Basis of Presentation and Nature of Business Operations

Basis of Presentation

The condensed consolidated financial statements include the financial statements of ACL Semiconductors Inc. and its subsidiaries, Atlantic Components Ltd., a Hong Kong based company ("Atlantic") and Alpha Perform Technology Limited (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, 2007 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, 2008 and December 31, 2007, and the results of operations for the three-month and six-month periods ended June 30, 2008 and 2007 and the cash flows for the six month periods ended June 30, 2008 and 2007. The results of operations for the six months ended June 30, 2008 are not necessarily indicative of the results which may be expected for the entire fiscal year. All significant intercompany accounts and transactions have been eliminated in preparation of the condensed consolidated financial statements.

Nature of Business Operations

ACL was incorporated under the State of Delaware on September 17, 2002 and acquired Atlantic through a reverse-acquisition that was effective September 30, 2003. The Company's principal activities are distribution of electronic components under the "Samsung" brandname 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 with limited liability. 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.

Revenue Recognition

Product sales are recognized when products are shipped to customers, title passes and collection is reasonably assured. Provisions for discounts to customers, estimated returns and allowances and other price adjustments are deducted from the Company's gross sales in the same periods the related revenues are recorded.

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.

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.

2. 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) available to common stockholders by the weighted average number of common shares outstanding. Diluted earnings (loss) per common share is computed similarly to basic earnings (loss) per common share, except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potential common shares had been issued and if the additional common shares were dilutive.

3. Related Party Transactions

Transactions with Mr. Yang

As of June 30, 2008 and December 31, 2007, the Company had an outstanding receivable from Mr. Yang, the Company's Chief Executive Officer, majority shareholder and a director, totaling \$41,639 and \$75,998, respectively.

For the three months ended June 30, 2008 and 2007, the Company recorded and paid \$200,000 and \$132,051, respectively, to Mr. Yang as compensation. For the six months ended June 30, 2008 and 2007, the Company recorded and paid \$380,026 and \$251,282, respectively, to Mr. Yang as compensation.

During the three months ended June 30, 2008 and 2007, and the six months ended June 30, 2008 and 2007, the Company paid rent of \$0, \$7,906, \$0 and \$17,521, respectively, for Mr. Yang's personal residency as additional compensation.

Transactions with Classic Electronics Ltd.

As of June 30, 2008 and December 31, 2007, the Company had outstanding accounts receivable from Classic Electronics Ltd. ("Classic") totaling \$1,717,859 and \$1,717,859, respectively. The Company has not experienced any bad debt from this customer in the past. Pursuant to a written personal guarantee agreement, Mr. Yang has personally guaranteed up to \$10.0 million of the outstanding accounts receivable from Classic.

Mr. Wong, a director of ACL, owns 99.9% of the equity of Classic. The remaining 0.1% of Classic is owned by a non-related party.

Transactions with Solution Semiconductor (China) Ltd

During the three months ended June 30, 2008 and 2007, and the six months ended June 30, 2008 and 2007, the Company received management fees of \$3,846, \$3,846 and \$7,692, \$7,692 respectively, from Solution Semiconductor (China) Ltd. ("Solution"). There were no outstanding accounts receivable due from Solution as of June 30, 2008 and December 31, 2007. The management fee was charged as the back office support to Solution.

On April 1, 2007, the Company entered into a lease agreement with Solution pursuant to which we lease one facility. The lease agreement for this facility expires on March 31, 2009. Monthly lease payment for this lease is \$1,090. The Company incurred and paid an aggregate rent expense of \$3,270, \$2,577 and \$6,540, \$5,154 to Solution during the three months ended March 31, 2008 and 2007 and the six months ended June 30, 2008 and 2007, respectively..

Two facilities located in Hong Kong owned by Solution were used by the Company as collateral for loans from Citic Ka Wah Bank Limited and Standard Chartered Bank (Hong Kong) Limited respectively.

Mr. Wong, a director of the Company, owns 99% of the equity of Solution. The remaining 1% of Solution is

owned by a non-related party.

Transactions with Systematic Information Ltd.

During the three months ended June 30, 2008 and 2007, and the six months ended June 30, 2008 and 2007, the Company received service fees of \$3,846, \$3,846 \$7,692 and \$7,692, respectively, from Systematic Information Ltd. (Systematic Information). There were no outstanding accounts receivable due from Systematic as of June 30, 2008 and December 31, 2007. The service fees were charged as the back office support to Systematic Information.

On April 1, 2005, the Company entered into a lease agreement with Systematic pursuant to which the Company leased one residential property for Mr. Yang's personal use for a monthly lease payment of \$3,205. Upon expiration of the lease on June 15, 2007, ACL acquired this facility and personal residence from Systematic. The Company paid rent expenses of \$0, \$8,013, \$0 and \$19,230 to Systematic for the three months ended June 30, 2008 and 2007 and the six months ended June 30, 2008 and 2007, respectively.

A workshop located in Hong Kong owned by Systematic Information was used by the Company as collateral for loans from Standard Chartered Bank (Hong Kong) Limited.

Mr. Yang, the Company's Chief Executive Officer, majority shareholder and a director, is a director and the sole beneficial owner of the equity interests of Systematic Information.

Transactions with Global Mega Development Ltd.

During the three months ended June 30, 2008 and 2007, and the six months ended June 30, 2008 and 2007, the Company received management fees of \$0, \$1,923 \$0 and \$3,846, respectively, from Global Mega Development Ltd. (Global). There were no outstanding accounts receivable due from Global as of June 30, 2008 and December 31, 2007. The management fee was charged as the back office support to Global.

Mr. Yang, the Company's Chief Executive Officer, majority shareholder and a director, is the sole beneficial owner of the equity interests of Global.

Transactions with Systematic Semiconductor Ltd.

During the three months ended June 30, 2008 and 2007, and the six months ended June 30, 2008 and 2007, the Company received management fees of \$0, \$3,846, \$0 and \$7,692, respectively, from Systematic Semiconductor Ltd. (Systematic Semiconductor). There were no outstanding accounts receivable due from Systematic Semiconductor as of June 30, 2008 and December 31, 2007. The management fees were charged as the back office support to Systematic Semiconductor.

Mr. Yang, the Company's Chief Executive Officer, majority shareholder and a director, is the sole beneficial owner of the equity interests of Systematic Semiconductor.

Transactions with Aristo Technologies Ltd.

During the three months ended June 30, 2008 and 2007, and the six months ended June 30, 2008 and 2007, the Company sold \$3,731,920, \$7,595,770, \$5,496,412 and \$10,864,394 respectively, of memory products to Aristo Technologies Ltd. (Aristo). Outstanding accounts receivable totaled \$7,312,157 and \$6,237,905 as of June 30, 2008 and December 31, 2007, respectively. The Company has not experienced any bad debt from this customer in the past.

During the three months ended June 30, 2008 and 2007, and the six months ended June 30, 2008 and 2007 the Company purchased \$523,757, \$477,400, \$1,436,206 and \$1,039,116, respectively, of memory products from

Aristo. Outstanding accounts payable totaled \$542,011 and \$0 as of June 30, 2008 and December 31, 2007 respectively.

Mr. Yang, the Company's Chief Executive Officer, majority shareholder and a director, is the sole beneficial owner of the equity interests of Aristo.

4. Bank Facilities

With respect to all of the above referenced debt and credit arrangements, the Company pledged its assets as collateral collectively to a bank group in Hong Kong comprised of DBS Bank (Hong Kong) Ltd. (formerly Overseas Trust Bank Limited), Standard Chartered Bank (Hong Kong) Limited, The Bank of East Asia Ltd., Citic Ka Wah Bank Limited, Hang Seng Bank Limited and ICBC (Asia) Limited for all current and future borrowings from the bank group by the Company. In addition to the above pledged collateral, the debt is also secured by:

1. a fixed cash deposit of \$641,026 (HK\$5,000,000), a security interest on two residential properties and a workshop located in Hong Kong owned by Atlantic plus a personal guarantee by Mr. Yang as collateral for loans from DBS Bank (Hong Kong) Ltd;
2. a fixed cash deposit of \$1,323,570 (HK\$10,323,842) plus an unlimited personal guarantee by Mr. Yang, as collateral for loans from The Bank of East Asia, Limited;
3. a cash deposit/securities not less than \$1,282,051 (HK\$10,000,000), a security interest on a workshop located in Hong Kong owned by Systematic Information, a related party, a security interest on a workshop located in Hong Kong owned by Solution, a related party, plus an unlimited personal guarantee by Mr. Yang as collateral for loans from Standard Chartered Bank (Hong Kong) Limited;
4. a fixed cash deposit not less than \$956,410 (US\$700,000 plus HK\$2,000,000), a security interest on a workshop located in Hong Kong owned by Solution, a related party, plus a personal guarantee by Mr. Yang as collateral for loans from Citic Ka Wah Bank Limited;
5. marketable securities of \$769,231 (HK\$6,000,000) plus an unlimited personal guarantee by Mr. Yang as collateral for loans from Hang Seng Bank Limited;
6. a fixed cash deposit not less than \$641,026 (HK\$5,000,000) plus an unlimited personal guarantee by Mr. Yang as collateral for loans from ICBC (Asia) Limited.

5. Economic Dependence

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 "Distribution Agreement"). Samsung HK supplied approximately 52% and 72% of materials to the Company for the six months ended June 30, 2008 and 2007, respectively. The Distribution Agreement has a one-year term and contains certain sales quotas to be met by the Company. The Distribution Agreement has been renewed more than ten times, most recently on March 1, 2008. The Company has never failed to meet the sales quotas set forth in the Distribution 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 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, 2008 and 2007, and the six months ended June 30, 2008 and 2007, the Company purchased \$26,518,758, \$23,777,908, \$52,417,810 and \$47,585,487, respectively, of components from Samsung HK. At June 30, 2008 and December 31, 2007, the Company's accounts payable, net of rebate receivable, due from Samsung totaled \$9,604,704 and \$9,562,198, respectively.

6. Segment Reporting

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

7. Stock Option Plan

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 us to grant both incentive stock options ("Incentive Stock Options" or "ISOs") with the meaning of Section 422 of the Code, and other options with do not qualify as Incentive Stock Options(the "Non-Qualified Options") and stock awards.

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

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

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

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

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

8. Recently Issued Accounting Pronouncements

In May 2008, the FASB issued Statement of Financial Accounting Standards No. 163, "Accounting for Financial Guarantee Insurance Contracts" an interpretation of FASB Statement No. 60 ("SFAS No.163"). SFAS No. 163 requires that an insurance enterprise recognize a claim liability prior to an event of default (insured event) when there is evidence that credit deterioration has occurred in an insured financial obligation. SFAS No. 163 also clarifies how Statement 60 applies to financial guarantee insurance contracts, including the recognition and measurement to be used to account for premium revenue and claim liabilities. SFAS No. 163 is effective for

financial statements issued for fiscal years beginning after December 15, 2008, and all interim periods within those fiscal years, except for some disclosures about the insurance enterprise's risk-management activities. The Company does not anticipate that SFAS No. 163 will have any material impact upon its preparation of its financial statements.

In May 2008, the FASB issued FSP SOP 94-3-1 and AAG HCO-1, "Omnibus Changes to Consolidation and Equity Method Guidance for Not-for-Profit Organizations". This FSP makes several changes to the guidance on consolidation and the equity method of accounting in AICPA Statement of Position 94-3, "Reporting of Related Entities by Not-for-Profit Organizations", and the AICPA Audit and Accounting Guide, "Health Care Organizations". The guidance in this FSP shall be applied to fiscal years beginning after June 15, 2008, and to interim periods therein. The Company does not anticipate that this FSP will have any material impact upon its preparation of its financial statements.

In June 2008, the FASB issued FSP EITF 03-6-1, "Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities". The guidance in this FSP applies to the calculation of EPS under Statement 128 for share-based payment awards with rights to dividends or dividend equivalents. Unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of EPS pursuant to the two-class method. This FSP shall be effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those years. Early application is not permitted. The Company does not anticipate that this FSP will have any material impact upon its preparation of its financial statements.

10. Reclassification

Certain reclassifications have been made to the 2007 consolidated financial statements to conform to the 2008 presentation.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

THE COMPANY HAS INCLUDED IN THIS QUARTERLY REPORT CERTAIN "FORWARD-LOOKING STATEMENTS" WITHIN THE MEANING OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995 CONCERNING THE COMPANY'S BUSINESS, OPERATIONS AND FINANCIAL CONDITION. "FORWARD-LOOKING STATEMENTS" CONSIST OF ALL NON-HISTORICAL INFORMATION, AND THE ANALYSIS OF HISTORICAL INFORMATION, INCLUDING THE REFERENCES IN THIS QUARTERLY REPORT TO FUTURE REVENUE GROWTH, FUTURE EXPENSE GROWTH, FUTURE CREDIT EXPOSURE EARNINGS BEFORE INTEREST, TAXES, DEPRECIATION AND AMORTIZATION, FUTURE PROFITABILITY, ANTICIPATED CASH RESOURCES, ANTICIPATED CAPITAL EXPENDITURES, CAPITAL REQUIREMENTS, AND THE COMPANY'S PLANS FOR FUTURE PERIODS. IN ADDITION, THE WORDS "COULD", "EXPECTS", "ANTICIPATES", "OBJECTIVE", "PLAN", "AFFECT", "MAY DEPEND", "BELIEVES", "ESTIMATES", "PROJECTS" AND SIMILAR WORDS AND PHRASES ARE ALL INTENDED TO IDENTIFY SUCH FORWARD-LOOKING STATEMENTS.

ACTUAL RESULTS COULD DIFFER MATERIALLY FROM THOSE PROJECTED IN THE COMPANY'S FORWARD-LOOKING STATEMENTS DUE TO NUMEROUS KNOWN AND UNKNOWN RISKS AND UNCERTAINTIES, INCLUDING, AMONG OTHER THINGS, UNANTICIPATED TECHNOLOGICAL DIFFICULTIES, THE VOLATILE AND COMPETITIVE ENVIRONMENT FOR COMPUTER AND CONSUMER ELECTRONIC PRODUCTS, CHANGES IN DOMESTIC AND FOREIGN ECONOMIC, MARKET AND REGULATORY CONDITIONS, THE INHERENT UNCERTAINTY OF

FINANCIAL ESTIMATES AND PROJECTIONS, THE UNCERTAINTIES INVOLVED IN CERTAIN LEGAL PROCEEDINGS, INSTABILITIES ARISING FROM TERRORIST ACTIONS AND RESPONSES THERETO, AND OTHER CONSIDERATIONS DESCRIBED AS "RISK FACTORS" IN OTHER FILINGS BY THE COMPANY WITH THE SEC INCLUDING ITS ANNUAL REPORT ON FORM 10-K. SUCH FACTORS MAY ALSO CAUSE SUBSTANTIAL VOLATILITY IN THE MARKET PRICE OF THE COMPANY'S COMMON STOCK. ALL SUCH FORWARD-LOOKING STATEMENTS ARE CURRENT ONLY AS OF THE DATE ON WHICH SUCH STATEMENTS WERE MADE. THE COMPANY DOES NOT UNDERTAKE ANY OBLIGATION TO PUBLICLY UPDATE ANY FORWARD-LOOKING STATEMENT TO REFLECT EVENTS OR CIRCUMSTANCES AFTER THE DATE ON WHICH ANY SUCH STATEMENT IS MADE OR TO REFLECT THE OCCURRENCE OF UNANTICIPATED EVENTS.

ANY REFERENCE TO "ACL", THE "COMPANY" OR THE "REGISTRANT", "WE", "OUR" OR "US" MEANS SEMICONDUCTORS INC. AND ITS SUBSIDIARIES.

Overview

Corporate Background

The Company, through its wholly-owned subsidiary Atlantic Components Limited, a Hong Kong corporation ("Atlantic"), is engaged primarily in the business of distribution of memory products under "Samsung" brandname 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, when its operations were consolidated with those of Atlantic.

As of June 30, 2008, ACL had more than 120 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.

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

Allowance for Doubtful Accounts. 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 collectibility 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.

Contractual Obligations

The following table presents the Company's contractual obligations as of June 30, 2008 over the next five years and thereafter:

	Payments by Period				
<u>Amount</u>	<u>Less Than 1 Year</u>	<u>1-3 Years</u>	<u>4-5 Years</u>	<u>After 5 Years</u>	
Operating Leases	106,758	71,307	35,451	---	-
Line of credit and notes payable □					
short-term	20,698,435	20,698,435	---	---	-
Short Term Loan	114,895	114,895	---	---	-
Long Term Loan	2,695,820	208,917	368,855	253,679	1,864,36
Total Contractual Obligations	\$23,615,908	\$21,093,554	\$404,306	\$253,679	\$1,864,36

Accounting Principles; Anticipated Effect of Growth

Below is a brief description of basic accounting principles which the Company has adopted in determining its recognition of sales and expenses, as well as a brief description of the effects that the Company believes its anticipated growth will have on the Company's sales and expenses in the next 12 months.

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 prices set by Samsung HK that the Company must charge its customers are expected to fluctuate as a result of prevailing economic conditions and their impact on the market.

Sales for the quarter ended June 30, 2008 (□2008 2nd Quarter□) increased 43% compared to the quarter ended June 30, 2007 from \$31,731,484 to \$45,245,693, principally as a result of a general increase in demand for memory products plus a reduction in the production capacity of other producers of memory products serving the South China market during the 2008 2nd Quarter. In addition, the Company and Samsung conducted a joint promotional campaign in the 2008 2nd Quarter which generated additional customers for the Company. Prices for DRAM products increased in 2008 2nd Quarter due to increased demand from major OEM DRAM customers. Prices for NAND flash market products remained stable, however demand for such products increased principally as a result of the launch by Apple of its third generation (3G) mobile phone.

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.

The gross profit margin for the Company during 2008 2nd Quarter was 3.1%, compared to 1.6% for the corresponding quarter in 2007. The Company's gross profit for 2008 2nd Quarter was \$1,394,945, as compared to \$510,334 for the quarter ended June 30, 2007, representing a 173% increase, principally as a result of an increase in net sales as well as certain price increases for specific products.

The Company expects net sales to for the remaining 6 months of 2008 to increase as a result of orders from new customers obtained during the Company's recent promotional campaign as well as anticipated strong demand for two major memory components - DRAM and NAND flash products - used in consumer electronic products e.g., digital recording devices, digital cameras, set top box and memory cards. The demand for these products is expected to increase as a result of the Olympic Games and the "back to school" season.

The Company's income before tax for the 2008 2nd Quarter was \$395,427, compared to a loss of \$134,345 for the corresponding period in 2007. This was due to the increase in demand for memory products and corresponding increase in Company net sales. For the 6 month period ended June 30, 2008, the Company recorded a loss of \$206,353, principally as a result of a decrease in value of an unrealized investment by the Company. In March 2007, the Company invested \$769,231 into a Gem Stone Fund with Hang Seng Bank. In December 31, 2007, the value of this investment had increased by \$404,780 and the Company reflected such increase in profit on its income statement. As of June 30, 2008, the Gem Stone Fund reported a profit sum of \$186,707, reduced from \$404,780, as a result of a decline in value of the Company's investment in the Gem Stone Fund. Therefore the unrealized profit \$218,073 was revised. The Company sold its holdings in the Gem Stone Fund on July 7, 2008 realizing a profit of \$176,998.

Operating expenses

The Company's operating expenses for the six months ended June 30, 2008 and 2007 were comprised of sales and marketing and general and administrative expenses only.

Sales and marketing expenses consisted primarily of and external commissions paid to external sales personnel and 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, which the Company intends to reduce.

Results of Operations

The following table sets forth unaudited statements of operations data for the three months ended June 30, 2008 and 2007 and should be read in conjunction with the **Management's Discussion and Analysis of Financial Condition and Results of Operations** and the Company's financial statements and the related notes appearing elsewhere in this document.

	Three Months Ended <u>June 30, 2008</u>	Three Months Ended <u>June 30, 2007</u>	Six Months Ended <u>June 30, 2008</u>	Six Months Ended <u>June 30, 2007</u>
			(Unaudited)	
Net Sales	100%	100%	100%	100%
Cost of sales	96.92%	98.39%	98.05%	97.81%
Gross Profit	3.08%	1.61%	1.95%	2.19%
Operating expenses:				
Selling	0.04%	0.05%	0.04%	0.05%
General and administrative	1.66%	1.95%	1.55%	1.91%
Total operating expenses	1.70%	2.00%	1.59%	1.96%
Income (loss) from operations	1.38%	-0.39%	0.36%	0.23%
Other expenses:				
Interest expenses	-0.61%	-0.77%	-0.51%	-0.74%
Miscellaneous	0.10%	0.73%	-0.06%	0.43%
Income (loss) before income taxes	0.87%	-0.43%	-0.21%	-0.08%
Income taxes expenses (benefits)	0.00%	0.13%	0.00%	0.09%
Net income (loss)	0.87%	-0.56%	-0.21%	-0.17%

Unaudited Three Months Ended June 30, 2008 Compared to the Three Months Ended June 30, 2007*Net sales*

Sales increased by \$13,514,209 or 42.6% from \$31,731,484 in the three months ended June 30, 2007 to \$45,245,693 in the three months ended June 30, 2008. The increase was mainly due to many memory makers having reduced their production capacities during the 2008 2nd Quarter, resulting in a higher turnover when compared to the three months ended June 30, 2007.

Cost of sales

Cost of sales increased by \$12,629,598, or 40.5%, from \$31,221,150 for the three months ended June 30, 2007 to \$43,850,748 for the three months ended June 30, 2008. The increase in cost of sales was principally attributable to the increase in net sales stated above.

Gross profit

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Gross profit increased by \$884,611 or 173.3%, from \$510,334 for the three months ended June 30, 2007 to \$1,394,945 for the three months ended June 30, 2008. The increase in gross profits resulted primarily from the increase in gross profit margin to 3.1% of sales in the three months ended June 30, 2008 compared to 1.6% of

sales in the three months ended June 30, 2007, as a result of successful promotion campaign with Samsung together with price increases for certain memory products prices that occurred during the 2008 2nd Quarter.

Operating expenses

Sales and marketing expenses increased by \$2,947 or 18.2%, from \$16,212 for the three months ended June 30, 2007 to \$19,159 for the three months ended June 30, 2008. This increase was principally attributable to the increased sales commission expenses incurred for the second quarter of 2008.

General and administrative expenses increased \$132,309 or 21.4% from \$618,108 in the three months ended June 30, 2007 to \$750,417 in the three months ended June 30, 2008. This increase was principally attributable to an increase in remuneration paid to the Company's executive officers.

Income from operations for the Company was \$395,427 for the three months ended June 30, 2008 compared to loss of \$134,345 for the three months ended June 30, 2007, representing an increase in income by \$529,772. This increase was the result of the increase in gross profit during the second quarter of 2007.

Other income (expenses)

Interest expense increased by \$33,547 or 13.8%, from \$242,930 in the three months ended June 30, 2007, to \$276,477 in the three months ended June 30, 2008. This increase was mainly due to an increase in the Company's need to open and draw down on letters of credits to obtain goods from its suppliers. We expect our interest expense will increase significantly in 2008 because of an increase in bank lines of credit and loan facilities.

Unrealized profits decreased by \$168,894 from profits \$154,704 in the three months ended June 30, 2007, to loss \$14,190 in the three months ended June 30, 2008. This decrease was mainly attributable to the decrease in the market value of certain securities pledged by the Company in favor of Hang Seng Bank Limited.

The Company's net income increased by \$569,825 from a net loss \$174,398 for the three months ended June 30, 2007 to net income of \$395,427 for the three months ended June 30, 2008, primarily due to the increase in gross profit during the second quarter of 2008.

Income tax

Income tax decreased by \$40,053 or 100% from \$40,053 for the three months ended June 30, 2007 to \$0 for the three months ended June 30, 2008, primarily due to the net loss incurred by the Company for the six months ended June 30, 2008.

Liquidity and capital resources

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

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. In certain limited instances, customers of Atlantic are permitted up to thirty (30) days to make payment for purchased memory products. As the anticipated cash generated by the Company's operations are insufficient to fund our growth requirements, we will need to obtain additional funds. There can be no assurance that the Company's will be able to obtain the necessary additional capital on a timely basis or on acceptable terms, if at all. The

Company's business growth and prospects would be materially and adversely affected. If it is an equity financing, the holders of our common stock may experience substantial dilution. In addition, if our results are negatively impacted and delayed as a result of political and economic factors beyond management's control, our capital requirements may increase.

The following factors, among others, could cause actual results to differ from those indicated in the above forward-looking statements: pricing pressures in the industry; a continued downturn in the economy in general or in the memory products sector; an unexpected decrease in demand for Samsung's memory products; our ability to attract new customers; an increase in competition in the memory products market; and the ability of some of our customers to obtain financing. These factors or additional risks and uncertainties not known to us or that we currently deems immaterial may impair business operations and may cause our actual results to differ materially from any forward-looking statement.

Although we believe our expectations of future growth are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. We are under no duty to update its expectation after the date of this report to conform them to actual results or to reflect changes in expectations.

In the six months ended June 30, 2008, net cash used for operating activities was \$5,102,076 while in the six months ended June 30, 2007, ACL net cash provided by operating activities was \$1,401,834, an increase of \$6,503,910. This increase was primarily due to an increase of inventories and accounts receivable as of June 30, 2008.

In the six months ended June 30, 2008, net cash used for investing activities was \$580,452 while in the six months ended June 30, 2007, ACL used \$6,236,323 for investing activities, a decrease in cash used of \$5,655,871. This decrease was primarily due to the purchase of a real estate property by the Company in 2007 but no such activity incur during the half year ended June 30, 2008.

In the six months ended June 30, 2008, net cash provided by financing activities was \$5,014,326 while in the six months ended June 30, 2007, net cash provided by financing activities was \$4,229,291 an increase of \$785,035. This increase was due to an increase in the Company's borrowings under bank lines of credit and long-term loans.

An essential element of the Company's growth in the future will be to obtain adequate additional working capital to meet anticipated market demand in the southern part of China.

ITEM 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

ACL is exposed to market risk for changes in interest rates as its bank borrowings accrue interest at floating rates of 0.25% to 0.5% over the Best Lending Rate (currently at the range of 5.25 to 5.75% per annum) prevailing in Hong Kong. For the six months ended June 30, 2008 and the six months ended June 30, 2007, Atlantic did not generate any material interest income (expense). Accordingly, ACL believes that changes in interest rates will not have a material effect on its liquidity, financial condition or results of operations.

Impact of Inflation

ACL believes that its results of operations are not significantly impacted by moderate changes in inflation rates as it expects it will be able to pass these costs by component price increases to its customers.

Seasonality

ACL has not experienced any material seasonality in sales fluctuations over the past 2 years in the memory products markets.

ITEM 4T. CONTROLS AND PROCEDURES

The Company has established disclosure controls and procedures to ensure that material information relating to the Company, including Atlantic, is made known to the officers who certify the Company's financial reports and to other members of senior management and the Board of Directors.

(a) Based on their evaluation as of a date within 90 days of the filing date of this Quarterly Report on Form 10-Q, our chief executive officer and chief financial officer have concluded that our disclosure controls and procedures (as defined in Rules 13a-14(c) and 15d-14(c) under the Securities Exchange Act of 1934 (the "Exchange Act")) are effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms.

(b) There have been no significant changes in the Company's internal control over financial reporting during the quarter ended June 30, 2008, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. Although there were no significant deficiencies or material weaknesses, there were some areas where room for improvement was noted and management has committed to improving in these areas.

PART II

ITEM 6. EXHIBITS AND REPORTS ON FORM 10-Q

(a) 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.

(b) Reports on Form 8-K.

No Reports on Form 8-K were filed during the three months ended June 30, 2008.

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the Registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ACL SEMICONDUCTORS INC.

Date: August 14, 2008

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

Date: August 14, 2008

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