ACL SEMICONDUCTOR INC
Form 10-K/A
September 07, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K/A

(Amendment No. 4)

(Mark One)

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended **December 31, 2007**

or

o **TRANSITION REPORT PURSUANT TO 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.

(Exact name of Registrant as specified in its charter)

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

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

(Address of principal executive offices) (Zip Code)
Registrant s telephone number including area code : **011-852-3666-9939**

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
NONE	**N/A**

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, $0.001 par value

(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

o Yes þ No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act.

o Yes þ No

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.

þ Yes o No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files.)

o Yes oNo

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K, or any amendment to this Form 10-K.

o

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-5 of the Act).

o Yes þ No

The aggregate market value of the voting common equity held by non-affiliates of the registrant as of June 29, 2007 was approximately $713,992 based upon the closing price of $0.12 of the registrant s common stock on the OTC Bulletin Board. (For purposes of determining this amount, only directors, executive officers, and 10% or greater stockholders have been deemed affiliates).

The number of shares of Registrant s Common Stock outstanding as of April 11, 2008 was 28,329,936.

DOCUMENTS INCORPORATED BY REFERENCE

NONE

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EXPLANATORY NOTE

This Amendment No. 4 to ACL Semiconductors, Inc. s (the Company) Annual Report on Form 10-K/A for the year ended December 31, 2007 is being made principally as a result of the Company s recent determination on March 23, 2010 that Aristo Technologies Limited (Aristo), a related company solely owned by Mr. Chung-Lun Yang, is a variable interest entity under FASB ASC 810-10-25 and is subject to consolidation with the Company. Additional analysis on ASC 810 was included to clarify the reason of Aristo to be classified as a VIE of the Company.

This Form 10-K/A amends and restates Item 1 of Part I, Item 1A of Part I, Item 7 of Part II, Item 9AT of Part II, Item 10 of Part II, Item 11 of Part II, Item 13 of Part III, Report of Independent Registered Public Accounting Firm, Consolidated Financial Statements and the Notes to Consolidated Financial Statements of Part IV. This amendment also adds a restatement footnote as Note 16 of the Notes to Consolidated Financial Statements of Part IV. No other information included in the original Form 10-K is amended hereby. Schedules II and III of our audited financial statements were removed pursuant with Regulation S-X Article 12.For convenience and ease of reference, the Company is filing the Annual Report in its entirety with applicable changes. Unless otherwise stated, all information contained in this amendment is as of April 16, 2008, the filing date of the original Annual Report. Except as stated herein, this Form 10-K/A does not reflect events or transactions occurring after such filing date or modify or update those disclosures in the Annual Report that may have been affected by events or transactions occurring subsequent to such filing date. No information in the Annual 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.

FORWARD LOOKING STATEMENTS

This Annual Report on Form 10-K and the documents incorporated herein contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. When used in this Annual Report, statements that are not statements of current or historical fact may be deemed to be forward-looking statements. Without limiting the foregoing, the words plan , intend , may, will, expect, believe , could, anticipate, estimate, or continue or similar expressions or other variations or comparable terminology are intended to identify such forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. Except as required by law, the Company undertakes no obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise.

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

PART I

Item 1. Business
General

ACL Semiconductors Inc. (the Company) was incorporated under the laws of the State of Delaware on September 17, 2002. Our predecessor, Print Data Corp. (Historic Print Data) was incorporated under the laws of the State of Delaware on August 15, 1984 as a business forms distributor and supplier of office and computer environment supply needs.

On September 8, 2003, the Company entered into a Share Exchange and Reorganization Agreement (the Exchange Agreement) with Atlantic Components Limited, a Hong Kong corporation (Atlantic), and Mr. Chung-Lun Yang, the sole beneficial stockholder of Atlantic (Mr. Yang), which set forth the terms and conditions of the exchange by Mr. Yang of his common shares of Atlantic, representing all of the issued and outstanding capital stock of Atlantic, in exchange for the issuance by the Company to Mr. Yang and certain financial advisors of an aggregate of twenty five million (25,000,000) shares of common stock, par value $0.001 per share (the Common Stock), of the Company (the Transaction). Pursuant to the Exchange Agreement, the Company and Atlantic agreed, inter alia, to elect Mr. Yang and Mr. Ben Wong to the board of directors (Board of Directors) of the Company upon the closing of the Transaction (the Closing), effective as of that date (the Closing Date), at which time, all of the Company s existing directors resigned.

The Closing occurred on September 30, 2003, upon the satisfaction or waiver of the conditions to the Closing set forth in the Exchange Agreement, as a result of which (i) Atlantic became a wholly-owned subsidiary of the Company, (ii) Mr. Yang received an aggregate of 22,380,000 shares of Common Stock, (iii) the Company s existing directors resigned and Mr. Yang and Mr. Wong were appointed to fill their vacancies and became the only members of the Board of Directors, and (iv) certain financial advisors to Atlantic became entitled to receive an aggregate of 2,620,000 shares of Common Stock. Giving effect to the Closing (including required issuances to financial advisors), Mr. Yang held approximately 80.4% of the outstanding Common Stock immediately following the Closing.

On December 16, 2003, the Company filed a Certificate of Amendment with the Secretary of State of the State of Delaware changing its name from Print Data Corp. to ACL Semiconductors Inc.

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

Business

Atlantic is one of the authorized distributors in the Hong Kong and southern region of the People s Republic of China (Southern China) markets of memory products of Samsung Electronics Hong Kong Co., Ltd. (Samsung), a wholly-owned subsidiary of Samsung Electronics Co., Ltd., the world s largest producer of memory chips and a global producer of memory products, pursuant to a distributorship agreement with Samsung (the Distribution Agreement) since 1993. Atlantic was established as a Hong Kong corporation in May 1991 by Mr. Yang as a regional distributor of memory products of various manufacturers. In 1993, Samsung appointed Atlantic as its authorized distributor and marketer of Samsung s memory products in Hong Kong and overseas markets. In 2001, Atlantic established a representative office in Shenzhen, China and began concentrating its distribution and marketing efforts in Southern China.

Since 1993, Atlantic has diversified its product portfolio to include all of Samsung s memory products marketed under the Samsung brand name which comprise Dynamic Random Access Memory (DRAM), Double Data Rate RAM (DDR), Graphic Random Access Memory

(Graphic RAM), NAND Flash, NOR Flash, and Multi-Chip Packing (MCP). Atlantic believes it is one of the largest and most successful distributors of Samsung memory products in Hong Kong and Southern China.

Aristo is engaged in the marketing, selling and servicing of computer products and accessories including semiconductors, LCD products, mass storage devices, consumer electronics, computer peripherals and electronic components. In addition to Samsung-branded products, Aristo sells Hynix, Micron, Elpida, Qimonda, Lexar, Dane-Elec, Elixir, SanDisk and Winbond branded products.

The Company s business objective is to build the best memory solutions platform for electronics manufacturers in the region. It also aims to offer updated market intelligence to Samsung in connection with the Hong Kong and Southern China markets demand in memory products and secure high-quality Samsung products in order to meet the market demands of individual and corporate users in Hong Kong and Southern China. The Company works closely with Samsung and presents Samsung with updated market information that its collects from retail channels and corporate users to assist Samsung to plan their production and allocation schedule in advance. The Company s business strategy is to assist Samsung in implementing their production planning using market intelligence to balance the supply and demand of memory products in the Hong Kong and Southern China markets. Accordingly, the Company maintains and develops a sales and market research team to answer marketing questions from Samsung on a regular basis. In addition, the Company has established distribution channels covering retail outlets and major corporate users in the region which allows those retail or ultimate customers a secure stable supply of Samsung s memory products with competitive prices. The Company is a non-exclusive distributor of Samsung, and enjoys a minimum guaranteed gross profit margin range of approximately 1.5% to 2% of products sold in form of sales rebate payable by Samsung.

Approximately 80% of the Company s revenues are derived from sales of Samsung memory products. As of December 31, 2007, pricing for the Samsung memory products ranged from approximately $0.17 to $750 per product depending on the product specifications.

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.

Products

Synchronous Dynamic Random Access Memory (SDRAMs), or mobile SDRAM, are the most widely used semiconductor memory component in computer peripheral (HDD), Digital Still Camera (DSC), Modems, ADSL Applications, DVD player, Set-top Box (STB), Digital TV, High Definition TV (HDTV) and Portable Multimedia Players (PMP).

DDRs (DDR1, DDR2 and DDR3) are random access memory components that transfer data on both 0-1 and 1-0 clock transitions, theoretically yielding twice the data transfer rate of normal RAM or SDRAM. Currently, the market has been dominated by DDR2 and DDR3, which are also starting to penetrate into the mainstream markets in PCs and graphic cards. The DDR1 is nearly fading out in the market.

Flash memory is a specialized type of memory component used to store user data and program code; it retains this information even when the power is off. Although Flash memory is currently used predominantly in mobile phones and PDAs, it is commonly used in multi-media digital storage applications for products such as MP3 players, DSC, Digital Voice Recorders, USB Disks, Flash Cards, etc. In addition, Solid State Disk hard disks (SSD) will be the next arena that NAND Flash is expected by the Company to penetrate in the marketplace. The SSD hard disk has the potential to dominate the traditional hard disk for notebook markets. Samsung is a major supplier in the world of Flash products. In 2007, Samsung NAND Flash revenue was approximately US$6,580 million, representing 35% of Flash s (NAND + NOR) market share.

Graphic RAM is a special purpose DDR (GDDR1, GDDR2, GDDR3, GDDR4) as graphic products require high-speed 3-dimensional calculation performance and large memory size as data storage buffer for DVD and computer game display. The current GDDR4 currently is the fastest graphic memory in volume production.

The LCD panel is the major component used in most consumer electronics such as LCD TV, notebook, digital phone frame, portable game console, mobile phone, etc.

Mass storage devices such as micro SD card, SD card, and CF card are widely used for digital camera, mobile phone, portable game console, MP3 player, etc.

Industry Background

Memory products are integral parts of a wide variety of consumer products and industry applications including personal computer systems, notebooks, workstations and servers, handheld computer devices, cellular phones, camcorders, MP3 music players, digital answering machines and game boxes, DVD player, STB, HDTV and PMP, among others. Market trends, such as increased emphasis on high-through put applications, including networking, graphics, multimedia, computer, consumer, and telecommunications products, have created opportunities for high performance memory products. At present, NAND Flash, DDR2 and SDRAM are the major memory products and will continue to be sold in the future for Consumer Electronics, PC field and Home Appliance products, and Samsung is among the world s largest developers and manufacturers of those memory products.

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Customers

As of December 31, 2007, the Company had over 120 active customers in Hong Kong and Southern China, the majority of whom are memory product traders and PC/Servers OEM manufacturers. Other than the Company s most significant customer who accounted for 32% of the Company s net sales for the year ended December 31, 2007, no other customer accounted for more than 25% of the Company s net sales for 2007 and 2006, respectively. In order to control the Company s credit risks, the Company does not offer any credit terms to its customers other than a small number of clients who have long-established business relationships with the Company.

Sales and Marketing

As of December 31, 2007, the Company employed a total of 15 sales and marketing personnel, each of whom has several years experience in the memory products industry. 8 of these salespeople are stationed in the Company s headquarters in Hong Kong, and 7 of them work out of the Company s China offices. These sales personnel co-operate with key memory product retailers and PC/Servers OEM manufacturers to ensure that clients are supplied promptly with Samsung memory products.

Market Research

The Company invests significant resources in market research for its own account to provide prompt and accurate market intelligence and feedback on a daily, weekly and monthly basis to Samsung in order to assist Samsung s production planning and products allocation functions and thus maintains a close business relationship with Samsung.

Suppliers

As of December 31, 2007, a majority of the distributed products are Samsung memory products. Since 1993, our procurement operations have been supported by Samsung to ensure there are enough supplies of memory products according to our monthly sales quota although there is no written long-term distribution agreement in place with Samsung. Samsung is allocated quantities of its memory products each year based on anticipated demand for such products by the customers of the various distributors of Samsung memory products in Hong Kong and in the PRC. The distributors that are supported by Samsung provide Samsung with their own annual estimates of product demand. In case of unexpected strong demand in the market exceeding our monthly sales quota, there is no assurance that Samsung will be able to supply sufficient memory products to us and other non-exclusive distributors to meet such demand in excess of Samsung s global allocation policy to Samsung. In the event of a supply shortage, the market prices of such memory products will rise and any loss of income attributable to our inability to fulfill all of our orders would be offset by the increase in income as a result of any increase in the market prices of such memory products.

Atlantic relies on Samsung to supply it with memory products for distribution to its clients. Atlantic s relationship with Samsung is primarily maintained through Mr. Yang, the founder of the Company.

In addition to Samsung-branded products, Aristo sells brands such as Hynix, Micro, Elpida, Qimonda, Lexar, Dane-Elec, Elixir, SanDisk and Winbond. Aristo is not an authorized distributor of any of these brands but instead is a trader of a broad range of products and brands in the computer accessories market.

Competition

The memory products industry in the Hong Kong and Southern China markets is very competitive. However, as one of the world s largest memory products manufacturers, Samsung s memory products are competitively priced and have an established reputation for product quality and brand name recognition in the retail and PC/Server OEM & Consumer Electronic segments. The Company, as one of the largest distributors of Samsung s memory products for the Hong Kong and Southern China markets, believes it is in a strong competitive position against other US, European, Japanese and Taiwanese memory products manufacturers and distributors.

Samsung s principal competitors in the Hong Kong and Southern China markets include Hynix and other Taiwanese manufacturers such as Nanya, PSC, Promos, ISSI and ESMT. The Company s principal competitors also include the five other non-exclusive distributors of Samsung memory products in the Hong Kong and Southern China markets. Samsung may, in its sole discretion, increase the number of distributors of its products in Hong Kong and Southern China which would result in increased competition for the Company.

Regulation

As of December 31, 2007, the Company s business operations were not subject to the regulations of any jurisdiction other than the People s Republic of China. Although the Company is not formally authorized to do business in the People s Republic of China, it has been permitted by the Chinese authorities to establish a representative office in Shenzhen, China to carry out liaison works for its customers in Southern China. The Company executes its sales contracts and delivers its products in Hong Kong for its Chinese customers and there have been no restrictions

imposed on the Company by the mainland Chinese authorities with respect to the Company s pursuit of business growth and opportunities in China.

Employees

As of December 31, 2007, the Company had 45 employees. Of the 45 employees, 17 employees are in sales and marketing, 13 employees are in administration, 8 employees are in engineering, and 7 employees are in customer service and liaison. None of the Company employees are represented by labor unions.

The Company s primary hiring sources for its employees include referrals from existing employees, print and Internet advertising and direct recruiting. All of the Company s employees are highly skilled and educated and subject to rigorous recruiting standards appropriate for a company involved in the distribution of brand name memory products. The Company attracts talent from numerous sources, including higher learning institutions, colleges and industry. Competition for these employees is intense. The Company believes its relationship with its employees to be good. However, the Company s ability to achieve its financial and operational objectives depends in large part upon its continuing ability to attract, integrate, retain and motivate highly qualified personnel, and upon the continued service of its senior management and key personnel, especially Mr. Yang.

Item 1A. Risk Factors

We are subject to a number of risks. Some of these risks are endemic to the high-technology and semiconductor industry and are the same or similar to those disclosed in our previous SEC filings. This section should be read in conjunction with the consolidated financial statements and the accompanying notes thereto, and Management s Discussion and Analysis of Financial Condition and Results of Operations included in this Annual Report. The risks and uncertainties set out below are not the only risks and uncertainties we face. Our business could be harmed by any of these risks. The trading price of our common stock could decline due to any of these risks and investors may lose all or part of their investment. The information included in this Annual Report is provided as of the filing date with the SEC and future events or circumstances could differ significantly from the forward-looking statements included herein.

The restatement of our financial statements may result in litigation or government enforcement actions. Any such action would likely harm our business, prospects, financial condition and results of operations.

Our management recently concluded that Aristo Technologies Limited (Aristo), a related party, is a variable interest entity under FASB ASC 810-10- 25. Consequently, we are consolidating the financial statements of Aristo with those of the Company for the period effective and are restating our previously filed annual and interim financial statements in this amended Form 10-K for the year ended 2007 to correct the errors related to accounting for variable interest entities. The financial statements as originally filed for those periods should not be relied upon. The restatement of our financial statements may expose us to risks associated with litigation, regulatory proceedings and government enforcement actions. In addition, securities class action litigation has often been brought against companies who have been unable to provide current public information or who have restated previously filed financial statements. Any of these actions could result in substantial costs, divert management s attention and resources, and harm our business, prospects, financial condition and results of operations.

Failure to maintain effective internal control over financial reporting in accordance with Section 404 of the Sarbanes Oxley Act of 2002 may result in actions filed against us by regulatory agencies or in a reduction in the price of our common stock.

We are required to maintain effective internal control over financial reporting under the Sarbanes Oxley Act of 2002 and related regulations. Any material weakness in our internal control over financial reporting that needs to be addressed, or disclosure of a material weakness in management s assessment of internal control over financial reporting, may reduce the price of our common shares because investors may lose confidence in our financial reporting. Our failure to maintain effective internal control over financial reporting could also lead to actions being filed against us by regulatory agencies. We identified material weaknesses in internal control over financial reporting as more fully discussed in Controls and Procedures at Item 9AT of this Annual Report. Currently, we have plans for certain remediation actions, but they will take time to implement because of their cost. There can be no assurance when remediation will be complete, if at all. Therefore, future reports may have statements indicating that our controls and procedures are not effective. We cannot assure you that even if we remediate our internal control over financial reporting relating to the identified material weaknesses that it will establish the effectiveness of our internal control over financial reporting or that we will not be subject to material weaknesses in the future.

If our relationship with Samsung is terminated, we may not be able to continue operations.

We rely ultimately on Samsung to provide us with memory products for distribution to our clients though with the consent of Samsung, we can purchase the required memory products from other Samsung distributors. Our relationship with Samsung is primarily maintained through our Chairman Mr. Chung-Lun Yang, who has verbally agreed to remain with us. If our relationship with Samsung is terminated or if Mr. Yang terminates his employment with us, we may be unable to replace or retain Samsung on favorable terms.

Although we are not an exclusive distributor of Samsung s memory products, we believe we are the largest Samsung memory products distributor for the Hong Kong and Southern China markets. Although the Distribution Agreement is subject to annual renewal at Samsung s option, we do not foresee, based upon the long-term business relationship with Samsung established by Mr. Yang and our sales history with respect to the distribution of Samsung s memory products, any significant obstacles to obtaining renewals of the Distribution Agreement in the foreseeable future. However, no assurances can be given that Samsung will definitely renew the Distribution Agreement or, if renewed, on terms satisfactory to us.

In addition, Samsung has the right to increase the number of distributors of its memory products in Hong Kong and the Southern China markets without consulting us. If Samsung significantly increases the number of authorized distributors of its memory products, competition among Samsung distributors, would increase and we may not be able to meet our annual sales quota, which could increase the likelihood that Samsung would not renew the Distribution Agreement, or if renewed, that we could operate profitably.

If the growth rate of either memory products sold or the amount of memory used in each product decreases, sales of our products could decrease.

We are dependent on the computer and consumer electronics market as many of the memory products that we distribute are used in PCs or peripheral products. DRAMs are the most widely used semiconductor components in PCs and Flash products are mostly used in the consumer electronics products. In recent years, the growth rate of PCs sold has slowed or declined. If there is a continued reduction in the growth rate of either PCs sold or the average amount of semiconductor memory included in each PC, sales of our memory products built for those markets could decrease, and our results of operations, cash flows and financial condition could be adversely affected. However, the continued growth of consumer electronics markets over the past several years has favorably affected our operations, cash flow and financial condition.

If Samsung is unable to respond to customer demand for diversified semiconductor memory products or is unable to do so in a cost-effective manner, we may lose market share and our results of operations may be adversely affected.

In recent periods, the semiconductor memory market has become relatively segmented, with diverse memory needs being driven by the different requirements of desktop and notebook PCs, servers, workstations, handheld devices, and communications, industrial and other applications that demand specific memory solutions. Samsung currently offers customers a variety of memory products including DDR, Graphic RAM and Flash.

Samsung needs to dedicate significant resources to product design and development to respond to customer demand for the continued diversification of memory products. If Samsung is unable or unwilling to invest sufficient resources to meet the diverse memory needs of customers, we, as a Samsung memory products major distributor may lose market share. In addition, as we diversify our product lines, we may encounter difficulties penetrating certain markets, particularly markets where we do not have existing customers. If we are unable to respond to customer demand for market diversification in a cost-effective manner, our results of operations may be adversely affected.

If Samsung s global allocation process results in Samsung not having sufficient supplies of memory products to meet all of our customer orders, this would have a negative impact on our sales and could result in our loss of customers. However, such shortages are infrequent. On the other hand, no assurance can be given that such shortages will not occur in the future.

If Samsung s manufacturing process is disrupted, our results of operations, cash flows and financial condition could be adversely affected.

Samsung manufactures products using highly complex processes that require technologically advanced equipment and continuous modification to improve yields and performance. Difficulties in the manufacturing process can reduce yields or disrupt production. From time to time, we have experienced minor disruptions in product deliveries from Samsung and we may be unable to meet our customers requirements and they may purchase products from other suppliers. This could result in loss of revenues or affect our customer relationships.

We are heavily dependent upon the electronics industry, and excess capacity or decreased demand for products produced by this industry could result in increased price competition as well as a decrease in our gross margins and unit volume sales.

Our business is heavily dependent on the electronics industry. A majority of our revenues are generated from the networking, high-end computing and computer peripherals segments of the electronics industry, which is characterized by intense competition, relatively short product life-cycles and significant fluctuations in product demand. Furthermore, these segments are subject to economic cycles, which have occurred in the past and are likely to occur in the future. A recession or any other event leading to excess capacity or a downturn in these segments of the electronics industry could result in intensified price competition, a decrease in our gross margins and unit volume sales and materially affect our business, prospects, financial condition and results of operations.

The memory product industry is highly competitive.

We face intense competition from a number of companies, some of which are large corporations or conglomerates that may have greater resources to withstand downturns in the semiconductor memory market, invest in technology and capitalize on growth opportunities. To the extent Samsung memory products become less competitive, our ability to effectively compete against distributors of other memory products will diminish.

Current economic and political conditions may harm our business.

Global economic conditions and the effects of military or terrorist actions may cause significant disruptions to worldwide commerce. If these disruptions result in delays or cancellations of customer orders, a decrease in corporate spending on information technology or our inability to effectively market, manufacture or ship our products, our results of operations, cash flows and financial condition could be adversely affected. In addition, our ability to raise capital for working capital purposes and ongoing operations is dependent upon ready access to capital markets. During times of adverse global economic and political conditions, accessibility to capital markets could decrease. If we are unable to access the capital markets over an extended period of time, we may be unable to fund operations, which could materially adversely affect our results of operations, cash flows and financial condition.

We believe that we will require additional equity financing to reduce our long-term debts and implement our business plan.

We anticipate that we will require additional equity financing in order to reduce our long-term debts and implement our business plan of increasing sales in the Southern China markets. There can be no assurance that we will be able to obtain the necessary additional capital on a timely basis or on terms acceptable to us. If we obtain such financing, the holders of our Common Stock may experience substantial dilution.

Our major stockholder controls our business, and could delay, deter or prevent a change of control or other business combination.

One shareholder, Mr. Yang, our Chief Executive Officer and Chairman of the Board of Directors, holds approximately 78.9% of our outstanding Common Stock. By virtue of his stock ownership, Mr. Yang will control all matters submitted to our board and our stockholders, including the election of directors, and will be able to exercise control over our business, policies and affairs. Since he has substantial voting power, he could cause us to take actions that we would not otherwise consider, or could delay, deter or prevent a change of control or other business combination that might otherwise be beneficial to our stockholders.

Our stock price has been volatile and may fluctuate in the future.

There has been significant volatility in the market prices for publicly traded shares of computer related companies, including ours. From September 30, 2003, the effective date of the reverse-acquisition of Atlantic, to March 31, 2008, the closing price of our Common Stock fluctuated from a per share high of $2.95 to a low of $0.06 per share. The per share price of our Common Stock may not remain at or exceed current levels. The market price for our Common Stock, and for the stock of electronic companies generally, has been highly volatile. The market price of our Common Stock may be affected by: (1) incidental level of demand and supply of the stock; (2) daily trading volume of the stock; (3) number of public stockholders in our stock; (4) fundamental results announced by ACL; and (5) any other unpredictable and uncontrollable factors.

If additional authorized shares of our Common Stock available for issuance or shares eligible for future sale were introduced into the market, it could hurt our stock price.

We are authorized to issue 50,000,000 shares of Common Stock. As of December 31, 2007, there were 28,329,936 shares of our Common Stock issued and outstanding.

Currently, outstanding shares of Common Stock are eligible for resale. We are unable to estimate the amount, timing or nature of future sales of outstanding Common Stock. Sales of substantial amounts of the Common Stock in the public market by these holders or perceptions that such sales may take place may lower the Common Stock s market price.

If penny stock regulations impose restrictions on the marketability of our Common Stock, the ability of our stockholders to sell shares of our stock could be impaired.

The SEC has adopted regulations that generally define a penny stock to be an equity security that has a market price of less than $5.00 per share or an exercise price of less than $5.00 per share subject to certain exceptions. Exceptions include equity securities issued by an issuer that has (i) net tangible assets of at least $2,000,000, if such issuer has been in continuous operation for more than three years, or (ii) net tangible assets of at least $5,000,000, if such issuer has been in continuous operation for less than three years, or (iii) average revenue of at least $6,000,000 for the preceding three years. Unless an exception is available, the regulations require that prior to any transaction involving a penny

stock, a risk of disclosure schedule must be delivered to the buyer explaining the penny stock market and its risks. Our Common Stock is currently trading at under $5.00 per share. Although we currently fall under one of the exceptions, if at a later time we fail to meet one of the exceptions, our Common Stock will be considered a penny stock. As such the market liquidity for the Common Stock will be limited to the ability of broker-dealers to sell it in compliance with the above-mentioned disclosure requirements.

You should be aware that, according to the SEC, the market for penny stocks has suffered in recent years from patterns of fraud and abuse. Such patterns include:

- Control of the market for the security by one or a few broker-dealers;
- Boiler room practices involving high-pressure sales tactics;
- Manipulation of prices through prearranged matching of purchases and sales;
- The release of misleading information;
- Excessive and undisclosed bid-ask differentials and markups by selling broker-dealers; and
- Dumping of securities by broker-dealers after prices have been manipulated to a desired level, which hurts the price of the stock and causes investors to suffer loss.

We are aware of the abuses that have occurred in the penny stock market. Although we do not expect to be in a position to dictate the behavior of the market or of broker-dealers who participate in the market, we will strive within the confines of practical limitations to prevent such abuses with respect to our Common Stock.

Section 203 of the Delaware General Corporation Law may deter a third party from acquiring us.

Section 203 of the Delaware General Corporation Law prohibits a merger with a 15% shareholder within three years of the date such shareholder acquired 15%, unless the merger meets one of several exceptions. The exceptions include, for example, approval by two-thirds of the shareholders (not counting the 15% shareholder), or approval by the Board prior to the 15% shareholder acquiring its 15% ownership. This provision makes it difficult for a potential acquirer to force a merger with or takeover of the Company, and could thus limit the price that certain investors might be willing to pay in the future for shares of our Common Stock.

Item 1B. Unresolved Staff Comments

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 2. Properties

Our principal offices occupy approximately 4,989 square feet and are located at B24-B27, 1/F., Block B, Proficient Industrial Centre, 6 Wang Kwun Road, Kowloon Bay, Kowloon, Hong Kong, which was acquired from Classic, a related party, on July 21, 2006 (see Item 13 Certain Relationships and Related Transactions). Mr. Ben Wong, one of our directors, is also a director of Classic.

We lease a warehouse unit of approximately 1,846 square feet that is located at B14-15, 1/F., Block B, Proficient Industrial Centre, 6 Wang Kwun Road, Kowloon Bay, Kowloon, Hong Kong. The lease is for two years, from May 23, 2007 to May 22, 2009, from Lin Chin Hsiung with monthly lease payments of HK$16,800 (approximately US$2,154).

We lease a warehouse unit of approximately 873 square feet that is located at B9, 1/F., Block B, Proficient Industrial Centre, 6 Wang Kwun Road, Kowloon Bay, Kowloon, Hong Kong. The lease is for two years from Systematic Information Limited expiring on August 31, 2008, with monthly rental payments of HK$5,000 (approximately US$641). Mr. Ben Wong, one of our directors, is also a director of Systematic Information Limited.

We lease a warehouse unit of approximately 968 square feet that is located at B10, 1/F., Block B, Proficient Industrial Centre, 6 Wang Kwun Road, Kowloon Bay, Kowloon, Hong Kong. The lease was for two years with Solution Semiconductor (China) Ltd. and expired on March 31, 2009, with monthly rentals of HK$8,500 (approximately US$1,090). The lease continues on a month-to-month basis and the Company expects to renew it. Mr. Ben Wong, one of our directors, is also a 99% shareholder of Solution Semiconductor (China) Ltd.

We lease a warehouse unit of approximately 3,000 square feet located at 6/F, Kevin Wong Development Building, 11 Tai Yip Street, Kwun Tong, Kowloon, Hong Kong. The lease was for two years with Kevin Wong Holding Limited and expired on January 24, 2009, with monthly rental payments of HK$12,800 (approximately US$1,641).

We lease an office unit of approximately 2,682.9 square feet that is located at Room 2208, 22/F., Building A, United Plaza, No.5022 Binhe Road, Futian Centre, Shenzhen, China. The lease is from August 24, 2007 to August 23, 2010 with monthly lease payments of RMB20,122 (approximately US$2,719).

We own an investment property of approximately 3,000 square feet located at No. 76, 5th Street, Hong Lok Yuen, Tai Po, New Territories, Hong Kong, which is leased to Macdermid Hong Kong Limited from August 1, 2007 to August 31, 2009 with monthly lease income of HK$58,000 (approximately US$7,436).

We own a property of approximately 3,000 square feet that is used for Mr. Yang s personal residence and is located at No. 78, 5th Street, Hong Lok Yuen, Tai Po, New Territories, Hong Kong.

In the event that the above facilities become unavailable, we believe that alternative facilities could be obtained on a competitive basis.

Item 3. Legal Proceedings

In the ordinary course of business the Company may be subject to litigation from time to time. There is no past, pending or, to the Company s knowledge, threatened litigation or administrative action (including litigation or action involving the Company s officers, directors or other key personnel) which in the Company s opinion has, had, or is expected to have, a material adverse effect upon its business, prospects, financial condition or operations.

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 December 31, 2007.

PART II

Item 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Quarters ended	**High**	**Low**
Quarter ended March 31, 2008		
Quarter ended March 31, 2008	$ 0.12	$ 0.12
Fiscal Year ended December 31, 2007:		
Quarter ended December 31, 2007	$ 0.09	$ 0.08
Quarter ended September 30, 2007	$ 0.12	$ 0.12
Quarter ended June 30, 2007	$ 0.12	$ 0.10
Quarter ended March 31, 2007	$ 0.10	$ 0.10
Fiscal Year ended December 31, 2006		
Quarter ended December 31, 2006	$ 0.18	$ 0.07
Quarter ended September 30, 2006	$ 0.13	$ 0.08
Quarter ended June 30, 2006	$ 0.24	$ 0.11
Quarter ended March 31, 2006	$ 0.27	$ 0.12

Stock price information has been derived from Yahoo Finance. Such quotations reflect inter-dealer bids, without retail mark-up, mark-down or commissions, and may not reflect actual transactions.

As of April 11, 2008, the last reported sale price of our Common Stock, as reported by the OTC Bulletin Board, was $0.17 per share.

As of April 11, 2008, there were approximately 211 holders of record of our Common Stock.

Dividend Policy

Since our recapitalization with Atlantic, effective September 30, 2003, we have never paid cash dividends on our Common Stock. We currently anticipate that we will retain all available funds for use in the operation and expansion of our business, and do not anticipate paying any cash dividends in the foreseeable future.

Equity Compensation Plan Information

2006 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 s business. The Plan permits the Company to grant both incentive stock options (Incentive Stock Options or ISOs) within the meaning of Section 422 of the Internal Revenue Code (the Code), and other options which do not qualify as Incentive Stock Options (the Non-Qualified Options) and stock awards.

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

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

Optionees will have no voting, dividend or other rights as stockholders with respect to shares of Common Stock covered by options prior to becoming the holders of record of such shares. The purchase price upon the exercise of options may be paid in cash, by certified bank or cashier s check, by tendering stock held by the Optionee, as well as by cashless exercise either through the surrender of other shares subject to the

option or through a broker. The total number of shares of Common Stock available under the Plan, and the number of shares and per share exercise price under outstanding options will be appropriately adjusted in the event of any stock dividend, reorganization, merger or recapitalization or similar corporate event.

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

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

As of December 31, 2007, there were no options outstanding under the Plan.

Item 6. Selected Financial Data

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 7. Management s Discussion and Analysis of Financial Condition and Results of Operations

This Management s Discussion and Analysis of Financial Condition and Results of Operations and other portions of this report contain forward-looking information that involve risks and uncertainties. The Company s actual results could differ materially from those anticipated by the forward-looking information. Factors that may cause such differences include, but are not limited to, availability and cost of financial resources, product demand, market acceptance and other factors discussed in this report under the heading Risk Factors. This Management s Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the Company s financial statements and the related notes included elsewhere in this report.

Overview

Corporate Background

We are engaged primarily in the business of distribution of memory products under the Samsung brand name which comprise DRAM, Graphic RAM and Flash for the Hong Kong and Southern China markets.

As of December 31, 2007, we had over 120 active customers in Hong Kong and Southern China.

Depending on the product specifications, pricing for the Samsung memory products range from approximately $0.17 to $750. We also sell our products in Hong Kong and Southern China and do not anticipate selling our products outside of these regions in the foreseeable future.

For the years ended December 31, 2007 and 2006, the largest 5 customers accounted for 51% and 41% of our net sales, respectively. As of December 31, 2007, we had net current liabilities of $8,948,116 and an accumulated deficit of $1,795,426. We generated net sales of $166,771,606 for the year ended December 31, 2007 and recorded a net income of $278,843. In addition, during the year ended December 31, 2007, net cash provided by operating activities amounted to $7,170,779.

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

Plan of Operations

Our business objectives are to offer updated market intelligence to Samsung in connection with the Hong Kong and Southern China markets demand in memory products and secure high-quality Samsung products in order to meet the market demands of individual and corporate users in Hong Kong and Southern China. Each quarter, we work closely with Samsung to present updated market information collected from retail channels and corporate users to assist Samsung to plan their production and allocation schedule six months in advance. Our business strategy is to assist Samsung in implementing their production planning using market intelligence to balance the supply and demand of memory products in the Hong Kong and Southern China markets. Accordingly, we maintain and develop a sales and market research team to answer marketing questions from Samsung on a regular basis. In addition, our established distribution channels covering retail outlets and major corporate users in the region allow those retail or ultimate customers a secure stable supply of Samsung s memory products with competitive prices. We are a non-exclusive distributor of Samsung, and enjoy a minimum guaranteed gross profit margin range of approximately 1.5% to 2% of products sold in form of sales rebate payable by Samsung.

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Net sales

Net sales are recognized upon the transfer of legal title of the electronic components to customers. As of December 31, 2007 we had over 120 active customers.

Net sales for fiscal year 2007 were $166,771,606, which increased by 57.9% or $61,129,483 compared to fiscal year 2006. The turnover has met the Company s expectation for 2007 in general.

The memory unit price kept decreasing through a product s life cycle and as a result the actual units sold increased in proportion to the decrease in unit price. The Company s gross profit margin had decreased from an average 3.9% to 2.3% year-on-year base.

The Company experienced a strong demand in China in Flash products which it is mostly used in the consumer electronics market like mobile phone; PDA and MP3 players. The market is moving towards higher capacity of Flash component usage. The Flash component trading contributed to the increase in sales of the Company. This occurred because of a fall in the unit price of Flash component which resulted in an increase in its application and demand. The market is sensitive to any price change and it was profitable for any Flash card manufacturer entering a mature market where Flash component price contributed to most of the cost. We are expecting shortage of high capacity Flash components as Apple will launch new version of I-Phone and I-Pod during second half of 2008.

The DRAM business also obtained a strong demand as there was a large consumer electronic market with key applications being HDTV, DVD player GPS System and set-top boxes. On the PC front, the overall VGA RAM sales increased as the newly launched Vista required VGA card with higher speed and larger capacity.

Cost of Sales

Cost of revenues consists of costs of goods purchased from our principal supplier, Samsung and purchases from other Samsung authorized distributors. Many factors affect our gross margin, including, but not limited to, the volume of production orders placed on behalf of our 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 situation. Nevertheless, our procurement operations are supported by Samsung, although there is no written long-term supply agreement in place between us and Samsung. Our cost of goods, as a percentage of total revenues, amounted to approximately 97.7% for the year ended December 31, 2007 and approximately 96.1% for the year ended December 31, 2006.

Operating Expenses

Our operating expenses for the years ended December 31, 2007 and 2006 were comprised of sales and marketing, general and administrative expenses.

Selling and marketing expenses consisted primarily of commissions paid to outside sales agent and salary expenses to customer service personnel and costs associated with advertising and marketing activities.

General and administrative expenses include all corporate and administrative functions that serve to support our current and future operations and provide an infrastructure to support future growth. Major items in this category include management and staff salaries, rent/leases, professional services, and travel and entertainment. We expect these expenses to remain at approximately the same level in 2008. Sales and marketing costs are expected to fluctuate due to the addition of sales personnel and various marketing activities planned throughout the year.

Interest expense, including finance charges, relate primarily to our short-term and long-term bank borrowings.

Critical Accounting Policies

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

Revenue Recognition

The Company derives revenues from resale of computer memory products. The Company recognizes revenue in accordance with the SEC Staff Accounting Bulletin No. 104, Revenue Recognition (SAB 104). Under SAB 104, revenue is recognized when there is persuasive evidence of an arrangement, delivery has occurred or services are rendered, the sales price is determinable, and collectability is reasonably assured. Revenue typically is recognized at time of shipment. Sales are recorded net of discounts, rebates, and returns, which historically were not material.

Inventory Valuation

Our policy is to value inventories at the lower of cost or market on a part-by-part basis. In addition, we write down unproven, excess and obsolete inventories to net realizable value. This policy requires us to make a number of estimates and assumptions including market and economic conditions, product lifecycles and forecast demand for our product to value our inventory. To the extent actual results differ from these estimates and assumptions, the balances of reported inventory and cost of products sold will change accordingly.

Allowance for Doubtful Accounts

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

Results of Operations

The following table sets forth audited consolidated statements of operations data for the years ended December 31, 2007 and 2006 and should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and our financial statements and the related notes appearing elsewhere in this document.

	Year Ended December 31, (US$)	
	2007 (Restated)	2006 (Restated)
Net sales	$ 166,771,606	$ 105,642,123
Cost of sales	(162,933,656)	(101,544,098)
Gross profit	3,837,950	4,098,025
Operating expenses:		
Sales and marketing	(73,508)	(791,367)
General and administrative	(3,066,995)	(2,272,057)
Total operating expenses	(3,140,503)	(3,063,424)
Income from operations	697,447	1,034,601
Other expenses	(230,771)	(420,782)
Income before income taxes provision	466,676	613,819
Income taxes (provision) reversal	(187,833)	(163,415)
Net income	278,843	450,404

Year Ended December 31, 2007 Compared to the Year Ended December 31, 2006

Net Sales

Year Ended December 31, 2007	2006	% Change
$ 166,771,606	$ 105,642,123	57.9%

Sales increased by $61,129,483 or 57.9% from $105,642,123 for year ended December 31, 2006 to $166,771,606 for the year ended December 31, 2007. The increase was mainly due to increased sales to OEM factories in Hong Kong and South China areas, resulting in a higher turnover when compared to the year ended December 31, 2006.

Cost of Sales

Year Ended December 31, 2007	2006	% Change
$ 162,933,656	$ 101,544,098	60.5%

Cost of sales increased $61,389,558 or 60.5%, from $101,544,098 for the year ended December 31, 2006 to $162,933,656 for the year ended December 31, 2007. The cost of sales increased in proportion to the increase of net sales and reduction of rebate by Samsung from 2.4% to 1.8%.

Gross Profit

Year Ended December 31, 2007	2006	% Change
$ 3,837,950	$ 4,098,025	-6.3%

Gross profit decreased by $260,075 or 6.3% from $4,098,025 for the year ended December 31, 2006 to $3,837,950 for the year ended December 31, 2007. The gross profit percentage decreased to 2.3% of revenue for the year ended December 31, 2007 compared to 3.9% of revenue for the year ended December 31, 2006, as a result of reduction of rebate by Samsung from 2.4% to 1.8% and special marketing effort of Samsung products to several 1st tier manufacturers in China which occurred during the year. We expect the gross profit for the year ended December 31, 2008 to remain at approximately the same level as the year ended December 31, 2007.

Sales and Marketing

Year Ended December 31, 2007	2006	% Change
$ 73,508	$ 791,367	-90.7%

Sales and marketing expenses decreased by $717,859, or 90.7%, from $791,367 for the year ended December 31, 2006 to $73,508 for the year ended December 31, 2007. The decrease was principally attributable to the decreased sales commission expenses incurred for the year 2007. We expect the sales and marketing expenses for the year ended December 31, 2008 to remain at approximately the same level as the year ended December 31, 2007.

General and Administrative

Year Ended December 31, 2007	2006	% Change

$ 3,066,995	$ 2,272,057	35.0%

General and administrative expenses increased $794,938 or 35.0% from $2,272,057 for the year ended December 31, 2006 to $3,066,995 for the year ended December 31, 2007. This increase was primarily attributable to an increase in depreciation, director s remuneration and salary expenses during the year 2007. We will continue to keep general and administrative expenses for the year ended December 31, 2008 at approximately the same level as the year ended December 31, 2007.

Income from Operations

Year Ended December 31, 2007	2006	% Change
$ 697,447	$ 1,034,601	-32.6%

Income from operations was $697,447 for the year ended December 31, 2007 compared to $1,034,601 for the year ended December 31, 2006, a decrease of income of $337,154. The decrease was mainly due to decrease in Samsung rebates and increase of operating expenses.

Interest Expense

Year Ended December 31, 2007	2006	% Change
$ 1,009,010	$ 688,693	46.5%

Interest expense increased $320,317, or 46.5% from interest expense of $688,693 in the year ended December 31, 2006, to $1,009,010 in the year ended December 31, 2007. The 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 we will increase the interest expense for the year ended December 31, 2008 because of an increase in bank lines of credit and loan facilities.

Unrealized Gains on Pledged Marketable Securities

Year Ended December 31, 2007	2006	% Change
$ 404,780	$	N/A

Unrealized gain on pledged marketable securities increased by $404,780 from $0 in the year ended December 31, 2006, to $404,780 in the year ended December 31, 2007. The increase was mainly attributable to the increase in the market value as of December 31, 2007 over the cost of purchase of certain securities pledged by the Company in favor of Hang Seng Bank Limited (Hang Seng) (see Note 4 of the Notes to Consolidated Financial Statements).

Net Income on Cash Flow Hedge

Year Ended December 31, 2007	2006	% Change
$ 64,590	$	N/A

Net income on cash flow hedge increased by $64,590 from $0 in the year ended December 31, 2006 to $64,590 in the year ended December 31, 2007. This increase was due to the Company entering into more currency hedging contracts through DBS and SCB bank in 2007. Details of the currency hedging contracts can be found in Note 12 of the Notes to Consolidated Financial Statements.

Interest Income

Year Ended December 31, 2007	2006	% Change
$ 169,055	$ 79,838	111.7%

Interest income increased by $89,217 from $79,838 in the year ended December 31, 2006 to $169,055 in the year ended December 31, 2007, principally as a result of increased bank deposits and interest rates during the year 2007.

Income Tax Provision

Year Ended December 31, 2007	2006	% Change
$ 187,833	$ 163,415	14.9%

Income tax provision increased by $24,418 from $163,415 for the year ended December 31, 2006 to $187,833 for the year ended December 31, 2007. The provision was estimated by the profits of Atlantic for the year ended. The effective tax rate is 40% for 2007 as compared to 23% for 2006.

Net Income

Year Ended December 31, 2007	Year Ended December 31, 2006	% Change
$ 278,843	$ 450,404	-38.1%

Our net income decreased by $171,561 from the $450,404 for the year ended December 31, 2006 compared to $278,843 for the year ended December 31, 2007. The decrease was mainly due to the decrease in profit margin.

Liquidity and capital resources

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

As of December 31, 2007, the Company had revolving lines of credit and loan facilities in the aggregate amount of $25,023,076, of which $6,353,495 was available for drawdown as short-term loans repayable within 90 days. Detailed disclosures regarding our outstanding credit facilities are set forth in Notes 4 and 5 of the Notes to Consolidated Financial Statements, including the amounts of the facilities, outstanding balances, interest rates, maturity periods (for long term loans) and pledge of assets. Our ability to draw down under our 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. No assurance can be given that we will continue to have access to these or other lines of credit in the same amount or at all.

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

Net Cash Provided by Operating Activities

In the year ended December 31, 2007, net cash provided by operating activities amounted to $7,170,779 while in the year ended December 31, 2006, net cash used for operating activities amounted to $6,287,126, an increase of $13,457,905. This increase was primarily due to increase of accounts payable and accounts receivables at the end of 2007.

Net Cash Used for Investing Activities

In the year ended December 31, 2007, net cash used for investing activities amounted to $12,394,037 while in the year ended December 31, 2006, it amounted to $4,756,596, an increase in cash used $7,637,441. Increase was primarily due to the increase of amount due from Aristo / Mr. Yang and restricted marketable securities with the bank as part of the terms of bank borrowings during the year 2007.

Net Cash Provided by Financing Activities

In the year ended December 31, 2007, net cash provided by financing activities amounted to $5,436,828 while in the year ended December 31, 2006, net cash used for financing activities was $9,953,409, a decrease of $4,516,581. Decrease was primarily due to increase of payments under long-term debt and capital lease obligation, and decrease of net borrowings on the lines of credit and loan facilities.

Contractual Obligations

The following table presents our contractual obligations as of December 31, 2007 over the next five years and thereafter:

	Payments by Period				
	Amount	Less Than 1 Year	1-3 Years	4-5 Years	After 5 Years
Operating Leases	166,774	94,700	72,074		
Line of credit and notes payable short-term	15,610,488	15,610,488			
Short term loans	252,770	252,770			
Long term loans	2,769,440	180,228	340,590	247,570	2,001,052
Total Contractual Obligations	$ 18,799,472	$ 16,138,186	$ 412,664	$ 247,570	$ 2,001,052

Off-Balance Sheet Arrangements

None.

Related Party Transactions

We conduct business with several affiliated companies. All the related party transactions taking place during the reporting periods were conducted during the normal course of business. The prices of products sold to or purchased from these related entities are in the same price ranges as those offered to other non-related customers or purchased from other vendors.

Dependence of Samsung

We are highly dependent on the product supplies from Samsung. If the relationship with Samsung is terminated, we may not be able to continue our business. We have been taking necessary steps to reduce our dependence on Samsung, including looking into the potential acquisition of a company.

Impact of Inflation

We believe that our results of operations are not dependent upon moderate changes in inflation rates as we expect to be able to pass along component price increases to our customers.

Seasonality

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

New Accounting Pronouncements

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

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

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

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

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

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

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

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

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

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

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

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

In June 2009, the FASB issued Statement of Financial Accounting Standards No. 166, Accounting for Transfers of Financial Assets an amendment of FASB Statement No. 140 (Statement No. 166). Statement No. 166 revises FASB Statement of Financial Accounting Standards No. 140, Accounting for Transfers and Extinguishment of Liabilities a replacement of FASB Statement 125 (Statement No. 140) and requires additional disclosures about transfers of financial assets, including securitization transactions, and any continuing exposure to the risks related to transferred financial assets. It also eliminates the concept of a qualifying special-purpose entity , changes the requirements for derecognizing financial assets, and enhances disclosure requirements. Statement No. 166 is effective prospectively, for annual periods beginning after November 15, 2009, and interim and annual periods thereafter. Although Statement No. 166 has not been incorporated into the Codification, in accordance with ASC 105, the standard shall remain authoritative until it is integrated. The Company does not expect the adoption of Statement No. 166 will have a material impact on its financial position or results of operations.

Item 7A. 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 8. Financial Statements and Supplementary Data

Attached hereto and filed as a part of this Annual Report on Form 10-K are our Consolidated Financial Statements, beginning on page F-1.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9AT. Controls and Procedures

(a) Disclosure Controls and Procedures

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

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

Evaluation of Disclosure Controls and Procedures. The Company s CEO and CFO have evaluated the effectiveness of the design and operation of the Company s disclosure controls and procedures as defined in Exchange Act Rules 13a-15(e) and 15d-15(e) as of December 31, 2007, and based on this evaluation, the Company s principal executive and financial officers have concluded that the Company s disclosure controls and procedures were not effective to ensure that material information is recorded, processed, summarized and reported by management of the Company on a timely basis in order to comply with the Company s disclosure obligations under the Exchange Act and the rules and regulations promulgated thereunder. The Company s principal executive and financial officers conclusion regarding the Company s disclosure controls and procedures is based on management s conclusion that the Company s internal control over financial reporting are ineffective, as described below.

(b) Management Report on Internal Control over Financial Reporting

The Company s CEO and CFO are responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Our internal control system was designed to provide reasonable assurance to the company s management and board of directors regarding the preparation and fair presentation of published financial statements. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

In making its assessment of internal control over financial reporting management used the criteria issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework. Because of the material

weakness described in the following paragraphs, management believes that, as of December 31, 2007, the company s internal control over financial reporting was not effective based on those criteria.

Management s evaluation was retrospective and conducted as of December 31, 2007, the last day of the fiscal year covered by this Form 10-K. Based upon management s evaluation, our CEO and CFO have concluded that our internal controls over financial reporting were not effective as of December 31, 2007 because we have not completed the remediation discussed elsewhere in this below for the fiscal year ended December 31, 2007 due to the following material weaknesses:

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

Our control environment did not sufficiently promote effective internal control over financial reporting throughout our organizational structure, and this material weakness was a contributing factor to the other material weaknesses described in this Item 9AT;

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

none of our board of directors is independent;

no financial expert on our board of directors has been designated;

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

an effective whistleblower program has not been established;

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

there is insufficient oversight of accounting principle implementation;

there is insufficient review of related party transactions; and

there is insufficient review of recording of stock transactions.

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

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

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

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

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

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

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

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

Financial statement preparation and review procedures. We had inadequate policies, procedures and personnel to ensure that accurate, reliable interim and annual consolidated financial statements were prepared and reviewed on a timely basis. Specifically, we had insufficient: a) levels of supporting documentation; b) review and supervision within the accounting and finance departments; c) preparation and review of footnote disclosures accompanying our financial statements; and d) technical accounting resources. These

deficiencies resulted in errors in the financial statements and more than a remote likelihood that a material misstatement of our annual or interim financial statements would not be prevented or detected. In addition, as discussed in Note 2 in Notes to the Consolidated Financial Statements of this Form 10-K, we recently determined that Aristo Technologies Limited (Aristo), a related party, is a variable interest entity under FASB ASC 810-10-25. Consequently, we are consolidating the financial statements of Aristo with those of the Company for the period effective and are restating our previously filed annual and interim financial statements in this amended Form 10-Ks for the year ended 2007 and in amended Form 10-K for year ended 2006 to reflect the disclosure in accordance with ASC 810-10-25.

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

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

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

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

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

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

As of December 31, 2007, we had not completed the remediation of any of these material weaknesses.

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

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

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

We are in the process of developing, documenting, and communicating a formal whistleblower program to employees. We expect to post the policy on the 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; and

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

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

Attached as exhibits to this report are certifications of our CEO and CFO, which are required in accordance with Rule 13a-14 of Securities Exchange Act of 1934, as amended. The discussion above in this Item 9AT includes information concerning the controls

and controls evaluation referred to in the certifications and those certifications should be read in conjunction with this Item 9AT 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 fourth quarter ended December 31, 2007 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance
Directors and Executive Officers

Our directors and executive officers, as of December 31, 2007, and their biographical information are set forth below:

NAME	AGE	POSITION
Chung-Lun Yang	46	Chairman of the Board of Directors and Chief Executive Officer
Ben Wong	44	Director
Kenneth Lap-Yin Chan	45	Chief Financial Officer

Chung-Lun Yang, Chairman of the Board and Chief Executive Officer. Mr. Yang became a Director on September 30, 2003. Mr. Yang is the founder of Atlantic and has been a director of Atlantic since 1991. Mr. Yang graduated from The Hong Kong Polytechnic in 1982 with a degree in electronic engineering. From October 1982 until April 1985, he was the sales engineer of Karin Electronics Supplies Ltd. From June 1986 until September 1991, he was Director of Sales (Samsung Components Distribution) of Evertech Holdings Limited, a Hong Kong based company. Mr. Yang has over 15 years extensive experience in the electronics distribution business. The breadth of Mr. Yang s sales and operational experience led the Board of Directors to believe this individual is qualified to serve as a director of the Company. Mr. Yang is also a member of The Institution of Electrical Engineers, United Kingdom.

Ben Wong, Director. Mr. Wong became a Director on September 30, 2003. Since 1992, Mr. Wong has been the vice-president of Atlantic and is responsible for the purchasing, sales and marketing of Atlantic s products. The breadth of Mr. Wong sales experience led the Board of Directors to believe this individual is qualified to serve as a director of the Company. Mr. Wong graduated from the Chinese Culture University of Taiwan in 1986 with a Bachelor s Degree of Science in Mechanical Engineering.

Kenneth Lap-Yin Chan, Chief Financial Officer. Mr. Chan was appointed our Chief Financial Officer effective September 30, 2003. Mr. Chan has been with Atlantic since 2001 serving as Financial Controller. From 1998 to 2001, Mr. Chan worked for Standard Chartered Bank. Prior to September 2001, Mr. Chan worked for a number of other banks in Hong Kong, including Dao Heng Bank and Asia Commercial Bank. He has more than 12 years of experience in corporate and commercial finance. Mr. Chan graduated from the University of Toronto in 1986 with a Bachelor s Degree in Commerce.

Each director holds office (subject to our By-Laws) until the next annual meeting of shareholders and until such director s successor has been elected and qualified. All of our executive officers are serving until the next annual meeting of directors and until their successors have been duly elected and qualified. There are no family relationships between any of our directors and executive officers.

There have been no events under any bankruptcy act, no criminal proceedings and no judgments, orders or decrees material to the evaluation of the ability and integrity of any director or executive officer of the Company during the past five years.

Board Meetings

During the fiscal year ended December 31, 2007, our Board of Directors held 4 meetings. No director who served during the fiscal year ended December 31, 2007 attended fewer than 75% of the meetings of the Board of Directors during that year.

Committees of the Board

Our Board of Directors does not have a separate Compensation Committee, Audit Committee or Nominating Committee. All of the members of our Board of Directors are acting as our audit committee. None of the members of our Board of Directors is deemed an audit committee financial expert. We are in the process of recruiting an appropriate candidate to be our audit committee financial expert. Our Board of Directors plans to expand the number of members on the board and create an independent Compensation Committee, Audit Committee and a Nominating Committee.

Board Leadership Structure and Risk Oversight Role

Our Chief Executive Officer also serves as Chairman of our Board of Directors and we do not presently maintain a Lead Independent Director . We believe that such a leadership structure is suitable for the Company at its present stage of development, and that the interests of the

Company are best served by the combination of the roles of Chairman of the Board and Chief Executive Officer.

As a matter of regular practice, and as part of its oversight function, our Board of Directors undertakes a review of the significant risks in respect of our business. Such review is supplemented as necessary by outside professionals with expertise in substantive areas germane to our business. With our current governance structure, our Board of Directors and senior executives are the same individuals, and consequently, there is not a significant division of oversight and operational responsibilities in managing the material risks facing the Company.

Code of Business Conduct and Ethics

We have adopted a written code of business conduct and ethics, known as our Code of Business Conduct and Ethics which applies to all of our directors, officers, and employees, including our principal executive officer and our principal financial and accounting officer. A copy of the Code of Business Conduct and Ethics is attached as Exhibit 14 to the Annual Report on Form 10-K for the period ended December 31, 2003. To receive a copy of our Code of Business Conduct and Ethics, at no cost, requests should be directed to the Secretary, ACL Semiconductor, Inc., Room 1701, 17/F., Tower 1, Enterprise Square, 9 Sheung Yuet Road, Kowloon Bay, Kowloon, Hong Kong. We intend to disclose any amendment to, or waiver of, a provision of the Code of Business Conduct and Ethics in a report filed under the Securities Exchange Act of 1934, as amended, within four business days of the amendment or waiver.

Stockholder Communications

Stockholders and other interested parties may contact the Board of Directors or the non-management directors as a group at the following address: Board of Directors or Outside Directors, ACL Semiconductor, Inc., Room 1701, 17/F., Tower 1, Enterprise Square, 9 Sheung Yuet Road, Kowloon Bay, Kowloon, Hong Kong. All communications received at the above address will be relayed to the Board of Directors or the non-management directors, respectively. Communications regarding accounting, internal accounting controls or auditing matters may also be reported to the Board of Directors using the above address.

Typically, we do not forward to our directors communications from our stockholders or other communications which are of a personal nature or not related to the duties and responsibilities of the Board, including:

Junk mail and mass mailings

New product suggestions

Resumes and other forms of job inquiries

Opinion surveys and polls

Business solicitations or advertisements

Compliance with Section 16(A) of The Securities Exchange Act of 1934

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires our directors and executive officers and persons who own more than ten percent of a registered class of our equity securities (collectively, Reporting Person) to file with the SEC initial reports of ownership and reports of changes in ownership of our Common Stock and other equity securities of the Company. Reporting Persons are required by SEC regulation to furnish the Company with copies of all Section 16(a) forms that they file. To our knowledge, based solely on a review of the copies of such reports furnished to us, we believe that during fiscal year ended December 31, 2007 all Reporting Persons complied with all applicable filing requirements.

Item 11. Executive Compensation

COMPENSATION DISCUSSION AND ANALYSIS

Summary

Our approach to executive compensation is influenced by our belief in rewarding people for consistently strong execution and performance. We believe that the ability to attract and retain qualified executive officers and other key employees is essential to our long term success.

Our plan to obtain and retain highly skilled employees is to provide significant market competitive salaries and also incentive awards. Our approach is to link individual employee objectives with overall company strategies and results, and to reward executive officers and significant employees for their individual contributions to those strategies and results. We use compensation and performance data from comparable companies in the electronics distribution industry to establish market competitive compensation and performance standards for our employees. Furthermore, we believe that equity awards serve to align the interests of our executives with those of our stockholders. As such, we intend for equity to become a key component of our compensation program.

Named Executive Officers

The named executive officers for the fiscal year ended December 31, 2007 are Chung-Lun Yang, our Chief Executive Officer, and Kenneth Lap-Yin Chan, our Chief Financial Officer. These individuals are referred to collectively in this Annual Report on Form 10-K/A as the Named Executive Officers.

OUR EXECUTIVE COMPENSATION PROGRAM

Overview

The primary elements of our executive compensation program are base salary, incentive cash and stock bonus opportunities and equity incentives typically in the form of stock option grants. Although we provide other types of compensation, these three elements are the principal means by which we provide the Named Executive Officers with compensation opportunities.

ELEMENTS OF OUR EXECUTIVE COMPENSATION PROGRAM

Base Salary

We pay a base salary to our Named Executive Officers. In general, base salaries for the Named Executive Officers are determined by evaluating the responsibilities of the executive s position, the executive s experience and the competitive marketplace. Base salary adjustments are considered and take into account changes in the executive s responsibilities, the executive s performance and changes in the competitive marketplace. We believe that the base salaries of the Named Executive Officers are appropriate within the context of the compensation elements provided to the executives and because they are at a level which remains competitive in the marketplace.

Bonuses

The Board of Directors may authorize us to give discretionary bonuses, payable in cash or shares of Common Stock, to the Named Executive Officers and other key employees. Such bonuses are designed to motivate the Named Executive Officers and other employees to achieve specified corporate, business unit and/or individual, strategic, operational and other performance objectives.

Stock Options

Stock options constitute performance-based compensation because they have value to the recipient only if the price of our Common Stock increases. We have not granted any stock options to any of our Named Executive Officers and the grant of stock options to Named Executive Officers is not a material factor in making compensation determinations with respect to our Named Executive Officers. However, we have in the past used stock options as incentives for our other employees. Stock options generally vest over time, obtainment of a corporate goal or a combination. The grant of stock options is designed to motivate our employees to achieve our short term and long term corporate goals.

Retirement and Deferred Compensation Benefits

We do not have any arrangements with the Named Executive Officers to provide them with retirement and/or deferred compensation benefits.

Perquisites

There were no perquisites provided to the Named Executive Officers.

Post-Termination/Change of Control Compensation

We do not have any arrangements with the Named Executive Officers to provide them with compensation following termination of employment.

Tax Implications of Executive Compensation

Our aggregate deductions for each Named Executive Officer compensation are potentially limited by Section 162(m) of the Internal Revenue Code to the extent the aggregate amount paid to an executive officer exceeds $1 million, unless it is paid under a predetermined objective performance plan meeting certain requirements, or satisfies one of various other exceptions specified in the Internal Revenue Code. At our 2007 Named Executive Officer compensation levels, we did not believe that Section 162(m) of the Internal Revenue Code would be applicable, and accordingly, we did not consider its impact in determining compensation levels for our Named Executive Officers in 2007.

Hedging Policy

We do not permit the Named Executive Officers to hedge ownership by engaging in short sales or trading in any options contracts involving our securities.

Option Exercises and Stock Vested

No options have been exercised by our Named Executive Officers during the fiscal year ended December 31, 2007.

Pension Benefits

Under the Mandatory Provident Fund (MPF) Scheme Ordinance in Hong Kong, the Company is required to set up or participate in an MPF scheme to which both the Company and employees must make continuous contributions throughout their employment based on 5% of the employees earnings, subject to maximum and minimum level of income. For those earning less than the minimum level of income, they are not required to contribute but may elect to do so. However, regardless of the employees election, their employers must contribute 5% of the employees income. Contributions in excess of the maximum level of income are voluntary. All contributions to the MPF scheme are fully and immediately vested with the employees accounts. The contributions must be invested and accumulated until the employees retirement.

Nonqualified Deferred Compensation

We do not have any defined contribution or other plan that provides for the deferral of compensation on a basis that is not tax-qualified.

Employment Agreements

We have not entered into any employment agreements with any of our Named Executive Officers.

Executive Officer Compensation

The following table sets forth the annual and long-term compensation of our Named Executive Officers for services in all capacities to the Company for the last two fiscal years ended December 31, 2007 and December 31, 2006.

Summary Compensation Table

Name and Principal Position	Year	Salary ($)	Bonus ($)	Stock Awards ($)	Option Awards ($)	Non-Equity Incentive Plan Compensation ($)	Change in Pension Value and Nonqualified Deferred Compensation Earnings ($)	All Other Compensation [(1)] ($)	Total ($)
Chung-Lun Yang, Chief Executive Officer and Chairman of the Board	2007	$ 812,821						$ 17,521	$ 830,342
	2006	$ 200,000						$ 68,280	$ 268,280
Kenneth Lap Yin Chan, Chief Financial Officer	2007	$ 72,436							$ 72,436
	2006	$ 82,564							$ 82,564

(1) Mr. Yang s other annual compensation includes rent and housing allowance in the amount of $17,521 for the year ended December 31, 2007 and $68,280 for the year ended December 31, 2006.

Outstanding equity awards at fiscal year-end

None.

Compensation of Directors

Except with respect to Ben Wong who was paid fees of $72,436 during the year ended December 31, 2007 for his role as Sales Director of Atlantic, none of our directors who served during the year ended December 31, 2007 received compensation for serving as such, other than reimbursement for out of pocket expenses incurred in attending director meetings.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The following table sets forth certain information regarding beneficial ownership of our Common Stock as of December 31, 2007: (i) by each person who is known by us to own beneficially more than 5% of the Common Stock, (ii) by each of our directors, (iii) by each of our executive officers and (iv) by all our directors and executive officers as a group. On such date, we had 28,329,936 shares of Common Stock outstanding.

As used in the table below, the term beneficial ownership with respect to a security consists of sole or shared voting power, including the power to vote or direct the vote, and/or sole or shared investment power, including the power to dispose or direct the disposition, with respect to the security through any contract, arrangement, understanding, relationship, or otherwise, including a right to acquire such power(s) during the 60 days immediately following December 31, 2007. Except as otherwise indicated, the stockholders listed in the table have sole voting and investment powers with respect to the shares indicated

Name and Address of Beneficial Owner	Shares of Common Stock Beneficially Owned	Percentage of Class Beneficially Owned(1)
Chung-Lun Yang (2) (3) No. 78, 5th Street, Hong Lok Yuen, Tai Po, New Territories, Hong Kong	22,380,000	78.9%
Ben Wong (3) 19B, Tower 8, Bellagio, 33 Castle Peak Road, Sham Tseng, New Territories, Hong Kong	0	0.0%
Kenneth Lap-Yin Chan (2) Flat B, 8/F., Block 19, South Horizons, Aplei Chau, Hong Kong	0	0.0%
All Directors and Officers as a Group	22,380,000	78.9%

(1) Applicable percentage of ownership is based on 28,329,936 shares of Common Stock outstanding as of December 31, 2007, together with securities exercisable or convertible into shares of Common Stock within 60 days of December 31, 2007, for each stockholder. Beneficial ownership is determined in accordance with the rules of the United States Securities and Exchange Commission and generally includes voting or investment power with respect to securities. Shares of Common Stock subject to securities exercisable or convertible into shares of Common Stock that are currently exercisable or exercisable within 60 days of December 31, 2007, are deemed to be beneficially owned by the person holding such securities for the purpose of computing the percentage of ownership of such person, but are not treated as outstanding for the purpose of computing the percentage ownership of any other person. The Common Stock is the only outstanding class of equity securities of the Company.

(2) Executive Officer

(3) Director Except as otherwise set forth, information on the stock ownership of these persons was provided to us by such persons.

Item 13. Certain Relationships and Related Transactions, and Director Independence

All related person transactions are reviewed and, as appropriate, may be approved or ratified by the Board of Directors. Related person transactions are approved by the Board of Directors only if, based on all of the facts and circumstances, they are in, or not inconsistent with, our best interests and our stockholders, as the Board of Directors determines in good faith. The Board of Directors takes into account, among other factors it deems appropriate, whether the transaction is on terms generally available to an unaffiliated third-party under the same or similar circumstances and the extent of the related person s interest in the transaction. The Board of Directors may also impose such conditions as it deems necessary and appropriate on us or the related person in connection with the transaction.

In the case of a transaction presented to the Board of Directors for ratification, the Board of Directors may ratify the transaction or determine whether rescission of the transaction is appropriate.

CERTAIN RELATED PERSON TRANSACTIONS

Transactions with Aristo Technologies Limited / Mr. Yang

As of December 31, 2007 and 2006, we had an outstanding receivable from Mr. Yang, the President and Chairman of our Board of Directors, totaling $6,057,488 and $0, respectively. Because the Company s business is distributing computer components and is heavily dependant on Samsung, Mr. Yang took a loan from the Company and used it to invest in other companies to create new business platforms. These business platforms include manufacturing, research and development, which Mr. Yang believes can help improve the Company s business in the long term. These advances bear no interest and are payable on demand. The receivable due from Mr. Yang to the Company is derived from the consolidation of the financial statements of Aristo, a variable interest entity, with the Company.

For the years ended December 31, 2007 and 2006, we recorded compensation to Mr. Yang of $812,821and $200,000 respectively, and paid $812,821 and $200,000 respectively to Mr. Yang as compensation to him.

During each of the years ended December 31, 2007 and 2006, we paid rent of $17,521 and $68,280 respectively for Mr. Yang s personal residence as fringe benefits to him. All such payments have been recorded as compensation expense in the accompanying financial statements.

Transactions with Classic Electronic Limited

Mr. Ben Wong, one of our directors, is a 99.9% shareholder of Classic Electronic Ltd. (Classic). The remaining 0.1% of Classic is owned by a non-related party. As of December 31, 2007 and 2006, we had net outstanding accounts receivable from Classic totaling $1,717,859 and $6,709,495, respectively. This account receivable has been outstanding for more than 12 months.

During the years ended December 31, 2007 and 2006, we purchased inventories of $400,164 and $0 respectively from Classic. As of December 31, 2007 and 2006, there were no outstanding accounts payable to Classic.

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 14 to consolidated financial statements, the Company has entered into a payment plan with Classic, and the amount due from Classic had been settled.

We leased one of our facilities and Mr. Yang s personal residence from Classic. Lease agreements for those two properties expired and were acquired by Atlantic on July 21, 2006. Monthly lease payments for these 2 leases totaled $6,684. We incurred and paid rent expense of $0 and $44,418 to Classic for the years ended December 31, 2007 and 2006 respectively.

On February 21, 2006, a cross corporate guarantee was executed between Classic and Atlantic for banking facilities to be co-utilized with Standard Chartered Bank (Hong Kong) Limited (SCB). The maximum amount of facilities that could be utilized by Atlantic was $1.154 million (HKD9 millions) and the facility lines was fully covered by collaterals provided by Classic and companies other than Atlantic Subsequently, the cross guarantees were released on December 7, 2006.

On July 6, 2006, a cross corporate guarantee was executed between Classic and Atlantic for banking facilities to be co-utilized with The Bank of East Asia Limited (BEA). The cross guarantee was temporarily created due to selling of properties by Classic to Atlantic. During the period of execution of the assignment of legal title, BEA requested a cross guarantee for both companies. All facilities and outstanding loan balances were

booked under and utilized by Atlantic which will not absorb any losses from Classic. Subsequently, the cross guarantees were released on December 8, 2006.

Transactions with Solution Semiconductor (China) Limited

Mr. Ben Wong, one of our directors, is a 99% shareholder of Solution Semiconductor (China) Ltd. (Solution). The remaining 1% of Solution is owned by a non-related party. On April 01, 2007, we entered into a lease agreement with Solution pursuant to which we lease one facility. The lease agreement for this facility expires on March 31, 2009. Monthly lease payment for this lease is $1,090. We incurred and paid an aggregate rent expense of $12,385 and $3,436 to Solution during the year ended December 31, 2007 and 2006.

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

Transactions with Systematic Information Limited

Mr. Yang, the Company s Chief Executive Officer, majority shareholder and a director, is a director and shareholder of Systematic Information Ltd. (Systematic Information) with a total of 100% interest. On August 31, 2006, we entered into a lease agreement with Systematic Information pursuant to which we lease one facility. The lease agreement for this facility expires on August 31, 2008. Monthly lease payment for this lease totaled $641. Upon expiration of the lease on August 31, 2008, ACL acquired this residential property from Systematic Information. We incurred and paid an aggregate rent expense of $7,692 and $2,564 to Systematic Information during the year ended December 31, 2007 and 2006.

During the years ended December 31, 2007 and 2006, we received service charges $11,538 and $6,410 respectively, from Systematic Information. As of December 31, 2007 and 2006, there was no outstanding accounts receivable from Systematic Information.

During the years ended December 31, 2007 and 2006, we sold products for $666,742 and $0 respectively, to Systematic Information. As of December 31, 2007 and 2006, there were no outstanding accounts receivables from Systematic Information.

During the years ended December 31, 2007 and 2006, we purchased inventories of $1,523,238 and $0 respectively from Systematic Information. As of December 31, 2007 and 2006, there were no outstanding accounts payable to Systematic Information.

On April 1, 2005, we entered into a lease agreement with Systematic Information pursuant to which we lease 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 residential property from Systematic Information. We incurred and paid an aggregate rent expense of $17,521 and $38,462 to Systematic Information during the year ended December 31, 2007 and 2006.

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

Transactions with Global Mega Development Limited

Mr. Yang, the Company s Chief Executive Officer, majority shareholder and a director, is the sole beneficial owner of the equity interest of Global Mega Development Ltd. (Global). During the years ended December 31, 2007 and 2006, we received management fee of $5,769 and $7,692 respectively, from Global. As of December 31, 2007 and 2006, there was no outstanding accounts receivable from Global. The management fees were charged for back office support for Global.

During the years ended December 31, 2007 and 2006, we sold products for $25,337 and $0 respectively, to Global. As of December 31, 2007 and 2006, there were no outstanding accounts receivables from Global.

During the years ended December 31, 2007 and 2006, we purchased inventories of $18,294 and $0 respectively from Global. As of December 31, 2007 and 2006, there were no outstanding accounts payable to Global.

Transactions with Intelligent Network Technology Limited

Mr. Yang the Company s Chief Executive Officer, majority shareholder and a director, is a director and 80% shareholder of Intelligent Network Technology Ltd. (Intelligent). The remaining 20% of Intelligent is owned by a non-related party. During the years ended December 31, 2007 and 2006, we received a management fee of $0 and $7,692 respectively, from Intelligent. As of December 31, 2007 and 2006, there was no outstanding accounts receivable from Intelligent. The management fees were charged for back office support for Intelligent.

During the years ended December 31, 2007 and 2006, we purchased inventories of $1,343,501 and $0 respectively from Intelligent. As of December 31, 2007 and 2006, there were no outstanding accounts payable to Intelligent.

Transactions with Systematic Semiconductor Limited

Mr. Yang the Company s Chief Executive Officer, majority shareholder and a director, is the sole beneficial owner of the equity interest of Systematic Semiconductor Ltd. (Systematic). During the years ended December 31, 2007 and 2006, we received a management fee of $16,026 and $15,384 respectively, from Systematic. As of December 31, 2007 and 2006, there was no outstanding accounts receivable from Systematic. The management fees were charged for back office support for Systematic.

During the years ended December 31, 2007 and 2006, we sold products for $779,879 and $0 respectively, to Systematic. As of December 31, 2007 and 2006, there were no outstanding accounts receivables from Systematic.

During the years ended December 31, 2007 and 2006, we purchased inventories of $1,007,352 and $0 respectively from Systematic. As of December 31, 2007 and 2006, there were no outstanding accounts payable to Systematic.

Transactions with Aristo Components Limited

Mr. Ben Wong, one of our directors, is a 90% shareholder of Aristo Components Ltd. (Aristo Comp). The remaining 10% of Aristo Comp is owned by a non-related party. During the years ended December 31, 2007 and 2006, we sold products for $349,327 and $0 respectively, to Aristo Comp. As of December 31, 2007 and 2006, there were no outstanding accounts receivables from Aristo Comp.

Transactions Atlantic Storage Devices Limited

Mr. Yang, the Company s Chief Executive Officer, majority shareholder and a director, is a 40% shareholder of Atlantic Storage Devices Ltd. (Atlantic Storage). The remaining 60% of Atlantic Storage is owned by a non-related party. During the years ended December 31, 2007 and 2006, we sold products for $1,471,471 and $0 respectively, to Atlantic Storage. As of December 31, 2007 and 2006, there were no outstanding accounts receivables from Atlantic Storage.

During the years ended December 31, 2007 and 2006, we purchased inventories of $581,444 and $0 respectively, from Atlantic Storage. As of December 31, 2007 and 2006, there were no outstanding accounts payable to Atlantic Storage.

Transactions Rambo Technologies Limited

Mr. Ben Wong, one of our directors, is a 60% shareholder of Rambo Technologies Ltd. (Rambo). The remaining 40% of Rambo is owned by a non-related party. During the years ended December 31, 2007 and 2006, we sold products for $2,574,096 and $0 respectively, to Rambo. As of December 31, 2007 and 2006, there were no outstanding accounts receivables from Rambo.

Transactions Usmart Electronic Products Limited

Mr. Yang, the Company s Chief Executive Officer, majority shareholder and a director, is the sole beneficial owner of the equity interest of Usmart Electronic Products Ltd. (Usmart). During the years ended December 31, 2007 and 2006, we sold products for $703,683 and $0 respectively, to Usmart. As of December 31, 2007 and 2006, there were no outstanding accounts receivables from Usmart.

During the years ended December 31, 2007 and 2006, we purchased inventories of $736,888 and $0 respectively, from Usmart. As of December 31, 2007 and 2006, there were no outstanding accounts payable to Usmart.

Transactions Imax Technology Limited

Mr. Yang, the Company s Chief Executive Officer, majority shareholder and a director, is the sole beneficial owner of the equity interest of Imax Technology Ltd. (Imax). During the years ended December 31, 2007 and 2006, we sold products of $51,060 and $0 respectively, to Imax. As of December 31, 2007 and 2006, there were no outstanding accounts receivables from Imax.

Transactions Kadatco Co Limited

Mr. Yang, the Company s Chief Executive Officer, majority shareholder and a director, is a 99.99% shareholder of Kadatco Co Ltd. (Kadatco). The remaining 0.01% of Kadatco is owned by a non-related party. During the years ended December 31, 2007 and 2006, we sold products for $518,040 and $0 respectively, to Kadatco. As of December 31, 2007 and 2006, there were no outstanding accounts receivables from Kadatco.

During the years ended December 31, 2007 and 2006, we purchased inventories of $590,742 and $0 respectively, from Kadatco. As of December 31, 2007 and 2006, there were no outstanding accounts payable to Kadatco.

Transactions with First World Logistics Limited

Mr. Yang the Company s Chief Executive Officer, majority shareholder and a director, is the sole beneficial owner of the equity interest of First World Logistics Ltd. (First). During the years ended December 31, 2007 and 2006, we sold $0 and $7,720,975 respectively to First.

During the years ended December 31, 2007 and 2006, we purchased inventories for $0 and $825,900 respectively from First. As of December 31, 2007 and 2006, there was no outstanding accounts payable to First.

Transactions City Royal Limited

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

Item 14. Principal Accounting Fees and Services

The following table presents fees, including reimbursements for expenses, for professional audit services rendered by JTC Fair Song CPA Firm and Jeffrey Tsang & Co for the audits of our annual financial statements and interim reviews of our quarterly financial statements for the years ended December 31, 2007 and December 31, 2006, respectively, and fees billed for other services rendered by JTC Fair Song CPA Firm and Jeffrey Tsang & Co during those periods.

	Fiscal 2007		Fiscal 2006	
Audit Fees (1)	$	35,000	$	35,000
Audit Related Fees (2)	$		$	
Tax Fees (3)	$		$	
All Other Fees (4)	$		$	
Total	$	35,000	$	35,000

(1) Audit Fees consist of fees billed for professional services rendered for the audit of the Company s consolidated annual financial statements and review of the interim consolidated financial statements included in quarterly reports and services that are normally provided by and Jeffrey Tsang & Co. and JTC Fair Song CPA Firm in connection with statutory and regulatory filings or engagements.

(2) Audit-Related Fees consist of fees billed for assurance and related services that are reasonably related to the performance of the audit or review of the Company s consolidated financial statements and are not reported under Audit Fees. There were no such fees in fiscal year 2007 or 2006.

(3) Tax Fees consist of fees billed for professional services rendered for tax compliance, tax advice and tax planning. There were no such fees in fiscal year 2007 or 2006.

(4) All Other Fees consist of fees for products and services other than the services reported above. There were no such fees in fiscal year 2007 or 2006.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) Documents filed as part of this Report

(1) The financial statements listed in the Index to Consolidated Financial Statements are filed as part of this report

(2) The financial statements listed in the Index are filed a part of this report.

Schedule II Valuation and Qualifying Accounts and Reserves. Schedule II on page S-1 is filed as part of this report.

Schedule III Quarterly Information (Unaudited). Schedule II on page S-1 is filed as part of this report.

(3) List of Exhibits

See Index to Exhibits in paragraph (b) below.
The Exhibits are filed with or incorporated by reference in this report.

(b) Exhibits required by Item 601 of Regulation S-K.

Exhibit No.	Description
3.1	Certificate of incorporation of the Company, together with all amendments thereto, as filed with the Secretary of State of the State of Delaware, incorporated by reference to Exhibit 3.1 to the Form 8-K filed with the Securities and Exchange Commission on December 19, 2003.
3.2	By-Laws of the Company, as amended, incorporated by reference to Exhibit 3.2 to the Company s Registration Statement.
4.1(a)	Form of specimen certificate for common stock of the Company.
10.1	Share Exchange and Reorganization Agreement, dated as of September 8, 2003, among Print Data Corp., Atlantic Components Limited and Mr. Chung-Lun Yang, incorporated by reference to Exhibit 10.1 to the Form 8-K filed with the Securities and Exchange Commission on October 16, 2003.
10.2	Conveyance Agreement, dated as of September 30, 2003, between Print Data Corp. and New Print Data Corp., incorporated by reference to Exhibit 10.2 to the Form 8-K filed with the Securities and Exchange Commission on October 16, 2003.
10.3	Securities Purchase Agreement, dated October 1, 2003, among Print Data Corp, Jeffery Green, Phyllis Green and Joel Green, incorporated by reference to Exhibit 10.3 to the Form 8-K filed with the Securities and Exchange Commission on October 16, 2003.
10.4	Sales Restriction Agreement, dated September 30, 2003, between Print Data Corp. and Phyllis Green, incorporated by reference to Exhibit 10.4 to the Form 8-K filed with the Securities and Exchange Commission on October 16, 2003.
10.5	Sales Restriction Agreement, dated September 30, 2003, between Print Data Corp. and Jeffery Green, incorporated by reference to Exhibit 10.5 to the Form 8-K filed with the Securities and Exchange Commission on October 16, 2003.
10.6	Distribution Agreement, dated May 1, 1993, by and between Samsung Electronics Co., Ltd. and Atlantic Components Limited, incorporated by reference to Exhibit 10.6 to the Form 8-K filed with the Securities and Exchange Commission on October 16, 2003.
10.7	Renewal of Distributorship Agreement, dated March 1, 2002, by and between Samsung Electronics Co., Ltd. and Atlantic Components Limited, incorporated by reference to Exhibit 10.7 to the Form 8-K filed with the Securities and Exchange Commission on October 16, 2003.
10.8	Form of Note Subscription, dated as of December 31, 2003, by and between the Company and Professional Traders Fund LLC, a New York limited liability company (PTF), incorporated by reference to Exhibit 10.1 to the Form 8-K filed with the Securities and Exchange Commission on March 24, 2004.

10.9	Form of 12% Senior Subordinated Convertible Note due December 31, 2004 in the aggregate principal amount of $250,000 issued by the Company to PTF, incorporated by reference to Exhibit 10.2 to the Form 8-K filed with the Securities and Exchange Commission on March 24, 2004.

10.10	Form of Limited Guaranty and Security Agreement, dated as of December 31, 2003, by and among, the Company, PTF, Orient Financial Services Limited, Mr. Li Wing-Kei and Emerging Growth Partners, Inc., incorporated by reference to Exhibit 10.3 to the Form 8-K filed with the Securities and Exchange Commission on March 24, 2004.
10.11	Form of Stock Purchase and Escrow Agreement, dated as of December 31, 2003, by and among, PTF, Orient Financial Services Limited, Mr. Li Wing-Kei and Emerging Growth Partners, Inc., and the law firm of Sullivan & Worcester LLP, as escrow agent, incorporated by reference to Exhibit 10.4 to the Form 8-K filed with the Securities and Exchange Commission on March 24, 2004.
10.12	Form of Letter Agreement, dated as of December 31, 2003, by and between the Company and PTF, incorporated by reference to Exhibit 10.5 to the Form 8-K filed with the Securities and Exchange Commission on March 24, 2004.
10.13	Letter of Intent, dated December 29, 2003, between the Company and Classic Electronics, Ltd., incorporated by reference to Exhibit 10.1 to the Form 8-K filed with the Securities and Exchange Commission on March 25, 2004.
10.14	Note Subscription, dated as of December 31, 2003, by and between the Company and Professional Traders Fund LLC, a New York limited liability company (PTF), incorporated by reference to Exhibit 10.6 to the Form 8-K/A filed with the Securities and Exchange Commission on April 13, 2004.
10.15	12% Senior Subordinated Convertible Note due December 31, 2004 in the aggregate principal amount of $250,000 issued by the Company to PTF, incorporated by reference to Exhibit 10.7 to the Form 8-K/A filed with the Securities and Exchange Commission on April 13, 2004.
10.16	Limited Guaranty and Security Agreement, dated as of December 31, 2003, by and among, the Company, PTF, Orient Financial Services Limited, Mr. Li Wing-Kei and Emerging Growth Partners, Inc., incorporated by reference to Exhibit 10.8 to the Form 8-K/A filed with the Securities and Exchange Commission on April 13, 2004.
10.17	Stock Purchase and Escrow Agreement, dated as of December 31, 2003, by and among, PTF, Orient Financial Services Limited, Mr. Li Wing-Kei and Emerging Growth Partners, Inc., and the law firm of Sullivan & Worcester LLP, as escrow agent, incorporated by reference to Exhibit 10.9 to the Form 8-K/A filed with the Securities and Exchange Commission on April 13, 2004.
10.18	Letter Agreement, dated as of December 31, 2003, by and between the Company and PTF, incorporated by reference to Exhibit 10.10 to the Form 8-K/A filed with the Securities and Exchange Commission on April 13, 2004.
10.19	Stock Purchase Agreement, dated as of December 30, 2005, by and among the Company, Classic Electronics, Ltd. (Classic) and the shareholders of Classic, incorporated by reference to Exhibit 10.1 to the Form 8-K filed with the Securities and Exchange Commission on January 6, 2006.
10.20	2006 Incentive Equity Stock Plan, incorporated by reference to Exhibit 4.1 to the Form S-8 filed with the Securities and Exchange Commission on April 27, 2006.
14	Code of Business Conduct and Ethics of the Company incorporated by reference to Exhibit 14 to the Form 10-K for the period ended December 31, 2003.
16.1	Letter dated March 19, 2008 from Jeffrey Tsang & Co., incorporated by reference to Exhibit 16.1 to the Form 8-K filed with the Securities and Exchange Commission on March 24, 2008.
21	Subsidiaries of the Company Atlantic Components Limited, a Hong Kong corporation Alpha Perform Technologies Limited, a British Virgin Islands corporation Aristo Technologies Limited, a Hong Kong corporation (variable interest entity)
23.1	Consent of Albert Wong & Co.
31.1	Certification of Principal Executive Officer required by Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
31.2	Certification of Principal Financial Officer required by Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*

32.1 Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the

	Sarbanes-Oxley Act of 2002.*
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*

* Filed herewith

(c) Financial statements required by Regulation S-X which are excluded from the annual report to shareholders by Rule 14a-3(b).

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

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

Dated: September 7, 2010

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Chung-Lun Yang Chung-Lun Yang	Chief Executive Officer and Chairman of the Board of Directors (Principal Executive Officer)	September 7, 2010
/s/ Kun Lin Lee Kun Lin Lee	Chief Financial Officer (Principal Financial and Accounting Officer) and Director	September 7, 2010
/s/ Kenneth Lap Yin Chan Kenneth Lap Yin Chan	Chief Operating Officer and Director	September 7, 2010
/s/ Ming Yan Leung Ming Yan Leung	Chief Technology Officer and Director	September 7, 2010
/s/ Wun Kin Fong Wun Kin Fong	Director	September 7, 2010

ACL Semiconductors Inc. and Subsidiaries

Consolidated Financial Statements

As of December 31, 2007 and December 31, 2006 and
the Years Ended December 31, 2007 and 2006

With Report of Independent Registered Public Accounting Firm

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JEFFREY TSANG & CO.
CERTIFIED PUBLIC ACCOUNTANTS
Units 1205-6, 12/F, Cheuk Nang Centre, 9 Hillwood Road, Tsimshatsui, Kowloon, Hong Kong.
Tel: (852) 2781 1606 Fax: (852) 2783 0752 E-mail: info@hkjtc.com

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
Board of Directors
ACL Semiconductors Inc.
Kowloon, Hong Kong
We have audited the accompanying consolidated balance sheet of ACL Semiconductors Inc. and subsidiaries as of December 31, 2006, and the related consolidated statements of operations, stockholders equity (deficit), cash flows and financial statement schedule of the year ended December 31, 2006. These financial statements and financial statement schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company s internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis of our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2006, and the results of its operations and its cash flows for the year ended December 31, 2006, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Note 10 to the consolidated financial statements, the Company has had numerous significant transactions with businesses and affiliates controlled by, and with persons who are related to, the officers and directors of the Company.

As discussed in Note 7 to the consolidated financial statements, the Company is dependent on one single vendor to supply its inventories and this single vendor provided the majority of the Company s inventory purchases during the year ended December 31, 2006. The Company s non-exclusive distributorship agreement with this supplier expired on March 1, 2007. The Company is still in negotiation with the supplier regarding the renewal terms of the agreement, and such an agreement has not yet been renewed. Termination of such distributorship agreement by the supplier would have a material adverse effect on the operations of the Company.

As discussed in Note 15, the accompanying consolidated financial statements as of December 31, 2006 have been restated.

/s/ JEFFREY TSANG & CO.

JEFFREY TSANG & CO.
CERTIFIED PUBLIC ACCOUNTANTS

Hong Kong
April 17, 2007, except for Note 15, which is as of April, 15 2008

ALBERT WONG & CO.
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ALBERT WONG
B.Soc., Sc., ACA., LL.B., C.P.A.(Practising)

To: The board of directors and stockholders of

ACL Semiconductors Inc. (the Company)

Report of Independent Registered Public Accounting Firm

We have audited the accompanying consolidated balance sheets of the Company as of December 31, 2007 and the related consolidated statements of income and comprehensive income, consolidated statement of stockholders equity and accumulated other comprehensive income and consolidated cash flows for the years then ended. In connection with our audit of the financial statements, we have also audited the financial statement schedule listed in the accompanying index as of and for the year ended December 31, 2009. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The financial statements of the Company as of December 31, 2006 and for the year ended December 31, 2006 were audited by the predecessor principal auditors, whose report was dated April 17, 2007 except for Note 15 dated April 15, 2008, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2007 and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 10 to the consolidated financial statements, the Company does have numerous significant transactions with businesses and affiliates controlled by, and/or with personnel who are related to, the officers and directors of the Company.

Hong Kong, China
April 14, 2010, except for Note 15

Albert Wong & Co.
Certified Public Accountants

ACL SEMICONDUCTORS INC. AND SUBSDIARIES

CONSOLIDATED BALANCE SHEETS
AS AT DECEMBER 31, 2007 AND 2006
(Stated in US Dollars)

ASSETS

	Notes	2007	2006
		(Restated)	(Restated)
Current assets:			
Cash and cash equivalents		$ 1,661,056	$ 1,447,486
Restricted cash		4,203,057	2,708,577
Accounts receivable, net of allowance for doubtful accounts of $0 for 2007 and 2006		7,627,017	2,008,474
Accounts receivable, related parties		1,717,859	7,372,467
Inventories, net		3,768,155	3,253,255
Restricted marketable securities		769,231	
Marketable securities		404,780	
Income tax refundable		49,375	
Other current assets		89,183	40,937
Total current assets		20,289,713	16,831,196
Property, equipment and improvements, net of accumulated depreciation and amortization	3	6,933,998	3,909,121
Other deposits		387,245	381,038
Amounts due from Aristo / Mr. Yang		6,057,488	
Total Assets		$ 33,668,444	$ 21,121,355

See accompanying notes to the consolidated financial statements

ACL SEMICONDUCTORS INC. AND SUBSDIARIES

CONSOLIDATED BALANCE SHEETS
AS AT DECEMBER 31, 2007 AND 2006
(Stated in US Dollars)

LIABILITIES AND STOCKHOLDERS EQUITY

	Notes	2007	2006
		(Restated)	(Restated)
Current liabilities:			
Accounts payable		$ 12,870,200	$ 5,009,723
Accrued expenses		195,956	314,224
Lines of credit and loan facilities	4	15,610,488	10,838,467
Current portion of long-term debt	5	135,237	90,569
Current portion of capital lease	6	44,991	17,170
Income tax payable			74,839
Due to shareholders for converted pledged collateral		112,385	112,385
Other current liabilities		268,572	293,617
Total current liabilities		29,237,829	16,750,994
Long-term liabilities			
Long-term debt, less current portion	5	2,539,242	1,873,812
Capital lease, less current portion	6	49,971	27,185
Deferred tax liabilities		15,471	8,813
Total long-term liabilities		2,604,684	1,909,810
Total liabilities		31,842,513	18,660,804
Commitments and contingencies			
Stockholders equity (deficit):			
Common stock - $0.001 par value, 50,000,000 shares authorized, 28,329,936 issued and outstanding as of December 31, 2007 and 2006 respectively		28,330	28,330
Additional paid-in capital		3,593,027	3,593,027
Amount due to stockholder/director			913,463
Accumulated losses		(1,795,426)	(2,074,269)
Total stockholders equity		1,825,931	2,460,551
		$ 33,668,444	$ 21,121,355

See accompanying notes to the consolidated financial statements

ACL SEMICONDUCTORS INC. AND SUBSDIARIES

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMEBR 31, 2007 AND 2006
(Stated in US Dollars)

	Notes	2007	2006
		(Restated)	(Restated)
Net sales		$ 166,771,606	$ 105,642,123
Cost of sales		(162,933,656)	(101,544,098)
Gross profit		3,837,950	4,098,025
Selling and distribution costs		(73,508)	(791,367)
General and administrative expenses		(3,066,995)	(2,272,057)
Income from operations		697,447	1,034,601
Other income (expenses):			
Rental income		37,179	
Interest expense		(1,009,010)	(688,693)
Provision for taxation written back			150,000
Unrealized gain on marketable securities		404,780	
Management and service income		33,333	35,256
Net income on cash flow hedge		64,590	
Interest income		169,055	79,838
Director life insurance policy refund		29,617	
Exchange differences		34,672	2,114
Miscellaneous:		5,013	703
Income before income taxes provision		466,676	613,819
Income taxes reversal (provision)	8	(187,833)	(163,415)
Net income		$ 278,843	$ 450,404
Earnings per share - basic and diluted		$ 0.01	$ 0.02
Weighted average number of shares - basic and diluted	9	28,329,936	28,151,004

See accompanying notes to the consolidated financial statements

ACL SEMICONDUCTORS INC. AND SUBSDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY AND ACCUMULATED OTHER COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006 (Stated in US Dollars)

	Common stock		Additional paid-in capital	Due (from)/to stockholder/ Director	Accumulated deficit	Total stockholders Equity (deficit)
	Shares	Amount				
Balance at January 1, 2006	27,829,936	27,830	3,360,405	(102,936)	(2,524,673)	760,626
Issuance of common stock issued to consultant	500,000	500	104,500			105,000
Issuance of common stock for option issued to employees			128,122			128,122
Net increase in due (from)/to stockholder/director				1,016,399		1,016,399
Net income					450,404	450,404
Restated Balance at December 31, 2006	28,329,936	28,330	3,593,027	913,463	(2,074,269)	2,460,551
Restated Balance at January 1, 2007	28,329,936	28,330	3,593,027	913,463	(2,074,269)	2,460,551
Reclassification				(913,463)		(913,463)
Net income					278,843	278,843
Restated Balance at December 31, 2007	28,329,936	$ 28,330	$ 3,593,027	$	$ (1,795,426)	$ 1,825,931

See accompanying notes to the consolidated financial statements

ACL SEMICONDUCTORS INC. AND SUBSDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006
(Stated in US Dollars)

	2007	2006
	(Restated)	(Restated)
Cash flows provided by (used for) operating activities:		
Net income	$ 278,843	$ 450,404
Depreciation and amortization	230,614	78,074
Change in inventory reserve	323,077	100,000
Gain on disposal of equipment	(218)	
Gain on disposal of marketable securities	(404,780)	
Fair value of options issued to employees		128,122
Issuance of common stocks to consultant as professional fee under share option scheme		105,000
Adjustments to reconcile net loss to net cash used in operating activities:		
Accounts receivable other	(5,618,543)	(1,492,917)
Accounts receivable related parties	5,654,608	(5,196,730)
Inventories	(837,977)	(2,265,503)
Refundable deposits	(6,207)	1,000,000
Other current assets	(48,246)	222,363
Other assets		6
Accounts payable	7,860,477	513,904
Accrued expenses	(118,268)	41,442
Payable related to debt settlement		(76,088)
Income tax payable	(124,214)	(142,614)
Other current liabilities	(33,858)	238,598
Deferred tax	15,471	8,813
Total adjustments	6,891,936	(6,737,530)
Net cash provided by (used for) operating activities	7,170,779	(6,287,126)
Cash flows used for investing activities:		
Advanced to Aristo / Mr. Yang	(18,124,066)	
Advanced from Aristo / Mr. Yang	11,153,115)	1,016,399
Increase in restricted cash	(1,494,480)	(1,939,346)
Increase in restricted marketable securities	(769,231)	
Cash Proceeds from sales of equipment	385	
Purchases of property, equipment and improvements	(3,159,760)	(3,833,649)
Net cash used for investing activities	(12,394,037)	(4,756,596)
Cash flows provided by financing activities:		
Net borrowings on lines of credit and notes payable	4,772,021	7,996,182
Borrowing under long-term debt	801,723	2,000,000
Principal payments under long-term debt	(91,625)	(35,619)
Principal payments under capital lease obligation	(45,291)	(7,154)
Net cash provided by financing activities	5,436,828	9,953,409

Net cash and cash equivalents sourced (used)	213,570	(1,090,313)
Cash and cash equivalents, beginning of year	1,447,486	2,537,799
Cash and cash equivalents, end of year	$ 1,661,056	$ 1,447,486

ACL SEMICONDUCTORS INC. AND SUBSDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006
(Stated in US Dollars)

	2007	2006
	(Restated)	(Restated)
Supplemental cash flow information:		
Interest paid	$ 1,009,010	$ 688,693
Income tax paid	$ 305,389	$ 147,217
Supplement schedule of non-cash investing and financing activities:		
Capital lease obligations incurred when capital leases were entered for new automobiles	$ 95,898	$

See accompanying notes to the consolidated financial statements

ACL SEMICONDUCTORS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2007 AND 2006 AND
THE YEARS ENDED DECEMBER 31, 2007 AND 2006
(Stated in US Dollars)

Note 1. ORGANIZATION AND PRINCIPAL ACTIVITY

Organization and Basis of Presentation

On September 8, 2003, ACL Semiconductors Inc. (formerly Print Data Corp.) (ACL) entered into a Share Exchange and Reorganization Agreement with Atlantic Components Ltd. (Atlantic), a Hong Kong based company, and Mr. Chung-Lun Yang (Mr. Yang), the then sole beneficial stockholder of Atlantic. Under the terms of the agreement, ACL issued 22,380,000 of its shares to Mr. Chung-Lun Yang and 2,620,000 of its shares to certain financial advisors in exchange for 100% of the issued and outstanding shares of Atlantic s capital stock. The Company recorded an expense of $2,753,620 related to the issuance of 2,620,000 shares of its common stock to these advisors, which was computed based on the quoted market price of $1.05 on September 30, 2003, the effective date of the merger and was classified as merger cost in the accompanying consolidated statements of operations for the year ended December 31, 2003.

The share exchange agreement closed and became effective on September 30, 2003. Upon the completion of this transaction, Atlantic became the wholly owned subsidiary of ACL, and Mr. Yang became the owner of approximately 80% of ACL s issued and outstanding shares of common stock. In addition, ACL s directors and officers resigned and were replaced by directors and officers of Atlantic. For accounting purposes, the acquisition was accounted for as a reverse-acquisition, whereby Atlantic was deemed to have acquired ACL. Because the acquisition was accounted for as a purchase of ACL, the historical financial statements of Atlantic became the historical financial statements of ACL after this transaction.

In connection with this transaction, ACL entered into a Conveyance Agreement on September 30, 2003 with New Print Data Corp. (NewCo). Under the terms of this agreement, effective September 30, 2003, ACL conveyed its historic operations of providing supplies used in a computer or office environment to NewCo, by assigning all of the assets and liabilities related to such operations to NewCo which accepted the assignment and assumed all such liabilities in exchange for 1,000,000 shares of common stock of NewCo.

On October 1, 2003, Print Data Corp. entered into a Securities Purchase Agreement with the holders of Print Data Corp. s Series A Preferred Stock. Under the terms of this agreement, Print Data Corp. sold its 1,000,000 shares of NewCo common stock in exchange for the cancellation of the issued and outstanding 500,400 shares of ACL s Series A Preferred Stock (representing 100% of Print Data Corp. s issued and outstanding preferred stock previously held by three preferred stockholders).

On December 16, 2003, Print Data Corp. filed a Certificate of Amendment with the Secretary of State of the State of Delaware changing its name from Print Data Corp. to ACL Semiconductors Inc.

Business Activity

ACL Semiconductors Inc. (Company or ACL) was incorporated in the State of Delaware on September 17, 2002. Through a reverse-acquisition of Atlantic Components Ltd., a Hong Kong based company, 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 Components Ltd., its wholly owned subsidiary, 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 are consolidated with those of Atlantic.

ACL SEMICONDUCTORS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**AS OF DECEMBER 31, 2007 AND 2006 AND
THE YEARS ENDED DECEMBER 31, 2007 AND 2006
(Stated in US Dollars)**

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Method of Accounting

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

(b) Principles of Consolidation

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

The Company owned its subsidiary soon after its inception and continued to own the equity s interests through December 31, 2007. The following table depicts the identity of the subsidiary:

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

*Note: Deemed variable interest entity

Variable Interests Entities

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

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

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

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

ACL SEMICONDUCTORS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**AS OF DECEMBER 31, 2007 AND 2006 AND
THE YEARS ENDED DECEMBER 31, 2007 AND 2006
(Stated in US Dollars)**

Aristo Technologies Limited

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

Aristo is engaged in the marketing, selling and servicing of computer products and accessories including semiconductors, LCD products, mass storage devices, consumer electronics, computer peripherals and electronic components for various brands such as Samsung, Hynix, Micron, Elpida, Qimonda, Lexar, Dane-Elec, Elixir, SanDisk and Winbond. Aristo 2007 sales was around 27 million; it was only a small distributor that accommodated special requirements for specific customers.

The Company sells to Aristo in order to fulfill Aristo s periodic need for Samsung memory products based on prevailing market prices, which products Aristo, in turn, sells to its customers. For fiscal year 2007, sales to Aristo were $17,165,728 with accounts receivable of $6,237,905 as of December 31, 2007.

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

ACL SEMICONDUCTORS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2007 AND 2006 AND THE YEARS ENDED DECEMBER 31, 2007 AND 2006 (Stated in US Dollars)

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Use of estimates

The preparation of the consolidated financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Management makes these estimates using the best information available at the time the estimates are made; however actual results could differ materially from those estimates.

(d) Economic and political risks

The Company s operation is conducted in Hong Kong. Accordingly, the Company s business, financial condition and results of operations may be influenced by the political, economic and legal environment in Hong Kong, and by the general state of Hong Kong economy.

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

(e) Property, plant and equipment

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

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

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

(f) Account receivable

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

(g) Accounting for impairment of long-lived assets

The Company periodically evaluates the carrying value of long-lived assets to be held and used, including intangible assets subject to amortization, when events and circumstances warrant such a review, pursuant to the guidelines established in ASC No. 360 (formerly Statement of Financial Accounting Standards No. 144). The carrying value of a long-lived asset is considered impaired when the anticipated undiscounted cash flow from such asset is separately identifiable and is less than its carrying value. In that event, a loss is recognized based on the amount by which the carrying value exceeds the fair

market value of the long-lived asset. Fair market value is determined primarily using the anticipated cash flows discounted at a rate commensurate with the risk involved. Losses on long-lived assets to be disposed of are determined in a similar manner, except that fair market values are reduced for the cost to dispose.

During the reporting years, there was no impairment loss.

ACL SEMICONDUCTORS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2007 AND 2006 AND
THE YEARS ENDED DECEMBER 31, 2007 AND 2006
(Stated in US Dollars)

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Cash and cash equivalents

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

(i) Inventories

Inventories are stated at the lower of cost or market and are comprised of purchased computer technology resale products. Cost is determined using the first-in, first-out method. The reserve for obsolescence was decreased by $323,077 for 2007 and increased by $100,000 for 2006. Inventory obsolescence reserves totaled $564,103 and $241,025 as of December 31, 2007 and 2006, respectively.

(j) Lease assets

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

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

(k) Income taxes

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

(l) Foreign currency translation

The accompanying consolidated financial statements are presented in United States dollars. The functional currency of the Company is the Hong Kong Dollar (HK$). The consolidated financial statements are translated into United States dollars from HKUS1.00=HKD7.80, a fixed exchange rate maintained between Hong Kong and United States.

(m) Revenue recognition

The Company derives revenues from resale of computer memory products. The Company recognizes revenue in accordance with the SEC Staff Accounting Bulletin No. 104, Revenue Recognition (SAB 104). Under SAB 104, revenue is recognized when there is persuasive evidence of an arrangement, delivery has occurred or services are rendered, the sales price is determinable, and collectability is reasonably assured. Revenue typically is recognized at time of shipment. Sales are recorded net of discounts, rebates, and returns, which historically were not material.

(n) Advertising

The Company expensed all advertising costs as incurred. Advertising expenses included in selling expenses were $7,937 and $7,617 for the years ended December 31, 2007 and 2006, respectively.

ACL SEMICONDUCTORS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2007 AND 2006 AND
THE YEARS ENDED DECEMBER 31, 2007 AND 2006
(Stated in US Dollars)

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) Segment reporting

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

(p) Fair value of financial instruments

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

(q) Comprehensive income

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

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

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

(s) Reclassification

Certain amounts in the prior year have been reclassified to conform to the current year s presentation.

(t) Recently implemented standards

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

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Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(t) Recently implemented standards

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

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

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

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(t) Recently implemented standards

ASC 810, Consolidation (ASC 810) includes new guidance issued by the FASB in December 2007 governing the accounting for and reporting of non-controlling interests (previously referred to as minority interests). This guidance established reporting requirements which include, among other things, that non-controlling interests be reflected as a separate component of equity, not as a liability. It also requires that the interests of the parent and the non-controlling interest be clearly identifiable. Additionally, increases and decreases in a parent s ownership interest that leave control intact shall be reflected as equity transactions, rather than step acquisitions or dilution gains or losses. This guidance also requires changes to the presentation of information in the financial statements and provides for additional disclosure requirements. ASC 810 was effective for fiscal years beginning on or after December 15, 2008. The Company implemented this guidance as of January 1, 2010 and made necessary changes accordingly including but not limited to filing amendments for the prior periods to comply with all applicable requirements. ASC 825, Financial Instruments (ASC 825) includes guidance which was issued in February 2007 by the FASB and was previously included under Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115. The related sections within ASC 825 permit a company to choose, at specified election dates, to measure at fair value certain eligible financial assets and liabilities that are not currently required to be measured at fair value. The specified election dates include, but are not limited to, the date when an entity first recognizes the item, when an entity enters into a firm commitment or when changes in the financial instrument causes it to no longer qualify for fair value accounting under a different accounting standard. An entity may elect the fair value option for eligible items that exist at the effective date. At that date, the difference between the carrying amounts and the fair values of eligible items for which the fair value option is elected should be recognized as a cumulative effect adjustment to the opening balance of retained earnings. The fair value option may be elected for each entire financial instrument, but need not be applied to all similar instruments. Once the fair value option has been elected, it is irrevocable. Unrealized gains and losses on items for which the fair value option has been elected will be reported in earnings. This guidance was effective as of the beginning of fiscal years that began after November 15, 2007. The Company does not have eligible financial assets and liabilities, and, accordingly, the implementation of ASC 825 did not have an effect on the Company s results of operations or financial position.

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

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

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Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(t) Recently implemented standards

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

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

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

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

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Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(t) Recently implemented standards

In June 2009, the FASB issued Statement of Financial Accounting Standards No. 166, Accounting for Transfers of Financial Assets an amendment of FASB Statement No. 140 (Statement No. 166). Statement No. 166 revises FASB Statement of Financial Accounting Standards No. 140, Accounting for Transfers and Extinguishment of Liabilities a replacement of FASB Statement 125 (Statement No. 140) and requires additional disclosures about transfers of financial assets, including securitization transactions, and any continuing exposure to the risks related to transferred financial assets. It also eliminates the concept of a qualifying special-purpose entity , changes the requirements for derecognizing financial assets, and enhances disclosure requirements. Statement No. 166 is effective prospectively, for annual periods beginning after November 15, 2009, and interim and annual periods thereafter. Although Statement No. 166 has not been incorporated into the Codification, in accordance with ASC 105, the standard shall remain authoritative until it is integrated. The Company does not expect the adoption of Statement No. 166 will have a material impact on its financial position or results of operations.

Note 3. PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment, net comprise the followings:

	2007	2006
At cost		
Land and buildings	$ 6,794,629	$ 3,797,760
Automobiles	226,056	83,325
Office equipment	148,568	132,722
Leasehold improvements	150,822	46,015
Furniture and fixtures	13,273	10,690
	7,333,348	4,070,512
Less: accumulated depreciation and amortization	(399,350)	(161,391)
	$ 6,933,998	$ 3,909,121

Depreciation expenses included in the general and administrative expenses for the years ended December 31, 2007 and 2006 were $230,614 and $78,074 respectively.

Note 4. REVOLVING LINES OF CREDIT AND LOAN FACILITIES

The line of credit granted by Dah Sing Bank, Limited to the Company matured on September 30, 2007. The outstanding balances with Dah Sing Bank, Limited were $0 at December 31, 2007and $1,641,000 at December 31, 2006. For borrowings in Hong Kong dollars (HKD), the line of credit bore interest at the greater of (1) Hong Kong prime rate or (2) 1% over the Hong Kong Inter-bank Offer Rate (HIBOR) as of December 31, 2006. Weighted average interest rate approximated 7.9% for 2007 and 8.1% for 2006. For borrowings in foreign currency, the line of credit carries interest at the Base Rate.

The Company has available to it a $5,128,205 revolving line of credit with DBS Bank with an outstanding balance of $5,635,176 at December 31, 2007 and $4,228,396 at December 31, 2006. The line of credit bears interest at the bank s standard bills rate less

1.25% for HKD borrowings and at the bank s standard bills rate less 0.75% for other currency borrowings as of December 31, 2007. Weighted average interest rate approximated 6.7% for 2007 and 6.9% for 2006.

The Company has available to it a $5,769,231 factoring facility with recourse/without recourse with DBS Bank without any outstanding balance at December 31, 2007. The factoring facility bears discounting charge at the bank s standard bills rate less 1.25% for advance in HKD or the bank s standard bills rate less 0.75% for advance in other currency as of December 31, 2007. Weighted average interest rate approximated 6.7% for 2007 and 6.9% for 2006.

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The Company has available to it a $384,615 letter of guarantee with DBS Bank with an outstanding balance of $384,615 at December 31, 2006 and the letter of guarantee expired on December 17, 2007. The line of credit bears commission 1.5% per annum which will be refunded on pro-rata basis upon return and cancellation of the letter of guarantee.

The Company has available to it a $3,076,923 revolving line of credit with SCB with an outstanding balance of $3,709,379 at December 31, 2007 and $1,015,825 at December 31, 2006. The line of credit bears interest at a rate of the bank s standard bills rate less 0.5% for HKD facilities and at a rate of the bank s standard bills rate plus 1% for foreign currency facilities as of December 31, 2007. Weighted average interest rate approximated 7.4% for 2007 and 7.6% for 2006.

The Company has available to it $1,025,641 factory facilities with SCB without any outstanding balance at December 31, 2007. The factoring facility bears discounting charges at the bank s standard bills rate less 0.75% rate for advances in HKD or the bank s standard bills rates less 0.75% for advance in other currency as of December 31, 2007. Weighted average interest rate approximated 7.2% for 2007.

The Company has available to it a $2,307,692 revolving line of credit with BEA with an outstanding balance of $2,303,868 at December 31, 2007 and $2,307,150 at December 31, 2006. The line of credit bears interest at the higher of Hong Kong prime rate or HIBOR for HKD facilities and at other currencies LIBOR plus 1.75% for other currencies facilities as of December 31, 2007. Weighted average interest rate approximated 7.9% for 2007 and 8.1% for 2006.

The Company has available to it a $275,749 tax loan with BEA with an outstanding balance of $252,770 at December 31, 2007. The line of credit bears interest at the higher of Hong Kong prime rate less 2% or HIBOR and will be repayable by 11 monthly installments as of December 31, 2007. Weighted average interest rate approximated 7.9% for 2007.

The Company has available to it a $2,307,692 revolving line of credit with Citic with an outstanding balance of $2,297,061 at December 31, 2007 and $1,646,096 at December 31, 2006. The line of credit bears interest at the higher of Hong Kong prime rate less 0.5% or 1 month HIBOR plus 3% as of December 31, 2007. Weighted average interest rate approximated 7.4% for 2007 and 8.1% for 2006.

The Company has available to it a $1,923,077 revolving line of credit and factoring facilities with Hang Seng with an outstanding balance of $1,665,003 at December 31, 2007. The line of credit bears interest at a rate of Hong Kong prime rate less 0.5% for HKD facilities and at a rate of the bank s board rate less 0.25% for United States Dollar facilities as of December 31, 2007. Weighted average interest rate approximated 7.4% for 2007 and 8.1% for 2006.

The summary of banking facilities at December 31, 2007 is as follows:

	Granted facilities	Utilized facilities	Not Utilized Facilities
Lines of credit and loan facilities			
Factoring Loan	$ 6,794,872	$ 0	$ 6,794,872
Import/Export Loan	14,743,589	15,610,487	(866,898)
	$ 21,538,461	$ 15,610,487	$ 5,927,974
Instalment/Term Loan	$ 2,817,949(a)	$ 2,674,479	$ 143,470
Overdraft	282,051	0	282,051
Letter of Guarantee	384,615(b)	384,615	0
	$ 25,023,076	$ 18,669,581	$ 6,353,495

(a) Per summary of Note (5)
(b) Guarantee granted to a supplier

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 and loan facilities described above are repayable within a period of three (3) months of drawdown

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Note 5. LONG-TERM DEBTS

Long-term debts were comprised of the following:

	2007	2006
Installment loan having a maturity date in July 2026 and carrying an interest rate of 2.75% below the Hong Kong dollar Prime Rate (7.25% at December 31, 2007 and 2006) from DBS Bank. The monthly installments are approximately $11,397 including interest through December 2007 without any balloon payment requirements	$ 1,719,704	$ 1,774,020
Installment loan having a maturity date in July 2011 and carrying an interest rate of 2% below the Hong Kong dollar Prime Rate (7.25% at December 31, 2006 and 2007) from DBS Bank. The monthly installments are approximately $3,193 including interest through December 2007 without any balloon payment requirements	153,052	190,361
Installment loan having a maturity date in July 2023 and carrying an interest rate of 2.5% below the Hong Kong dollar Prime Rate (7.25% at December 31, 2006 and 2007) from DBS Bank. The monthly installments are approximately $6,034 including interest through December 2007 without any balloon payment requirements	801,723	
	2,674,479	1,964,381
Less: current maturities	(135,237)	(90,569)
	$ 2,539,242	$ 1,873,812

An analysis of long-term debt as of December 31 is as follows:

	2007	2006
Current portion	$ 135,237	$ 90,569
After 1 year, but within 2 years	290,618	196,797
After 2 years, but within 5 years	247,571	199,153
After 5 years	2,001,053	1,477,862
	2,539,242	1,873,812
	$ 2,674,479	$ 1,964,381

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Note 5. LONG-TERM DEBTS (Continued)

With respect to all of the above referenced debt and credit arrangements in Note 4, the Company pledged its assets as collateral collectively to a bank group in Hong Kong comprised of DBS Bank. (formerly Overseas Trust Bank Limited), SCB, BEA, Citic and Industrial and Commercial Bank of China (Asia) Limited (ICBC) 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 $641,025 (HK$5,000,000), a security interest on two residential properties and a workshop located in Hong Kong owned by Atlantic, a wholly owned subsidiary of ACL plus personal guarantee by Mr. Yang as collateral for loans from DBS Bank;

2. a fixed cash deposit of $1,323,569 (HK$10,323,842) plus unlimited personal guarantee by Mr. Yang, as collateral for loans from BEA;

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 SCB;

4. a cash deposit not less than $700,000, a security interest on workshop located in Hong Kong owned by Solution, a related party plus a personal guarantee by Mr. Yang as collateral for loans from Citic;

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.

Note 6. CAPITAL LEASE OBLIGATIONS

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

	2007	2006
Current portion	$ 44,991	$ 17,170
Non-current portion	49,971	27,185
	94,962	44,355

At December 31, the value of automobiles under capital leases as follows:

	2007	2006
Cost	$ 145,890	$ 49,992
Less: depreciation	(39,344)	(2,500)
	106,545	47,492

At December 31, the company had obligations under capital leases repayable as follows:

	2007	2006
Total minimum lease payments		
-Within one year	$ 50,381	$ 19,205
- After one year but within 5 years	56,081	30,407
	106,462	49,612
Interest expenses relating to future periods	(11,500)	(5,257)
Present value of the minimum lease payments	$ 94,962	$ 44,355

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Note 7. CONCENTRATIONS OF CREDIT RISK AND MAJOR CUSTOMERS

The Company has a non-exclusive Distributorship Agreement with Samsung Electronics Hong Kong Co., Ltd. (Samsung), which was initially entered into in May 1993 and has been renewed annually. Under the terms of the agreement, Samsung appointed the Company on a non-exclusive basis as Samsung s distributor to distribute and market its products in the designated territory. The Company has the right to market and sell the products of other manufacturers and render service related to such activities, unless such activities result in the Company s inability to fulfill its obligations under the Agreement. However, the Company shall not purchase to sell any of the same product lines as Samsung produces and deals in from any other Korean manufacturer during the term of this Agreement. The most recent renewal of the Distributorship Agreement expired on February 28, 2010. As of March 1, 2010, Samsung has confirmed the annual renewal of such agreement for one year. Official signed agreement should be received by the Company in May 2010.

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 the Hong Kong office of Samsung. The Company purchased 66% and 69% of materials from Samsung for the years ended December 31, 2007 and 2006, respectively. However, there is no written supply contract between the Company and Samsung and, accordingly, there is no assurance that Samsung 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. See Note 5 for details for Mr. Yang s support of the Company s banking facilities. At December 31, 2007 and 2006, included in accounts payable were $8,675,069 and $9,562,199, respectively, to Samsung. Termination of such distributorship by Samsung will significantly impair and adversely affect the continuation of the Company s business.

As of December 31, 2007 and 2006, Samsung has withheld a total of $350,000 of rebate due to the Company as deposits. As agreed with Samsung, the deposits were fully refunded to the Company on January 22, 2009.

Note 8. INCOME TAXES

Income tax expense amounted to $187,833 for 2007 and $163,415 for 2006 (an effective rate of 40% for 2007 and 23% for 2006). A reconciliation of the provision for income taxes with amounts determined by applying the statutory federal income tax rate of 34% to income before income taxes is as follows:

	2007	2006
Computed tax at federal statutory rate	$ 158,670	$ 208,698
Tax rate differential on foreign earnings of Atlantic and Aristo, Hong Kong based companies	(65,717)	(154,077)
Tax under/(over) provision for Atlantic	61,428	
Net operating loss carry forward	33,452	108,794
	$ 187,833	$ 163,415

The income tax provision consists of the following components:

	2007	2006
Federal	$	$
Foreign	187,833	163,415
	$ 187,833	$ 163,415

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Note 8. INCOME TAXES (Continued)

The Components of the deferred tax assets and liabilities are as follows:

	2007	2006
Net operating losses	$ 1,056,992	$ 1,023,540
Total deferred tax assets	$ 1,056,992	$ 1,023,540
Less: valuation allowance	(1,056,992)	(1,023,540)
	$	$

The Company did not have any interest and penalty recognized in the income statements for the year ended December 31, 2007and 2006 or balance sheet as of December 31, 2007 and 2006. The Company did not have uncertainty tax positions or events leading to uncertainty tax position within the next 12 months. The Company s 2004, 2005 and 2006 U.S. Corporation Income Tax Return are subject to U.S. Internal Revenue Service examination and the Company s 2001/2, 2002/3, 2003/4, 2004/5, 2005/6, 2006/7, 2007/8, Hong Kong Corporations Profits Tax Return are subject to Hong Kong Inland Revenue Department examination.

Note 9. WEIGHTED AVERAGE NUMBER OF SHARES

The Company has a 2006 Inventive Equity Stock Plan, under which the Company may grant options to its employees for up to 5 million shares of common stock. In May 2006, the Company granted options to a consultant to acquire 500,000 shares of common stock of the Company as the consulting and advisory service fee and the consultant exercised all of the options during the year ended December 31, 2006. In May 2006, the Company granted options to purchase an aggregate 2,000,000 shares of common stock of the Company to three employees. These options were fully vested upon grant, had an exercise price of $0.22 per share and expired in December 2006. There was no dilutive effect to the weighted average number of shares for the years ended December 31, 2007 and 2006 since there were no outstanding options at December 31, 2007 and 2006.

Note 10. RELATED PARTY TRANSACTIONS

Transactions with Aristo Technologies Limited / Mr. Yang

As of December 31, 2007 and 2006, we had an outstanding receivable from Mr. Yang, the President and Chairman of our Board of Directors, totaling $6,057,488 and $0, respectively. Because the Company s business is distributing computer components and is heavily dependant on Samsung, Mr. Yang took a loan from the Company and used it to invest in other companies to create new business platforms. These business platforms include manufacturing, research and development, which Mr. Yang believes can help improve the Company s business in the long term. These advances bear no interest and are payable on demand. The receivable due from Mr. Yang to the Company is derived from the consolidation of the financial statements of Aristo, a variable interest entity, with the Company.

As of December 31, 2007 and 2006, we had an outstanding receivable from Mr. Yang, the President and Chairman of our Board of Directors, totaling $6,057,488 and $0. These advances bear no interest and are payable on demand.

For the years ended December 31, 2007 and 2006, we recorded compensation to Mr. Yang of $812,821and $200,000 respectively, and paid $812,821 and $200,000 respectively to Mr. Yang as compensation to him.

During each of the years ended December 31, 2007 and 2006, we paid rent of $17,521 and $68,280 respectively for Mr. Yang s personal residence as fringe benefits to him. All such payments have been recorded as compensation expense in the accompanying financial statements..

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Note 10. RELATED PARTY TRANSACTIONS (Continued)

Transactions with Classic Electronic Limited

Mr. Ben Wong, one of our directors, is a 99.9% shareholder of Classic Electronic Ltd. (Classic). The remaining 0.1% of Classic is owned by a non-related party. As of December 31, 2007 and 2006, we had net outstanding accounts receivable from Classic totaling $1,717,859 and $6,709,495, respectively. This account receivable has been outstanding for more than 12 months.

During the years ended December 31, 2007 and 2006, we purchased inventories of $400,164 and $0 respectively from Classic. As of December 31, 2007 and 2006, there were no outstanding accounts payable to Classic.

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 14 to Consolidated Financial Statements, the Company has entered into a payment plan with Classic, and the amount due to Classic has been settled.

We leased one of our facilities and Mr. Yang s personal residence from Classic. Lease agreements for those two properties expired and were acquired by Atlantic on July 21, 2006. Monthly lease payments for these 2 leases totaled $6,684. We incurred and paid rent expense of $0 and $44,418 to Classic for the years ended December 31, 2007 and 2006 respectively.

On February 21, 2006, a cross corporate guarantee was executed between Classic and Atlantic for banking facilities to be co-utilized with Standard Chartered Bank (Hong Kong) Limited (SCB). The maximum amount of facilities that could be utilized by Atlantic was $1.154 million (HKD9 millions) and the facility lines was fully covered by collaterals provided by Classic and companies other than Atlantic Subsequently, the cross guarantees were released on December 7, 2006.

On July 6, 2006, a cross corporate guarantee was executed between Classic and Atlantic for banking facilities to be co-utilized with The Bank of East Asia Limited (BEA). The cross guarantee was temporarily created due to selling of properties by Classic to Atlantic. During the period of execution of the assignment of legal title, BEA requested a cross guarantee for both companies. All facilities and outstanding loan balances were booked under and utilized by Atlantic which will not absorb any losses from Classic. Subsequently, the cross guarantees were released on December 8, 2006.

Transactions with Solution Semiconductor (China) Limited

Mr. Ben Wong, one of our directors, is a 99% shareholder of Solution Semiconductor (China) Ltd. (Solution). The remaining 1% of Solution is owned by a non-related party. On April 01, 2007, we entered into a lease agreement with Solution pursuant to which we lease one facility. The lease agreement for this facility expires on March 31, 2009. Monthly lease payment for this lease is $1,090. We incurred and paid an aggregate rent expense of $12,385 and $3,436 to Solution during the year ended December 31, 2007 and 2006.

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

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Note 10. RELATED PARTY TRANSACTIONS (Continued)

Transactions with Systematic Information Limited

Mr. Yang, the Company s Chief Executive Officer, majority shareholder and a director, is a director and shareholder of Systematic Information Ltd. (Systematic Information) with a total of 100% interest. On August 31, 2006, we entered into a lease agreement with Systematic Information pursuant to which we lease one facility. The lease agreement for this facility expires on August 31, 2008. Monthly lease payment for this lease totaled $641. Upon expiration of the lease on August 31, 2008, ACL acquired this residential property from Systematic Information. We incurred and paid an aggregate rent expense of $7,692 and $2,564 to Systematic Information during the year ended December 31, 2007 and 2006.

During the years ended December 31, 2007 and 2006, we received service charges $11,538 and $6,410 respectively, from Systematic Information. As of December 31, 2007 and 2006, there was no outstanding accounts receivable from Systematic Information.

During the years ended December 31, 2007 and 2006, we sold products for $666,742 and $0 respectively, to Systematic Information. As of December 31, 2007 and 2006, there were no outstanding accounts receivables from Systematic Information.

During the years ended December 31, 2007 and 2006, we purchased inventories of $1,523,238 and $0 respectively from Systematic Information. As of December 31, 2007 and 2006, there were no outstanding accounts payable to Systematic Information.

On April 1, 2005, we entered into a lease agreement with Systematic Information pursuant to which we lease 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 residential property from Systematic Information. We incurred and paid an aggregate rent expense of $17,521 and $38,462 to Systematic Information during the year ended December 31, 2007 and 2006.

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

Transactions with Global Mega Development Limited

Mr. Yang, the Company s Chief Executive Officer, majority shareholder and a director, is the sole beneficial owner of the equity interest of Global Mega Development Ltd. (Global). During the years ended December 31, 2007 and 2006, we received management fee of $5,769 and $7,692 respectively, from Global. As of December 31, 2007 and 2006, there was no outstanding accounts receivable from Global. The management fees were charged for back office support for Global.

During the years ended December 31, 2007 and 2006, we sold products for $25,337 and $0 respectively, to Global. As of December 31, 2007 and 2006, there were no outstanding accounts receivables from Global.

During the years ended December 31, 2007 and 2006, we purchased inventories of $18,294 and $0 respectively from Global. As of December 31, 2007 and 2006, there were no outstanding accounts payable to Global.

Transactions with Intelligent Network Technology Limited

Mr. Yang the Company s Chief Executive Officer, majority shareholder and a director, is a director and 80% shareholder of Intelligent Network Technology Ltd. (Intelligent). The remaining 20% of Intelligent is owned by a non-related party. During the years ended December 31, 2007 and 2006, we received a management fee of $0 and $7,692 respectively, from Intelligent. As of December 31, 2007 and 2006, there was no outstanding accounts receivable from Intelligent. The management fees were charged for back office support for Intelligent.

During the years ended December 31, 2007 and 2006, we purchased inventories of $1,343,501 and $0 respectively from Intelligent. As of December 31, 2007 and 2006, there were no outstanding accounts payable to Intelligent.

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Note 10. RELATED PARTY TRANSACTIONS (Continued)

Transactions with Systematic Semiconductor Limited

Mr. Yang the Company s Chief Executive Officer, majority shareholder and a director, is the sole beneficial owner of the equity interest of Systematic Semiconductor Ltd. (Systematic). During the years ended December 31, 2007 and 2006, we received a management fee of $16,026 and $15,384 respectively, from Systematic. As of December 31, 2007 and 2006, there was no outstanding accounts receivable from Systematic. The management fees were charged for back office support for Systematic.

During the years ended December 31, 2007 and 2006, we sold products for $779,879 and $0 respectively, to Systematic. As of December 31, 2007 and 2006, there were no outstanding accounts receivables from Systematic.

During the years ended December 31, 2007 and 2006, we purchased inventories of $1,007,352 and $0 respectively from Systematic. As of December 31, 2007 and 2006, there were no outstanding accounts payable to Systematic.

Transactions with Aristo Components Limited

Mr. Ben Wong, one of our directors, is a 90% shareholder of Aristo Components Ltd. (Aristo Comp). The remaining 10% of Aristo Comp is owned by a non-related party. During the years ended December 31, 2007 and 2006, we sold products for $349,327 and $0 respectively, to Aristo Comp. As of December 31, 2007 and 2006, there were no outstanding accounts receivables from Aristo Comp.

Transactions Atlantic Storage Devices Limited

Mr. Yang, the Company s Chief Executive Officer, majority shareholder and a director, is a 40% shareholder of Atlantic Storage Devices Ltd. (Atlantic Storage). The remaining 60% of Atlantic Storage is owned by a non-related party. During the years ended December 31, 2007 and 2006, we sold products for $1,471,471 and $0 respectively, to Atlantic Storage. As of December 31, 2007 and 2006, there were no outstanding accounts receivables from Atlantic Storage.

During the years ended December 31, 2007 and 2006, we purchased inventories of $581,444 and $0 respectively, from Atlantic Storage. As of December 31, 2007 and 2006, there were no outstanding accounts payable to Atlantic Storage.

Transactions Rambo Technologies Limited

Mr. Ben Wong, one of our directors, is a 60% shareholder of Rambo Technologies Ltd. (Rambo). The remaining 40% of Rambo is owned by a non-related party. During the years ended December 31, 2007 and 2006, we sold products for $2,574,096 and $0 respectively, to Rambo. As of December 31, 2007 and 2006, there were no outstanding accounts receivables from Rambo.

Transactions Usmart Electronic Products Limited

Mr. Yang, the Company s Chief Executive Officer, majority shareholder and a director, is the sole beneficial owner of the equity interest of Usmart Electronic Products Ltd. (Usmart). During the years ended December 31, 2007 and 2006, we sold products for $703,683 and $0 respectively, to Usmart. As of December 31, 2007 and 2006, there were no outstanding accounts receivables from Usmart.

During the years ended December 31, 2007 and 2006, we purchased inventories of $736,888 and $0 respectively, from Usmart. As of December 31, 2007 and 2006, there were no outstanding accounts payable to Usmart.

Transactions Imax Technology Limited

Mr. Yang, the Company s Chief Executive Officer, majority shareholder and a director, is the sole beneficial owner of the equity interest of Imax Technology Ltd. (Imax). During the years ended December 31, 2007 and 2006, we sold products of $51,060 and $0 respectively, to Imax. As of December 31, 2007 and 2006, there were no outstanding accounts receivables from Imax.

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Note 10. RELATED PARTY TRANSACTIONS (Continued)

Transactions Kadatco Co Limited

Mr. Yang, the Company s Chief Executive Officer, majority shareholder and a director, is a 99.99% shareholder of Kadatco Co Ltd. (Kadatco). The remaining 0.01% of Kadatco is owned by a non-related party. During the years ended December 31, 2007 and 2006, we sold products for $518,040 and $0 respectively, to Kadatco. As of December 31, 2007 and 2006, there were no outstanding accounts receivables from Kadatco.

During the years ended December 31, 2007 and 2006, we purchased inventories of $590,742 and $0 respectively, from Kadatco. As of December 31, 2007 and 2006, there were no outstanding accounts payable to Kadatco.

Transactions with First World Logistics Limited

Mr. Yang the Company s Chief Executive Officer, majority shareholder and a director, is the sole beneficial owner of the equity interest of First World Logistics Ltd. (First). During the years ended December 31, 2007 and 2006, we sold $0 and $7,720,975 respectively to First.

During the years ended December 31, 2007 and 2006, we purchased inventories for $0 and $825,900 respectively from First. As of December 31, 2007 and 2006, there was no outstanding accounts payable to First.

Transactions with City Royal Limited

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

Note 11. RETIREMENT PLAN

Under the Mandatory Provident Fund (MPF) Scheme Ordinance in Hong Kong, the Company is required to set up or participate in an MPF scheme to which both the Company and employees must make continuous contributions throughout their employment based on 5% of the employees earnings, subject to maximum and minimum level of income. For those earning less than the minimum level of income, they are not required to contribute but may elect to do so. However, regardless of the employees election, their employers must contribute 5% of the employees income. Contributions in excess of the maximum level of income are voluntary. All contributions to the MPF scheme are fully and immediately vested with the employees accounts. The contributions must be invested and accumulated until the employees retirement. The Company contributed and expensed $29,062 for 2007 and $21,475 for 2006

ACL SEMICONDUCTORS INC. AND SUBSIDIARIES

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Note 12. DERIVATIVE INSTRUMENTS

On February 1, 2009, the Company adopted SFAS 161 as referenced in Note 2. The adoption of SFAS 161 requires additional disclosures about 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 at December 31, 2007, there is a ratio par forward agreement between the Company and DBS for the Company to buy USD500,000 from DBS at a contract forward rate of 7.735 at specified dates up to March 18, 2008. According to the terms of the agreements, the Company will buy USD in double amount if the spot rate is less than the contract forward rate. The gain on this forward contract during the year ended December 31, 2007 was $37,244.

As at 31 December 2007, there is a callable ratio par forward agreement between the Company and DBS for the Company to buy USD500,000 from DBS at a contract forward rate of 7.74 at specified dates up to March 20, 2009. According to the terms of the agreements, the Company will buy USD in double amount if the spot rate is less than the contract forward rate. There is no gain or loss on this forward contract during the year ended December 31, 2007.

As at December 31, 2007 there is a participating forward currency option agreement between the Company and SCB for the Company to buy USD200,000 from SCB at a contract rate of 7.725 at specified dates up to July 03, 2008. According to the terms of the agreements, the Company will buy USD in double amount if the spot rate is less than the contract rate at specified dates. The gain on this forward contract during the year ended December 31, 2007 was $20,897.

As at December 31, 2007, there is a participating knock-out forward currency option agreement between the Company and SCB for the Company to buy USD500,000 from SCB at a contract rate of 7.739 at specified dates up to April 23, 2009. According to the terms of the agreements, the Company will buy USD in triple amount if the spot rate is less than the contract rate at specified dates and the agreement will be terminated whenever the spot rate is higher than a rate of 7.809 during the contract period. The gain on this forward contract during the year ended December 31, 2007 was $6,449. The agreement was terminated in January 3, 2008.

No foreign currency exchange agreements were matured as of December 31, 2007.

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Note 12. DERIVATIVE INSTRUMENTS (Continued)

The gross notional and fair values of derivative financial instruments in the Consolidated Balance Sheet as of December 31, 2007 were as follows:

	As of December 31, 2007				
	Gross Notional[1]	Other Current Assets	Long-term Financing Receivables and Other Assets	Other Accrued Liabilities	Other Liabilities
Derivatives designated as hedging instruments under ASC 815					
Cash flow hedges:					
Foreign exchange contracts	$ 1,200,000				
Total derivatives not designated as hedging instruments under ASC 815					
Total derivatives	$ 1,200,000				

[1] Represents the face amounts of contracts that were outstanding as of December 31, 2007.

The before-tax effect of derivative instruments in cash flow and net investment hedging relationships for the year ended December 31, 2007 and 2006 was as follows:

		Gain Recognized in Income on Derivative(1)	
		Year ended December 31,	
	Location	2007	2006
Cash flow hedges:			
Foreign exchange contracts US$200,000 (HKD/USD)	Interest and other, net	$ 20,897	$
Foreign exchange contracts US$500,000 (HKD/USD)	Interest and other, net	6,449	
Foreign exchange contracts US$500,000 (HKD/USD)	Interest and other, net	37,244	
Total cash flow hedges		$ 64,590	$ 0

COMMITMENTS

The Company leases its facilities. The following is a schedule by years of future minimum rental payments required under operating leases that have non-cancellable lease terms in excess of one year as of December 31, 2007:

	Related Party	Other	Total
Year ending December 31,			
2008	$ 18,205	$ 76,495	$ 94,700
2009	3,269	$ 48,833	$ 52,102
Thereafter		$ 19,972	$ 19,972
Total	$ 21,474	$ 145,300	$ 166,774

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See Note 10 for related party leases. All leases expire prior to December 31, 2010. Real estate taxes, insurance, and maintenance expenses are obligations of the Company. It is expected that in the normal course of business, leases that expire will be renewed or replaced by leases on other properties; thus, it is anticipated that future minimum lease commitments will likely be more than the amounts shown for 2007. Rent expense for the years ended December 31, 2007 and 2006 totaled $120,942 and $116,321 respectively.

Note 14. SUBSEQUENT EVENTS

In preparing these financial statements, the Company evaluated the events and transactions that occurred from January 1, 2010 through May 3, 2010, the date these financial statements are issued. The Company has made the required additional disclosures in reporting periods in which subsequent events occur.

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. As of December 31, 2009, the accounts receivable from Classic has been fully settled.

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.

As discussed in Note 7 of the consolidated financial statements, the Company is dependent on one single vendor to supply its inventories. This vendor accounted for the majority of the Company s purchases for 2007. The Company s non-exclusive distributorship agreement with this vendor has a one-year term and contains certain sales quotas to be met by the Company. This agreement has been renewed more than ten times, most recently on March 1, 2009 and expired on February 28, 2010. As of March 1, 2010, this vendor has confirmed the annual renewal of such agreement for one year. The Company has already signed a renewal agreement with Samsung. The Company expects to receive the return of a fully executed renewal agreement in the next two months. Termination of such distributorship agreement by this supplier would have a material adverse effect on the operations of the Company.

The Company is seeking to finalize a loan repayment agreement with Mr. Yang whereby Mr. Yang will repay the outstanding loan at an interest rate of 0.5% and monthly repayment amounts of $95,706 over a period of ten years.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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Note 15. RESTATEMENT OF CONSILIDATED FINANCIAL STATEMENTS

The financial statements for the year ended December 31, 2006 was restated to reflect the omission of the issuance of 500,000 common shares of the Company to a consultant as the consulting and advisory service fee in May 16, 2006 under the Company s share option scheme. The following financial statement line items for the year ended December 31, 2006 were affected by the omission.

	As Originally Reported	Effect of Omission	As Adjusted
Consolidated Statement of Operations For the year ended December 31, 2006			
General and administrative expenses	$ 2,167,057	$ 105,000	$ 2,272,057
Income from operations	1,139,601	(105,000)	1,034,601
Income before income taxes	718,819	(105,000)	613,819
Net profit	555,404	(105,000)	450,404
Earnings per share basic and diluted	$ 0.02	$	$ 0.02
Weighted average number of shares	27,829,936	324,068	28,154,004
Consolidated Balance Sheet as of December 31, 2006			
Common Stock	$ 27,830	$ 500	$ 28,330
Additional paid in capital	3,488,527	104,500	3,593,027
Accumulated deficit	(1,969,269)	(105,000)	(2,074,269)
Total stockholders equity	$ 2,460,551	$	$ 2,460,551
Consolidated Statement of Cash Flows For the year ended December 31, 2006			
Cash flows provided by/(used for) operating activities:			
Net income	$ 555,404	$ (105,000)	$ 450,404
Adjustments to reconcile net income to net cash provided by/(used for) operating activities:			
Issuance of common stocks to a consultant as consulting and advisory service fee under share option scheme		105,000	105,000
Total Adjustments to reconcile net income to net cash provided by/(used for) operating activities:	(6,842,530)	105,000	(6,737,530)
Net cash provided by/(used for) operating activities	$ (6,287,126)	$	$ (6,287,126)

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Note 15. RESTATEMENT OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	As Originally Reported	Effect of Omission	As Adjusted
Consolidated Statement of Stockholder s Equity for the year ended December 31, 2006			
Common stock:			
Balance at December 31, 2005 (27,829,936 shares)	$ 27,830	$	$ 27,830
Issuance of common stock to a consultant as consulting and servicing fee (500,000 shares)		500	500
Balance at December 31, 2006 (28,329,936 shares)	$ 27,830	$ 500	$ 28,330
Additional paid-in capital:			
Balance at December 31, 2005	$ 3,360,405	$	$ 3,360,405
Issuance of common stock to a consultant as consulting and servicing fee		104,500	104,500
Issuance of common stock for option issued to employees	128,122		128,122
Balance at December 31, 2006	$ 3,488,527	$ 104,500	$ 3,593,027
Computed tax at federal statutory rate	$ 244,398	$	$ 244,398
Tax rate differential on foreign earnings of Atlantic Components Ltd., a Hong Kong based company	(154,077)	(35,700)	(189,777)
Net operating loss carry forward	73,094	35,700	108,794
Other			
	$ 163,415	$	$ 163,415

The Components of the deferred tax assets and liabilities as at December 31, 2006 are as follows:

	As Originally Reported	Effect of Omission	As Adjusted
Net operating losses	$ 987,840	$ 35,700	$ 1,023,540
Total deferred tax assets	$ 987,840)	$ 35,700	$ 1,023,540
Less: valuation allowance	(987,840)	(35,700)	(1,023,540)
	$	$	$

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Note 16. RESTATEMENT OF 2007 CONSOLIDATED FINANCIAL STATEMENTS

On January 7, 2010, the Company filed the consolidated balance sheets as of December 31, 2007 and 2006, its consolidated statements of income, stockholders equity and cash flow for the year ended December 31, 2007, in Form 10K/A (Amendment No. 2) Part IV Item 15 Page F-1- F-29 with the Securities and Exchange Commission (SEC). The Company determined to re-do the 2007 audit and restate the financial statements in reference to ASC 810-10 Consolidation of Variable Interest and Special-Purpose Entities. The effects of the restatements are shown in the following tables.

CONSOLIDATED BALANCE SHEETS

	December 31,						
	2007 Original	2007 Restated					
ASSETS							
Current assets							
Cash and cash equivalents	$ 1,597,674	$ 1,661,056					
Restricted cash	4,203,057	4,203,057					
Accounts receivable, net of allowance for doubtful accounts of $0 for 2007 and 2006	7,594,784	7,627,017					
Accounts receivable, related parties	7,955,764	1,717,859					
Inventories, net				7		7	
Contingent consideration							
Mortgage loans held-for-sale						10,911	10,911
Derivative assets - IRLCs						9,885	9,885
Derivative liabilities - Hedging Instruments						(2,017)	(2,017)
Total	**$ 17,722**	**$ (56,774)**	**$ 1,794**	**$ (7,116)**	**$ (3,087)**	**$ 18,779**	**$ (28,682)**

(1) Amounts primarily represent accretion to recognize interest income and interest expense using effective yields based on estimated fair values for trust assets and trust liabilities.

(2) Included in this amount is $898 thousand in changes in the fair value of derivative instruments, offset by $1.1 million in cash payments from the securitization trusts for the three months ended March 31, 2015.

(3) Included in loss on mortgage servicing rights in the consolidated statements of operations.

Recurring Fair Value Measurements
Change in Fair Value Included in Net Loss
For the three months ended March 31, 2014

			Change in Fair Value of				
	Interest Income (1)	**Interest Expense (1)**	**Net Trust Assets**	**Long-term Debt**	**Other Revenue**	**Gain on sale of loans, net**	**Total**
Investment securities available-for-sale	$ 7	$	$	$	$	$	$ 7

Securitized mortgage collateral	9,815		109,886				119,701
Securitized mortgage borrowings		(58,174)	(112,768)				(170,942)
Derivative liabilities, net, securitized trusts			(161)(2)				(161)
Long-term debt		(714)		(650)			(1,364)
Mortgage servicing rights (3)					(961)		(961)
Mortgage loans held-for-sale						539	539
Derivative assets - IRLCs						513	513
Derivative liabilities - Hedging Instruments						(851)	(851)
Total	**$ 9,822**	**$ (58,888)**	**$ (3,043)**	**$ (650)**	**$ (961)**	**$ 201**	**$ (53,519)**

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(1) Amounts primarily represent accretion to recognize interest income and interest expense using effective yields based on estimated fair values for trust assets and trust liabilities.

(2) Included in this amount is $1.0 million in change in the fair value of derivative instruments, offset by $1.2 million in cash payments from the securitization trusts for the three months ended March 31, 2015.

(3) Included in loss on mortgage servicing rights in the consolidated statements of operations.

The following is a description of the measurement techniques for items recorded at estimated fair value on a recurring basis.

Investment securities available-for-sale Investment securities available-for-sale are carried at fair value. The investment securities consist primarily of non-investment grade mortgage-backed securities. The fair value of the investment securities is measured based upon the Company s expectation of inputs that other market participants would use. Such assumptions include judgments about the underlying collateral, prepayment speeds, future credit losses, forward interest rates and certain other factors. Given the lack of observable market data as of March 31, 2015 and December 31, 2014 relating to these securities, the estimated fair value of the investment securities available-for-sale was measured using significant internal expectations of market participants assumptions. Investment securities available-for-sale is considered a Level 3 measurement at March 31, 2015.

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Mortgage servicing rights The Company elected to carry its entire mortgage servicing rights arising from its mortgage loan origination operation at estimated fair value. The fair value of mortgage servicing rights is based upon market prices for similar instruments and a discounted cash flow model. The valuation model incorporates assumptions that market participants would use in estimating the fair value of servicing. These assumptions include estimates of prepayment speeds, discount rate, cost to service, escrow account earnings, contractual servicing fee income, prepayment and late fees, among other considerations. Mortgage servicing rights are considered a Level 3 measurement at March 31, 2015.

Mortgage loans held-for-sale The Company elected to carry its mortgage loans held-for-sale originated or acquired at estimated fair value. Fair value is based on quoted market prices, where available, prices for other traded mortgage loans with similar characteristics, and purchase commitments and bid information received from market participants. Given the meaningful level of secondary market activity for mortgage loans, active pricing is available for similar assets and accordingly, the Company classifies its mortgage loans held-for-sale as a Level 2 measurement at March 31, 2015.

Securitized mortgage collateral The Company elected to carry all of its securitized mortgage collateral at fair value. These assets consist primarily of non-conforming mortgage loans securitized between 2002 and 2007. Fair value measurements are based on the Company s internal models used to compute the net present value of future expected cash flows with observable market participant assumptions, where available. The Company s assumptions include its expectations of inputs that other market participants would use in pricing these assets. These assumptions include judgments about the underlying collateral, prepayment speeds, estimated future credit losses, forward interest rates, investor yield requirements and certain other factors. As of March 31, 2015, securitized mortgage collateral had UPB of $6.4 billion, compared to an estimated fair value on the Company s balance sheet of $5.1 billion. The aggregate UPB exceeds the fair value by $1.3 billion at March 31, 2015. As of March 31, 2015, the UPB of loans 90 days or more past due was $1.0 billion compared to an estimated fair value of $0.4 billion. The aggregate UPB of loans 90 days or more past due exceed the fair value by $0.6 billion at March 31, 2015. Securitized mortgage collateral is considered a Level 3 measurement at March 31, 2015.

Securitized mortgage borrowings The Company elected to carry all of its securitized mortgage borrowings at fair value. These borrowings consist of individual tranches of bonds issued by securitization trusts and are primarily backed by non-conforming mortgage loans. Fair value measurements include the Company s judgments about the underlying collateral and assumptions such as prepayment speeds, estimated future credit losses, forward interest rates, investor yield requirements and certain other factors. As of March 31, 2015, securitized mortgage borrowings had an outstanding principal balance of $6.3 billion, net of $2.2 billion in bond losses, compared to an estimated fair value of $5.1 billion. The aggregate outstanding principal balance exceeds the fair value by $1.2 billion at March 31, 2015. Securitized mortgage borrowings are considered a Level 3 measurement at March 31, 2015.

Contingent consideration Contingent consideration is estimated and recorded at fair value at the acquisition date as part of purchase price consideration. Additionally, each reporting period, the Company estimates the change in fair value of the contingent consideration and any change in fair value is recognized in the Company s consolidated statements of operations if it s determined to not be a measurement period adjustment. The estimate of the fair value of contingent consideration requires significant judgment and assumptions to be made about future operating results, discount rates and probabilities of various projected operating result scenarios. Future revisions to these assumptions could materially change the estimated fair value of contingent consideration and materially affect the Company s financial results. Contingent consideration is considered a Level 3 measurement at March 31, 2015.

Long-term debt The Company elected to carry all of its long-term debt (consisting of trust preferred securities and junior subordinated notes) at fair value. These securities are measured based upon an analysis prepared by management, which considered the Company s own credit risk, including settlements with trust preferred debt holders and discounted cash flow analysis. As of March 31, 2015, long-term debt had UPB of $70.5 million compared to an estimated fair value of $29.6 million. The aggregate UPB exceeds the fair value by $40.9 million at March 31, 2015. The long-term debt is considered a Level 3 measurement at March 31, 2015.

Derivative assets and liabilities, Securitized trusts For non-exchange traded contracts, fair value is based on the amounts that would be required to settle the positions with the related counterparties as of the valuation date. Valuations of derivative assets and liabilities are based on observable market inputs, if available. To the extent observable market inputs are not available, fair values measurements include the Company s judgments about future cash flows, forward interest rates and certain other factors, including counterparty risk. Additionally, these values also take into account the Company s own credit standing, to the extent applicable; thus, the valuation of the derivative instrument includes the estimated value of the net credit differential between the counterparties to the derivative contract. As of March 31, 2015, the notional balance of derivative assets and liabilities, securitized trusts was $88.3 million. These derivatives are included in the consolidated securitization trusts, which are nonrecourse to the Company, and thus the economic risk from these derivatives is limited to the Company s residual interests in the securitization trusts. Derivative assets and liabilities, securitized trusts are considered a Level 3 measurement at March 31, 2015.

Derivative assets and liabilities, Lending The Company s derivative assets and liabilities are carried at fair value as required by GAAP and are accounted for as free standing derivatives. IRLCs and hedging instruments can be either assets or liabilities depending on interest rate fluctuations subsequent to entering into the commitments. IRLCs are entered into with prospective

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residential mortgage borrowers whereby the interest rate on the loan is determined prior to funding and the borrowers have locked in that interest rate. These commitments are determined to be derivative instruments in accordance with GAAP. Hedging instruments (typically TBA MBS) are used to hedge the fair value changes associated with changes in interest rates relating to its mortgage lending operations. The Company hedges the period from the interest rate lock (assuming a fall-out factor) to the date the loan is committed for sale. The estimated fair value of IRLCs are based on underlying loan types with similar characteristics using the TBA MBS market, which is actively quoted and easily validated through external sources. The data inputs used in this valuation include, but are not limited to, loan type, underlying loan amount, note rate, loan program, and expected sale date of the loan, adjusted for current market conditions. These valuations are adjusted at the loan level to consider the servicing release premium and loan pricing adjustments specific to each loan. For all IRLCs, the base value is then adjusted for the anticipated Pull-through Rate. The anticipated Pull-through Rate is an unobservable input based on historical experience, which results in classification of IRLCs as a Level 3 measurement at March 31, 2015.

The fair value of the hedging instruments is based on the actively quoted TBA MBS market using observable inputs related to characteristics of the underlying MBS stratified by product, coupon and settlement date. Therefore, the hedging instruments are classified as a Level 2 measurement at March 31, 2015.

The following table includes information for the derivative assets and liabilities, lending for the periods presented:

	Notional Amount		**Total Gains (Losses) (1)**	
			For the three months ended March 31,	
	March 31, 2015	**March 31, 2014**	**2015**	**2014**
Derivative - IRLC s	$ 805,743	$ 136,887	$ 9,885	$ 513
Derivative - TBA MBS	759,306	186,721	(5,179)	(3,022)

(1) Amounts included in gain on sale of loans, net within the accompanying consolidated statements of operations.

Warrant Upon entering an arrangement to facilitate the Company s ability to offer Non-QM mortgage products, a warrant to purchase up to 9.9% of Impac Mortgage Corp. was issued. The warrant can only be exercised if the Company chooses not to continue with the agreement to facilitate Non-QM mortgage products and has a 60 day expiration window after the termination of the agreement. The exercise price of the warrant is an agreed upon multiple times the book value of the subsidiary Impac Mortgage Corp. at the time of exercise plus up to an additional 0.2 times the book value at the exercise date based off of the net income of Impac Mortgage Corp. for the following 12 months. Additionally, if upon exercise of the warrant, the Company does not receive regulatory approval for the sale of the 9.9% as a result of actions of the Company, the Company will have to pay the holder of the warrant a redemption price, equal to the value of the warrant, in cash within 30 days. The estimated fair value of the warrant was based on a model incorporating various assumptions including expected future book value of Impac Mortgage Corp., the probability of the warrant being exercised, volatility, expected term and certain other factors. Warrant is considered a Level 3 measurement at March 31, 2015.

Nonrecurring Fair Value Measurements

The Company is required to measure certain assets and liabilities at estimated fair value from time to time. These fair value measurements typically result from the application of specific accounting pronouncements under GAAP. The fair value measurements are considered

nonrecurring fair value measurements under FASB ASC 820-10.

The following tables present financial and non-financial assets and liabilities measured using nonrecurring fair value measurements at March 31, 2015 and 2014, respectively:

	Nonrecurring Fair Value Measurements March 31, 2015			Total Gains (Losses) (1) For the Three Months Ended March 31, 2015
	Level 1	**Level 2**	**Level 3**	
REO (2)	$	$ 14,884	$	$ (2,670)
Lease liability (3)			(1,413)	(23)
Deferred charge (4)			11,212	(309)

(1) Total gains (losses) reflect gains and losses from all nonrecurring measurements during the period.

(2) Balance represents REO at March 31, 2015 which has been impaired subsequent to foreclosure. For the three months ended March 31, 2015, the $2.7 million loss represents additional impairment write-downs attributable to higher expected loss severities on properties held during the period which resulted in a decrease to the net realizable value (NRV).

(3) For the three months ended March 31, 2015, the Company recorded a $23 thousand expense, resulting from changes in lease liabilities as a result of changes in our expected minimum future lease payments.

(4) For the three months ended March 31, 2015, the Company recorded $309 thousand in income tax expense resulting from impairment write-downs based on changes in estimated cash flows and lives of the related mortgages retained in the securitized mortgage collateral.

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	Non-recurring Fair Value Measurements March 31, 2014			Total Gains (Losses) (1) For the Three Months Ended March 31, 2014
	Level 1	Level 2	Level 3	
REO (2)	$	$ 4,209	$	$ 6,081
Lease liability (3)			(2,048)	(569)

(1) Total gains (losses) reflect gains and losses from all nonrecurring measurements during the period.

(2) Balance represents REO at March 31, 2014 which has been impaired subsequent to foreclosure. For the three months ended March 31, 2014, the $6.1 million gain represents recovery of the net realizable value (NRV) attributable to an improvement in state specific loss severities on properties held during the period which resulted in an increase to NRV.

(3) For the three months ended March 31, 2014, the Company recorded $569 thousand in impairment, resulting from changes in lease liabilities as a result of changes in our expected minimum future lease payments.

Real estate owned REO consists of residential real estate acquired in satisfaction of loans. Upon foreclosure, REO is adjusted to the estimated fair value of the residential real estate less estimated selling and holding costs, offset by expected contractual mortgage insurance proceeds to be received, if any. Subsequently, REO is recorded at the lower of carrying value or estimated fair value less costs to sell. REO balance representing REOs which have been impaired subsequent to foreclosure are subject to nonrecurring fair value measurement and included in the nonrecurring fair value measurements tables. Fair values of REO are generally based on observable market inputs, and considered Level 2 measurements at March 31, 2015.

Lease liability In connection with the discontinuation of our non-conforming lending and commercial operations in 2007, a significant amount of office space that was previously occupied is no longer being used by the Company. The Company has subleased a significant amount of this office space. Additionally, the Company has office space that is no longer occupied by the Company and we intend to sublease it. The Company has recorded a liability representing the present value of the minimum lease payments over the remaining life of the lease, offset by the expected proceeds from sublet revenue related to this office space. This liability is based on present value techniques that incorporate the Company s judgments about estimated sublet revenue and discount rates. Therefore, this liability is considered a Level 3 measurement at March 31, 2015.

Deferred charge Deferred charge represents the deferral of income tax expense on inter-company profits that resulted from the sale of mortgages from taxable subsidiaries to IMH in prior years. The Company evaluates the deferred charge for impairment quarterly using internal estimates of estimated cash flows and lives of the related mortgages retained in the securitized mortgage collateral. If the deferred charge is determined to be impaired, it is recognized as a component of income tax expense. For the three months ended March 31, 2015, the Company recorded $309 thousand in income tax expense resulting from deferred charge impairment write-downs based on changes in estimated fair value of securitized mortgage collateral. There was no impairment of the deferred charge in the three months ended March 31, 2014. Deferred charge is considered a Level 3 measurement at March 31, 2015.

Note 12. Income Taxes

The Company calculates its quarterly tax provision pursuant to the guidelines in ASC 740 Income Taxes. ASC 740 requires companies to estimate the annual effective tax rate for current year ordinary income. In calculating the effective tax rate, permanent differences between

financial reporting and taxable income are factored into the calculation, but temporary differences are not. The estimated annual effective tax rate represents the best estimate of the tax provision in relation to the best estimate of pre-tax ordinary income or loss. The estimated annual effective tax rate is then applied to year-to-date ordinary income or loss to calculate the year-to-date interim tax provision.

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The following is a reconciliation of income taxes to the statutory federal corporate income tax rates for the three months ended March 31, 2015 and 2014:

	2015		2014	
	Amount	%	Amount	%
Federal rate	$ 3,594	35.0	$ (918)	35.0
State tax, net of federal benefit	515	5.0	(142)	5.4
Change in valuation allowance - current period	(3,702)	(36.1)	1,398	(53.2)
Change in valuation allowance - future years	(24,420)	(237.8)		
Deferred charge	309	3.0		
Other permanent items			4	(0.2)
Total tax (benefit) expense	$ (23,704)	(230.9)	$ 342	(13.0)

The Company recorded income tax (benefit) expense of ($23.7) million and $342 thousand for the three months ended March 31, 2015 and 2014, respectively. For the three months ended March 31, 2015, the Company recorded a benefit of $24.4 million primarily the result of a reversal of valuation allowance partially offset by federal alternative minimum tax (AMT), amortization of the deferred charge and state income taxes from states where the Company does not have net operating loss carryforwards or state minimum taxes, including AMT. The deferred charge represents the deferral of income tax expense on inter-company profits that resulted from the sale of mortgages from taxable subsidiaries to IMH prior to 2008. The deferred charge is amortized and/or impaired, which does not result in any tax liability to be paid. The deferred charge is included in other assets in the accompanying consolidated balance sheets and is amortized as a component of income tax expense in the accompanying consolidated statements of operations. For the three months ended March 31, 2014, the Company recorded an expense of $0.3 million primarily related to federal and state AMT associated with taxable income generated from the sale of AmeriHome and mortgage servicing rights.

Deferred tax assets are recognized subject to management s judgment that realization is more likely than not . A valuation allowance is recognized for a deferred tax asset if, based on the weight of the available evidence, it is more likely than not that some portion of the deferred tax asset will not be realized. In making such judgments, significant weight is given to evidence that can be objectively verified. As of each reporting date, the Company considers new evidence, both positive and negative, that could impact management s view with regard to future realization of deferred tax assets. Significant judgment is required in assessing future earnings trends and the timing of reversals of temporary differences. The Company s evaluation is based on current tax laws as well as management s expectation of future performance.

The Company s deferred tax assets are primarily the result of net operating losses and other fair value write downs of financial assets and liabilities. As of December 31, 2014, the Company had net deferred tax assets of approximately $163.2 million which the Company recorded a full valuation allowance against. During the first quarter of 2015, with the aforementioned acquisition of CCM, the Company significantly expanded its mortgage lending operations and profitability. As of March 31, 2015, in part because of the earnings of CCM during the first quarter of 2015, current year projected earnings, future projected earnings as well as the historical earnings of CCM, management determined that sufficient positive evidence exists to conclude that it is more likely than not that deferred taxes of $24.4 million are realizable in future years, and therefore, reduced the valuation allowance accordingly.

The Company has recorded a valuation allowance against its remaining net deferred tax assets at March 31, 2015 as it is more likely than not that not all of the deferred tax assets will be realized. The valuation allowance is based on the management s assessment that it is more likely than not that certain deferred tax assets, primarily net operating loss carryforwards, may not be realized in the foreseeable future due to objective negative evidence that the Company would not generate sufficient taxable income to realize the deferred tax assets.

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Note 13. Reconciliation of Earnings Per Share

Basic net earnings per share is computed by dividing net earnings available to common stockholders (numerator) by the weighted average number of vested, common shares outstanding during the period (denominator). Diluted net earnings per share is computed on the basis of the weighted average number of shares of common stock outstanding plus the effect of dilutive potential common shares outstanding during the period using the if-converted method. Dilutive potential common shares include shares issuable upon conversion of Convertible Notes, dilutive effect of outstanding stock options and deferred stock units (DSUs).

	For the Three Months Ended March 31,	
	2015	**2014**
Numerator for basic earnings (loss) per share:		
Net earnings (loss) attributable to IMH common stockholders	$ 33,972	$ (2,966)
Numerator for diluted earnings (loss) per share:		
Net earnings (loss) attributable to IMH common stockholders	$ 33,972	$ (2,966)
Interest expense attributable to convertible notes	375	
Net earnings (loss) attributable to IMH common stockholders plus interest expense attributable to convertible notes	$ 34,347	$ (2,966)
Denominator for basic earnings (loss) per share (1):		
Basic weighted average common shares outstanding during the year	9,609	9,061
Denominator for diluted earnings (loss) per share (1):		
Basic weighted average common shares outstanding during the year	9,609	9,061
Net effect of dilutive convertible notes	1,839	
Net effect of dilutive stock options and DSU s	241	
Diluted weighted average common shares	11,689	9,061
Net earnings (loss) per common share:		
Basic	$ 3.54	$ (0.33)
Diluted	$ 2.94	$ (0.33)

(1) Number of shares presented in thousands.

The anti-dilutive stock options outstanding for the three months ended March 31, 2015 were 193 thousand shares. The anti-dilutive stock options outstanding for the three months ended March 31, 2014 were 2.6 million shares. Included in the anti-dilutive shares for the three months ended March 31, 2014 was 1.8 million shares attributable to the Convertible Notes.

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Note 14. Segment Reporting

The Company has three primary reporting segments which include mortgage lending, real estate services and long-term mortgage portfolio. Unallocated corporate and other administrative costs, including the costs associated with being a public company, are presented in Corporate and other.

Statement of Operations Items for the three months ended March 31, 2015:	Mortgage Lending	Real Estate Services	Long-term Portfolio	Corporate and other	Consolidated
Gain on sale of loans, net	$ 37,398	$	$	$	$ 37,398
Real estate services fees, net		2,742			2,742
Servicing income, net	635				635
Loss on mortgage servicing rights	(6,568)				(6,568)
Other revenue	17		61	58	136
Other income (expense)	368		(6,791)	(511)	(6,934)
Total expense	(13,315)	(1,655)	(111)	(2,060)	(17,141)
Net earnings (loss) before income taxes	$ 18,535	$ 1,087	$ (6,841)	$ (2,513)	10,268
Income tax benefit					(23,704)
Net earnings					33,972

Statement of Operations Items for the three months ended March 31, 2014:	Mortgage Lending	Real Estate Services	Long-term Portfolio	Corporate and other	Consolidated
Gain on sale of loans, net	$ 4,573	$	$	$	$ 4,573
Real estate services fees, net		3,679			3,679
Servicing income, net	1,569				1,569
Loss on mortgage servicing rights	(977)				(977)
Other revenue	1,216		169		1,385
Other income (expense)	156	1	2,319	(401)	2,075
Total expense	(9,062)	(1,522)	(241)	(4,103)	(14,928)
Net (loss) earnings before income taxes	$ (2,525)	$ 2,158	$ 2,247	$ (4,504)	(2,624)
Income tax expense					342
Net loss					(2,966)

Balance Sheet Items as of:	Mortgage Lending	Real Estate Services	Long-term Mortgage Portfolio	Corporate and other	Consolidated
Total Assets at March 31, 2015 (1)	$ 783,924	$ 2,821	$ 5,141,474	$ 28,449	$ 5,956,668
Total Assets at December 31, 2014 (1)	$ 291,829	$ 2,672	$ 5,280,274	$ 3,797	$ 5,578,572

(1) All segment asset balances exclude intercompany balances.

Note 15. Commitments and Contingencies

Legal Proceedings

The Company is a defendant in or a party to a number of legal actions or proceedings that arise in the ordinary course of business. In some of these actions and proceedings, claims for monetary damages are asserted against the Company. In view of the inherent difficulty of predicting the outcome of such legal actions and proceedings, the Company generally cannot predict what the eventual outcome of the pending matters will be, what the timing of the ultimate resolution of these matters will be, or what the eventual loss related to each pending matter may be, if any.

In accordance with applicable accounting guidance, the Company establishes an accrued liability for litigation when those matters present loss contingencies that are both probable and estimable. In any cases, there may be an exposure to losses in excess of any such amounts whether accrued or not. Any estimated loss is subject to significant judgment and is based upon currently available information, a variety of assumptions, and known and unknown uncertainties. The matters underlying the estimated loss will change from time to time, and actual results may vary significantly from the current estimate. Therefore, an estimate of possible loss represents what the Company believes to be an estimate of possible loss only for certain matters meeting these criteria. It does not represent the Company s maximum loss exposure.

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Based on the Company s current understanding of these pending legal actions and proceedings, management does not believe that judgments or settlements arising from pending or threatened legal matters, individually or in the aggregate, will have a material adverse effect on the consolidated financial position, operating results or cash flows of the Company. However, in light of the inherent uncertainties involved in these matters, some of which are beyond the Company s control, and the very large or indeterminate damages sought in some of these matters, an adverse outcome in one or more of these matters could be material to the Company s results of operations or cash flows for any particular reporting period.

The legal matters summarized below are ongoing and may have an effect on the Company s business and future financial condition and results of operations:

On December 14, 2013, a matter was filed in the US District Court, District of Minnesota, entitled Residential Funding Company, LLC v. Impac Funding Corp. alleging the defendant is responsible for unspecific debts of Pinnacle Direct Funding Corp., as its successor in interest. On April 3, 2014, the plaintiff filed a First Amended Complaint alleging the defendant is responsible for breaches of representations and warranties in connection with certain loan sales from Pinnacle to plaintiff. The plaintiff seeks declaratory relief and unspecified damages. On April 17, 2014, the Company filed a motion to dismiss the First Amended Complaint, which the court denied. The Company answered the First Amended Complaint on September 24, 2014, and filed a motion for summary judgment on January 6, 2015, which remains pending.

The Company is a party to other litigation and claims which are normal in the course of our operations. While the results of such other litigation and claims cannot be predicted with certainty, we believe the final outcome of such matters will not have a material adverse effect on our financial condition or results of operations. The Company believes that it has meritorious defenses to the above claims and intends to defend these claims vigorously and as such the Company believes the final outcome of such matters will not have a material adverse effect on its financial condition or results of operations. Nevertheless, litigation is uncertain and the Company may not prevail in the lawsuits and can express no opinion as to their ultimate resolution. An adverse judgment in any of these matters could have a material adverse effect on the Company s financial position and results of operations.

Please refer to IMH s report on Form 10-K for the year ended December 31, 2014 for a description of litigation and claims.

Repurchase Reserve

When the Company sells mortgage loans, it makes customary representations and warranties to the purchasers about various characteristics of each loan such as the origination and underwriting guidelines, including but not limited to the validity of the lien securing the loan, property eligibility, borrower credit, income and asset requirements, and compliance with applicable federal, state and local law. The Company s whole loan sale agreements generally require it to repurchase loans if the Company breached a representation or warranty given to the loan purchaser.

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In the first quarter of 2015, the Company settled its repurchase liability with FNMA related to its legacy non-conforming mortgage operations. As part of the agreement, the Company paid FNMA $1.0 million during the first quarter with a final payment of $228 thousand paid in April 2015.

During the three months ended March 31, 2015, the Company recorded an additional $871 thousand in repurchase provision. The Company had approximately $5.5 million at March 31, 2015 and $5.7 million at December 31, 2014, in repurchase reserves related to the loans sold since early 2011 by the mortgage lending operation.

Short-Term Loan Commitments

The Company uses a portion of its warehouse borrowing capacity to provide secured short-term revolving financing to small and medium-size mortgage originators to finance mortgage loans from the closing of the mortgage loans until sold to investors (Finance Receivables). As of March 31, 2015, the warehouse lending operations had warehouse lines to non-affiliated customers totaling $94 million, of which there was an outstanding balance of $53.3 million in finance receivables compared to $8.4 million as of December 31, 2014. The finance receivables are secured by residential mortgage loans as well as personal guarantees.

Note 16. Share Based Payments

The fair value of options granted, which is amortized to expense over the option vesting period, is estimated on the date of grant with the following weighted average assumptions:

		March 31, 2015
Risk-free interest rate		1.54%
Expected lives (in years)		5.73
Expected volatility (1)		79.56%
Expected dividend yield		0.00%
Fair value per share	$	6.74

(1) Expected volatilities are based on the volatility of the Company s stock over the expected option term, adjusted for expected mean reversion.

The following table summarizes activity, pricing and other information for the Company s stock options for the three months ended March 31, 2015:

	Number of Shares		Weighted-Average Exercise Price
Options outstanding at beginning of period	1,078,230	$	6.88
Options granted	35,000		10.00
Options exercised	(102,110)		0.70
Options forfeited/cancelled	(48,666)		7.84
Options outstanding at end of period	962,454	$	7.60
Options exercisable at end of period	433,880	$	8.13

As of March 31, 2015, there was approximately $1.7 million of total unrecognized compensation cost related to stock option compensation arrangements granted under the plan, net of estimated forfeitures. That cost is expected to be recognized over the remaining weighted average period of 1.9 years.

There were 35,000 and 5,000 options granted during the three months ended March 31, 2015 and 2014, respectively. For the three months ended March 31, 2015 and 2014, the aggregate grant-date fair value of stock options granted was approximately $236 thousand and $22 thousand, respectively.

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The following table summarizes activity, pricing and other information for the Company s DSU s, also referred to as deferred stock units as the issuance of the stock is deferred until termination of service, for the three months ended March 31, 2015:

	Number of Shares	Weighted-Average Grant Date Fair Value
DSU s outstanding at beginning of period	75,750	$ 8.63
DSU s granted		
DSU s exercised		
DSU s forfeited/cancelled		
DSU s outstanding at end of period	75,750	$ 8.63

As of March 31, 2015, there was approximately $146 thousand of total unrecognized compensation cost related to the DSU compensation arrangements granted under the plan. That cost is expected to be recognized over a weighted average period of 1.3 years.

Note 17. Related Party Transactions

In January 2015, the Company entered into a $5.0 million short-term borrowing secured by Ginnie Mae servicing rights with an interest rate of 15%, transaction costs of $50 thousand, and was provided by a related party of the Company. The balance was repaid in March 2015.

Note 18. Sale of AmeriHome

In March 2014, the Company sold AmeriHome for $10.2 million in cash, recording a gain of approximately $1.2 million, net of a deferred tax adjustment. In conjunction with the transaction, as required by Fannie Mae, the Company used $3.0 million of the proceeds to reduce the legacy repurchase liability with Fannie Mae.

Note 19. Subsequent Events

On April 1, 2015, the Company issued 494,017 shares of common stock pursuant to the fixed component of the Asset Purchase Agreement for CCM. As of April 1, 2015, total shares of common stock outstanding were 10,184,432.

On April 27, 2015, the Company issued a $10.0 million short-term Promissory Note with an interest rate of 15%. The balance was repaid in May 2015.

In April 2015, the Company, through IRES and its subsidiaries, entered into a Master Repurchase Agreement with a lender providing a $100 million warehouse facility. The interest rate relating to this agreement is the note rate of the mortgage loan collateral securing the line and expires March 2016. Under the terms of this warehouse facility, IRES and its subsidiaries are required to maintain various financial and other covenants.

On May 8, 2015, the Company issued $25 million Convertible Promissory Notes (Convertible Notes). The Convertible Notes mature on or before May 9, 2020 and accrue interest at a rate of 7.5% per annum, to be paid quarterly. Note holders may convert all or a portion of the outstanding principal amount of the Convertible Notes to shares of IMH common stock at a rate of $21.50 per share, subject to adjustment for stock splits and dividends. The Company has the right to force a conversion if the stock price of IMH common stock reaches $30.10 for 20 trading days in a 30 day consecutive period.

Subsequent events have been evaluated through the date of this filing.

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

(dollars in thousands, except per share data or as otherwise indicated)

Unless the context otherwise requires, the terms Company, we, us, and our refer to Impac Mortgage Holdings, Inc. (the Company or IMH), a Maryland corporation incorporated in August 1995, and its subsidiaries, Integrated Real Estate Service Corporation (IRES), Impac Mortgage Corp. (IMC), IMH Assets Corp. (IMH Assets), and Impac Funding Corporation (IFC).

Forward-Looking Statements

This report on Form 10-Q contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements, some of which are based on various assumptions and events that are beyond our control, may be identified by reference to a future period or periods or by the use of forward-looking terminology, such as may, will, believe, expect, likely, should, could, seem to, anticipate, plan, intend, project, assume, or similar terms or or the negative of those terms. The forward-looking statements are based on current management expectations. Actual results may differ materially as a result of several factors, including, but not limited to the following: failure to achieve the benefits expected from the acquisition of the CashCall Mortgage operations; costs and difficulties related to the integration of the business and operations with the Company s operations, unexpected costs, liabilities, charges or expenses resulting from the transaction, successful development, marketing, sale and financing of new mortgage products, including the non-Qualified Mortgage and conventional and government loan programs; ability to increase our market share in the various residential mortgage businesses; volatility in the mortgage industry; unexpected interest rate fluctuations and margin compression; our ability to manage personnel expenses in relation to mortgage production levels; our ability to successfully use warehousing capacity; increased competition in the mortgage lending industry by larger or more efficient companies; issues and system risks related to our technology; more than expected increases in default rates or loss severities and mortgage related losses; ability to obtain additional financing, through lending and repurchase facilities, debt or equity funding, strategic relationships or otherwise; the terms of any financing, whether debt or equity, that we do obtain and our expected use of proceeds from any financing; increase in loan repurchase requests and ability to adequately settle repurchase obligations; failure to create brand awareness; the outcome, including any settlements, of litigation or regulatory actions pending against us or other legal contingencies; and our compliance with applicable local, state and federal laws and regulations and other general market and economic conditions.

For a discussion of these and other risks and uncertainties that could cause actual results to differ from those contained in the forward-looking statements, see Risk Factors and Management s Discussion and Analysis of Financial Condition and Results of Operations in the Company s Annual Report on Form 10-K for the period ended December 31, 2014, and other reports we file under the Securities Exchange Act of 1934. This document speaks only as of its date and we do not undertake, and specifically disclaim any obligation, to release publicly the results of any revisions that may be made to any forward-looking statements to reflect the occurrence of anticipated or unanticipated events or circumstances after the date of such statements.

The Mortgage Industry and Discussion of Relevant Fiscal Periods

The mortgage industry is subject to current events that occur in the financial services industry including changes to regulations and compliance requirements that result in uncertainty surrounding the actions of states, municipalities and new government agencies, including the Consumer Financial Protection Bureau (CFPB) and Federal Housing Finance Agency (FHFA). These events can also include changes in economic indicators, interest rates, price competition, geographic shifts, disposable income, housing prices, market liquidity, market anticipation, and customer perception, as well as others. The factors that affect the industry change rapidly and can be unforeseeable making it difficult to predict and manage an operation in the financial services industry.

Current events can diminish the relevance of quarter over quarter and year-to-date over year-to-date comparisons of financial information. In such instances, the Company attempts to present financial information in its Management s Discussion and Analysis of Financial Condition and Results of Operations that is the most relevant to its financial information.

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Selected Financial Results

	For the Three Months Ended		
	March 31, 2015	**December 31, 2014**	**March 31, 2014**
Revenues:			
Gain on sale of loans, net	$ 37,398	$ 8,749	$ 4,573
Real estate services fees, net	2,742	3,447	3,679
Servicing income, net	635	813	1,569
Loss on mortgage servicing rights	(6,568)	(1,576)	(977)
Other	136	20	1,385
Total revenues	34,343	11,453	10,229
Expenses:			
Personnel expense	11,490	9,557	9,460
General, administrative and other	5,651	4,662	5,468
Total expenses	17,141	14,219	14,928
Operating income (loss):	17,202	(2,766)	(4,699)
Other income (expense):			
Net interest income (expense)	1,058	797	(313)
Change in fair value of long-term debt	(7,116)	(3,590)	(650)
Change in fair value of net trust assets	(876)	3,222	3,038
Total other (expense) income	(6,934)	429	2,075
Net earnings (loss) before income taxes	10,268	(2,337)	(2,624)
Income tax (benefit) expense	(23,704)	(100)	342
Net earnings (loss)	$ 33,972	$ (2,237)	$ (2,966)
Diluted earnings (loss) per share	$ 2.94	$ (0.23)	$ (0.33)

Status of Operations

Summary Highlights

- During the first quarter of 2015, we completed the acquisition of CashCall Mortgage (CCM).

- Mortgage lending volumes increased in the first quarter of 2015 to $2.4 billion from $1.1 billion in the fourth quarter of 2014 and $353.1 million in the first quarter of 2014.

- Mortgage lending revenues increased in the first quarter of 2015 to $37.4 million from $8.7 million in the fourth quarter of 2014 and $4.6 million in the first quarter of 2014.

- Gain on sale margins increased in the first quarter of 2015 to 156 bps from 79 bps in the fourth quarter of 2014, and 130 bps, in the first quarter of 2014.

For the first quarter of 2015, we reported net earnings of $34.0 million or $2.94 per diluted common share, as compared to a net loss of $(2.2) million or $(0.23) per share for the fourth quarter of 2014, and a net loss of $(3.0) million or $(0.33) per share for the first quarter of 2014. The increase in net earnings over the fourth and first quarters of 2014 was primarily due to an increase in operating income and the recognition of $24.4 million of the Company s deferred tax asset offset by a $7.1 million increase in the estimated fair value of the long term debt and a $6.6 million loss on mortgage servicing rights.

In the first quarter of 2015, operating income, defined as revenues minus operating expenses, increased to $17.2 million or $1.47 per diluted common share, as compared to an operating loss of $(2.8) million and $(4.7) million in the fourth quarter and first quarter of 2014, respectively. The increase was due to an increase of gain on sale of loans, net from higher origination volumes offset by a loss in mortgage servicing rights. The increase in operating income was primarily caused by the increase in origination volumes in the first quarter and more specifically, the origination volumes of CCM. The $(6.6) million loss on mortgage servicing rights was primarily the result of a $3.1 million mark to market loss due to a decrease in interest rates during the quarter coupled with a $3.5

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million loss related to the sale of Ginnie Mae servicing which declined in value from year end after FHA announced it was dropping the required mortgage insurance premium by 50 bps in January of 2015. This rate change impacted the sales price received on the sale of Ginnie Mae servicing sold in the first quarter. MSR values are also subject to fluctuation due to changes in interest rates. Operating income (loss) does not include net interest income (expense), gains or losses from the long-term mortgage portfolio, which includes the net trust assets (residual interests in securitizations) and the long-term debt.

At December 31, 2014, we had recorded a full valuation allowance on the $163.2 million net deferred tax asset. During the first quarter of 2015, we reduced a portion of the valuation allowance resulting in the recognition of a $24.4 million deferred tax asset representing estimated tax benefit for pre-tax net earnings in future years as well as a $3.7 million change in valuation allowance representing estimated tax benefit for pre-tax net earnings in the current period. The tax benefit reported in the first quarter of 2015 consisted of the following:

		Amount	%
Federal rate	$	3,594	35.0
State tax, net of federal benefit		515	5.0
Change in valuation allowance - current period		(3,702)	(36.1)
Change in valuation allowance - future years		(24,420)	(237.8)
Deferred charge		309	3.0
Total tax benefit	$	(23,704)	(230.9)

The reduction in valuation allowance was primarily based on the expectations of taxable income in the future, generally associated with projected net earnings from CCM. Lastly, with the ongoing improvement in the Company s financial condition and credit quality, the estimated fair value of the long-term debt increased by $7.1 million. Further, improvements in the Company s financial condition in the future may result in increases in estimated fair value of the long-term debt.

In the first quarter, we completed the acquisition of CCM. CCM s operations include the complete origination platform, systems and personnel that operate as a separate division of IMC under the name CashCall Mortgage. This division operates as a centralized call center that utilizes a marketing platform to generate customer leads through the internet and call center loan agents. By using its marketing platform to generate internal leads, we believe CCM is able to compete with some of the largest internet lenders across the nation. In addition, our goal is to leverage this same marketing platform to expand volumes of our new AltQM products, as well as FHA and VA products. Similarly we believe the acquisition of CCM will allow us to leverage our state licenses to expand our centralized retail call center national lending footprint. The addition of CCM, provides a scalable retail platform that we can expand quickly and efficiently.

The consideration for the purchase of CCM was a combination of cash, IMH stock and contingent consideration including a three-year period earn-out provision of CCM s pre-tax net earnings. The CCM acquisition transaction was structured with a significant contingent consideration component of the purchase price with the intent to minimize the financial risk for IMH while being accretive to earnings. The purchase price is currently estimated to be $140.7 million including (i) $10.0 million in cash, $5.0 million paid in the first quarter and $5.0 million to be paid over twelve months following the effective date of the acquisition, (ii) $6.2 million in IMH stock valued at closing on March 31, 2015 and (iii) $124.6 million in estimated contingent consideration including a three-year period earn-out provision and enterprise appreciation rights. The contingent consideration was estimated by calculating the present value of the projected contingent consideration to be paid in the future based on projected volumes and projected pretax net earnings of CCM. The earn-out percentages beginning on the effective date (January 2, 2015) are 100% of pre-tax net earnings of CCM for January and February of 2015, 65% for the next 10 months of 2015, 55% for the second year and 45% for the third year. The total estimated purchase price is $140.7 million with $3.0 million allocated to fixed assets and software acquired, $33.1 million to intangibles including trademark, customer relationships and non-compete agreement. The excess of the consideration over the fair value of assets acquired resulted in goodwill of $104.6 million. The estimated fair values are preliminary and subject to change until the amounts are finalized. Changes to the preliminary estimates during the measurement period are recorded as retrospective adjustments to the consolidated financial statements.

Pursuant to the Asset Purchase Agreement (APA), the acquisition of the retail call center operations was effective on January 2, 2015, but did not close until March 31, 2015. The net gains earned from the sale of CCM loans were included in Gain on sale of loans, net of the associated operating expenses. The gain on sale revenue margin earned on retail originations in the first quarter of 2015 was in excess of 300 basis points (bps). However, because the net gain on sale revenue recognized was net of operating expenses for the CCM division, the gain on sale margins on total origination volume were 155 bps in the first quarter of 2015 as compared to 79 bps in the fourth quarter of 2014 and 130 bps in the first quarter of 2014.

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Originations

(in millions)

	For the three months ended				
(in millions)	**March 31, 2015**	**December 31, 2014**	**% Change**	**March 31, 2014**	**% Change**
Originations	$ 2,412.8	$ 1,108.9	118%	$ 353.1	583%

Origination volume increased 118% in the first quarter of 2015 over the fourth quarter of 2014 to $2.4 billion as compared to $1.1 billion, respectively. Of the $2.4 billion in total originations, approximately $1.5 billion, or 64%, was originated through the CCM retail channel. In contrast, during the fourth quarter of 2014, our retail originations contributed only 2% to our total origination volume. However, in the fourth quarter of 2014, the Company purchased mortgage loans from CashCall (prior to their acquisition by the Company), as a correspondent customer.

Originations by Channel:

(in millions)	**March 31, 2015**	**December 31, 2014**	**% Change**	**March 31, 2014**	**% Change**
Wholesale	$ 281.7	$ 159.0	77%	$ 100.3	181%
Correspondent	596.4	925.4	-36%	227.5	162%
Retail	1,534.7	24.5	6164%	25.3	5966%
Total originations	$ 2,412.8	$ 1,108.9	118%	$ 353.1	583%

During the first quarter of 2015, correspondent volume increased as compared to the first quarter of 2014, however as expected, volume in the correspondent division decreased as compared to the fourth quarter of 2014 as a result of CCM s volume being moved from our correspondent channel to our retail channel upon acquisition. In the fourth quarter of 2014, prior to the acquisition, CashCall Inc. was a correspondent seller and the loan acquisition volume was included in correspondent originations. Excluding the correspondent volumes from CashCall Inc. in the fourth quarter of 2014, the correspondent channel volume increased 52% to $596.4 million in the first quarter of 2015 compared to the fourth quarter of 2014.

Our correspondent channel s three key metrics have all continued to improve. These key metrics include, total clients, submitting clients and funding clients. We continued to add customers in the first quarter, increase submissions and increase our percentage of funding clients as compared to the fourth quarter.

In the first quarter of 2015, wholesale originations increased 77% to $281.7 million over the fourth quarter 2014 originations of $159.0 million. This increase was primarily a result of adding new sales personnel in the first quarter of 2015. We expect to maintain this volume for the near term as we anticipate a gain in market share from the expansion of our sales coverage. In addition, the percentage of our wholesale customers delivering multiple loans per month continues to increase month over month. We continue to focus on increasing deliveries by our top tier brokers to increase the channel s production volumes and quality, which is expected to create more stable production in this channel moving forward.

With the addition of an efficient retail channel in CCM, we believe it will complement our wholesale and correspondent channels by increasing overall gain on sale margins and lowering overall costs for mortgage lending. We anticipate that these channels will continue to see growth month over month, as a result of the increased pipeline growth that both channels have recently enjoyed due to market share expansion.

We believe our expanded national lending footprint, combined with access to our Impac loan products, will unlock significant opportunities to greatly diversify CCM s retail loan production and increase our mortgage lending divisions total production.

As of March 31, 2015, our total pipeline was approximately $1.3 billion with a locked pipeline of $806 million, as compared to a total pipeline of $750 million and a locked pipeline of $297 million at the end of the fourth quarter of 2014.

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Our loan products primarily include conventional loans eligible for sale to Fannie Mae and Freddie Mac, loans eligible for government insurance (government loan) by FHA, VA and USDA and AltQM.

Originations by Loan Type:

	For the three months ended March 31,		
(in millions)	2015	2014	% Change
Government (1)	$ 375.7	$ 117.8	219%
Conventional	2,014.5	227.4	786%
Other (2)	22.6	7.9	186%
Total originations	$ 2,412.8	$ 353.1	583%

(1) Includes all government-insured loans including Federal Housing Administration (FHA), Veterans Affairs (VA) and United States Department of Agriculture (USDA).

(2) Includes $11.3 million of AltQM mortgages originated during the first quarter of 2015.

During the third quarter of 2014, we rolled out and began originating non-qualified mortgage (non-QM) loans, marketed under our AltQM label. The predominant amount of the early originations came through our wholesale lending channel. However, we expect our correspondent customers to begin delivering loans that meet our AltQM program guidelines during the fourth quarter of 2014 and first quarter of 2015. In conjunction with launching these new AltQM products, we established a strategic investor relationship which provides balance sheet capacity to fund these non-conforming loans.

We believe there is an underserved mortgage market for borrowers with good credit who may not meet the new qualified mortgage (QM) guidelines set out by the CFPB. In our opinion, as the demand by consumers for the non-QM product grows we expect the investor appetite will increase for the non-QM mortgages. We have established strict lending guidelines, including determining the prospective borrowers ability to repay the mortgage, which we believe will keep delinquencies and foreclosures at acceptable levels and we have established a relationship with an investor who is willing to purchase such loans from us.

Mortgage rates have declined in the first quarter as compared to the first quarter of 2014. As a result of the decline in mortgage rates in the first quarter of 2015, the predominance of our first quarter originations were from refinance transactions as displayed in the table below.

Originations by Purpose:

	For the three months ended March 31			
(in millions)	2015	%	2014	%
Refinance	$ 2,127.9	88%	$ 204.2	58%
Purchase	284.9	12%	148.9	42%

Total originations	$ 2,412.8	100%	$ 353.1	100%

Mortgage servicing portfolio

(in millions)

	For the three months ended				
(in millions)	**March 31, 2015**	**December 31, 2014**	**% Change**	**March 31, 2014**	**% Change**
Mortgage servicing portfolio	$ 2,577.1	$ 2,267.1	14%	$ 2,239.6	15%

The mortgage servicing portfolio increased to $2.6 billion at March 31, 2015 as compared to $2.3 billion at December 31, 2014. The increase was due to servicing retained loan sales of $2.1 billion, partially offset by bulk sales of servicing rights totaling $1.6 billion in UPB.

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To manage our liquidity, we have continued to sell mortgage servicing rights to generate cash needed to fund warehouse haircuts as well as other operating needs. In the first quarter of 2015, we sold mortgage servicing rights representing $1.6 billion in unpaid principal balance (UPB) of loans serviced, which will generate $15.0 million in cash. However, because we originated more Fannie Mae, Freddie Mac and issued more Ginnie Mae securities than the amount of mortgage servicing rights sold in the first quarter of 2015, the balance of mortgage servicing rights increased to $26.7 million at March 31, 2015 as compared to $24.4 million at December 31, 2014.

The following table includes information about our mortgage servicing portfolio:

(in millions)	At March 31, 2015	% 60+ days delinquent (1)	At December 31, 2014	% 60+ days delinquent (1)
Fannie Mae	$ 1,761.7	0.17%	$ 496.1	0.83%
Freddie Mac	526.0	0.14%	837.8	0.18%
Ginnie Mae	276.0	0.10%	926.5	1.43%
Other	13.4	0.00%	6.7	0.00%
Total servicing portfolio	$ 2,577.1	0.15%	$ 2,267.1	0.92%

(1) Based on loan count.

Our warehouse lending division continues to grow and the outstanding balance of finance receivables, representing warehouse lending advances to our warehouse customers, increased to $53.3 million at March 31, 2015 as compared to $8.4 million at December 31, 2014. As of March 31, 2015, the warehouse lending operations had extended warehouse lines to non-affiliated customers totaling $94.0 million as compared to $55.0 million at December 31, 2014.

For the first quarter of 2015, real estate services fees were $2.7 million as compared to $3.4 million in the fourth quarter of 2014 and $3.7 million in the first quarter of 2014. While the Company continues to generate real estate service fees, the decrease in fees was due to the anticipated runoff of the long-term mortgage portfolio.

In our long-term mortgage portfolio, despite the decline in the outstanding balance of the portfolio, the residuals have generated cash flows of $1.9 million in the first quarter of 2015 as compared to $2.3 million in the fourth quarter of 2014. The estimated fair value of the residual interest declined $663 thousand in the first quarter of 2015 to $16.6 million at March 31, 2015.

In the first quarter of 2015, we settled our repurchase liability with Fannie Mae related to our legacy non-conforming mortgage operations. As a result of this settlement and previous resolution of other legal matters pertaining to the legacy non-conforming mortgage operations, the discontinued segment is not expected to have any significant effect on our consolidated operations and financial results. Therefore, we determined that we will no longer report the legacy non-conforming mortgage operations as discontinued operations.

For additional information regarding the long-term mortgage portfolio refer to Financial Condition and Results of Operations below.

Liquidity and Capital Resources

During the three months ended March 31, 2015, we funded our operations primarily from mortgage lending revenues and real estate services fees, net, which include gains on sale of loans, net, and other mortgage related income, portfolio loss mitigation and real estate services fees, net, primarily generated from our long-term mortgage portfolio, and cash flows from our residual interests in securitizations. Additionally, we funded mortgage loan originations using warehouse facilities which are repaid once the loan is sold. Furthermore, we utilized the sale of mortgage servicing rights, borrowings under the $4.0 million line of credit, $6.0 million short-term structured debt and $5.0 million short-term borrowing as additional sources of liquidity.

The CCM acquisition contingent consideration payment for the first earn-out quarter is expected to be approximately $25 million and is due May 15, 2015. Over time, these contingent consideration payments are based on the performance of the CCM division and are expected to decline for the remaining earn-out periods in 2015 since the earn-out percentage decreases to 65% beginning in March 2015. We are currently in discussions with various parties to provide between $25 million and $50 million of debt and/or equity capital to provide the liquidity needed to fund warehouse facility haircuts, retain mortgage servicing rights and working capital to fund the growth of origination volumes and contingent consideration payments associated with the acquisition of CCM.

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In April 2015, the Company issued a $10.0 million short term Promissory Note with an interest rate of 15%. The balance was repaid in May 2015.

In May 2015, the Company issued a $25.0 million in original aggregate principal amount of Convertible Promissory Notes (Convertible Notes). The Convertible Notes mature on or before May 9, 2020 and accrue interest at a rate of 7.5% per annum, to be paid quarterly. Note holders may convert all or a portion of the outstanding principal amount of the Convertible Notes to shares of IMH common stock at a rate of $21.50 per share, subject to adjustment for stock splits and dividends. The Company has the right to force a conversion if the stock price of IMH common stock reaches $30.10 for 20 trading days in a 30 day consecutive period.

Our results of operations and liquidity are materially affected by conditions in the markets for mortgages and mortgage-related assets, as well as the broader financial markets and the general economy. Concerns over economic recession, geopolitical issues, unemployment, the availability and cost of financing, the mortgage market and real estate market conditions contribute to increased volatility and diminished expectations for the economy and markets. Volatility and uncertainty in the marketplace may make it more difficult for us to obtain financing on favorable terms or at all. Our operations and profitability may be adversely affected if we are unable to obtain cost-effective financing.

We believe that current cash balances, cash flows from our mortgage lending operations, the sale of mortgage servicing rights, real estate services fees generated from our long-term mortgage portfolio, and residual interest cash flows from our long-term mortgage portfolio are adequate for our current operating needs. However, due to the acquisition of CCM, we anticipate the need for additional capital to finance the growth and operations of our mortgage lending segment. We believe the mortgage and real estate services market is volatile, highly competitive and subject to increased regulation. Competition in mortgage lending comes primarily from mortgage bankers, commercial banks, credit unions and other finance companies which have offices in our market area as well as operations throughout the United States. We compete for loans principally on the basis of the interest rates and loan fees we charge, the types of loans we originate and the quality of services we provide to borrowers. Additionally, competition for loss mitigation servicing, loan modification services and other portfolio services has increased. Our competitors include mega mortgage servicers, established subprime loan servicers, and newer entrants to the specialty servicing and recovery collections business. Efforts to market our ability to provide mortgage and real estate services for others is more difficult than many of our competitors because we have not historically provided such services to unrelated third parties, and we are not a rated primary or special servicer of residential mortgage loans as designated by a rating agency. Additionally, performance of the long-term mortgage portfolio is subject to the current real estate market and economic conditions. Cash flows from our residual interests in securitizations are sensitive to delinquencies, defaults and credit losses associated with the securitized loans. Losses in excess of current estimates will reduce the residual interest cash receipts from our long-term mortgage portfolio.

While we continue to pay our obligations as they become due, the ability to continue to meet our current and long-term obligations is dependent upon many factors, particularly our ability to successfully operate our mortgage lending segment, real estate services segment and realizing cash flows from the long-term mortgage portfolio. Our future financial performance and profitability are dependent in large part upon the ability to successfully integrate the CCM division and expand our mortgage lending platform. In order to support the continued growth of our mortgage lending platform, including the increase in volume due to the acquisition of CCM, we are reviewing and discussing opportunities to raise capital by issuing debt or equity as well as sales and financing mortgage servicing rights.

Critical Accounting Policies

We define critical accounting policies as those that are important to the portrayal of our financial condition and results of operations. Our critical accounting policies require management to make difficult and complex judgments that rely on estimates about the effect of matters that are

inherently uncertain due to the effect of changing market conditions and/or consumer behavior. In determining which accounting policies meet this definition, we considered our policies with respect to the valuation of our assets and liabilities and estimates and assumptions used in determining those valuations. We believe the most critical accounting issues that require the most complex and difficult judgments and that are particularly susceptible to significant change to our financial condition and results of operations include those issues included in Management s Discussion and Analysis of Results of Operations in IMH s report on Form 10-K for the year ended December 31, 2014. Such policies have not changed during 2014 other than what is outlined below:

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Income Taxes

Provision for income taxes is calculated using the asset and liability method, which requires the recognition of deferred income taxes. Deferred tax assets and liabilities are recognized and reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes and certain changes in the valuation allowance. Deferred tax assets are recognized subject to management s judgment that realization is more likely than not. A valuation allowance is recognized for a deferred tax asset if, based on the weight of the available evidence, it is more likely than not that some portion of the deferred tax asset will not be realized. In making such judgments, significant weight is given to evidence that can be objectively verified. We provide a valuation allowance against deferred tax assets if, based on available evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized. In determining the adequacy of the valuation allowance, we consider all forms of evidence, including: (1) historic earnings or losses; (2) the ability to realize deferred tax assets through carry back to prior periods; (3) anticipated taxable income resulting from the reversal of taxable temporary differences; (4) tax planning strategies; and (5) anticipated future earnings exclusive of the reversal of taxable temporary differences.

Goodwill and Intangible Assets

We account for business combinations using the acquisition method, under which the total consideration transferred (including contingent consideration) is allocated to the fair value of the assets acquired (including identifiable intangible assets) and liabilities assumed. The excess of the consideration transferred over the fair value of the assets acquired and liabilities assumed results in goodwill.

We evaluate our reporting units on an annual basis and, if necessary, reassign goodwill using a relative fair value allocation approach. Goodwill and other intangible assets with an indefinite useful life are not subject to amortization but are reviewed for impairment annually or more frequently whenever events or changes in circumstances indicate that the carrying amount of an intangible asset may not be recoverable. These events or circumstances could include a significant change in the business climate, legal factors, operating performance indicators, competition, or sale or disposition of a significant portion of a reporting unit. Application of the goodwill impairment test requires judgment, including the identification of reporting units, assignment of assets and liabilities to reporting units, assignment of goodwill to reporting units, and determination of the fair value of each reporting unit. The fair value of each reporting unit is estimated primarily through the use of a discounted cash flow methodology. This analysis requires significant judgments, including estimation of future cash flows, which is dependent on internal forecasts, estimation of the long-term rate of growth for our business, estimation of the useful life over which cash flows will occur, and determination of our weighted average cost of capital. If we determine that it is more likely than not that the intangible assets are impaired, a quantitative impairment test is performed. For the quantitative impairment test, we estimate and compare the fair value of indefinite-lived intangible asset with its carrying amount. If the carrying amount of the indefinite-lived intangible asset exceeds its fair value, the amount of the impairment is measured as the difference between the carrying amount of the asset and its fair value. Impairment is permanently recognized by writing down the asset to the extent that the carrying value exceeds the estimated fair value.

Intangible assets with finite lives are amortized over their estimated lives using an amortization method that reflects the pattern in which the economic benefits of the asset are consumed. We review intangible assets for impairment whenever events or changes in circumstances indicate their carrying amounts may not be recoverable, in which case any impairment charge would be recorded to earnings.

Business Combinations

Business combinations are accounted for under the acquisition method of accounting in accordance with ASC Topic 805, Business Combinations. Under the acquisition method, the acquiring entity in a business combination recognizes 100 percent of the acquired assets and assumed liabilities, regardless of the percentage owned, at their estimated fair values as of the date of acquisition. Any excess of the purchase price over the fair value of net assets and other identifiable intangible assets acquired is recorded as goodwill. To the extent the fair value of net assets acquired, including other identifiable assets, exceeds the purchase price, a bargain purchase gain is recognized. Assets acquired and liabilities assumed which involve contingencies must also be recognized at their estimated fair value, provided such fair value can be determined during the measurement period. Acquisition-related costs, including severance, conversion and other restructuring charges, such as abandoned space accruals, are expensed. Results of operations of an acquired business are included in the statement of operations from the date of acquisition.

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Financial Condition and Results of Operations

Financial Condition

As of March 31, 2015 compared to December 31, 2014

The following table shows the condensed consolidated balance sheets for the following periods:

	March 31, 2015 (Unaudited)	December 31, 2014	Increase (Decrease)	% Change
ASSETS				
Cash	$ 5,635	$ 10,073	$ (4,438)	(44)%
Restricted cash	4,932	2,420	2,512	104
Mortgage loans held-for-sale	531,586	239,391	292,195	122
Finance receivables	53,340	8,358	44,982	538
Mortgage servicing rights	26,656	24,418	2,238	9
Securitized mortgage trust assets	5,130,193	5,268,531	(138,338)	(3)
Goodwill	104,938	352	104,586	n/m
Intangibles	33,122		33,122	n/a
Deferred tax asset	24,420		24,420	n/a
Other assets	41,846	25,029	16,817	67
Total assets	$ 5,956,668	$ 5,578,572	$ 378,096	7%
LIABILITIES & EQUITY				
Warehouse borrowings	$ 552,493	$ 226,718	$ 325,775	144%
Short-term structured debt	4,156	6,000	(1,844)	(31)
Convertible notes	20,000	20,000		
Long-term debt ($71,120 par)	29,646	22,122	7,524	34
Repurchase reserve	5,478	5,714	(236)	(4)
Securitized mortgage trust liabilities	5,113,632	5,251,307	(137,675)	(3)
Contingent consideration	124,592		124,592	n/a
Other liabilities	47,428	21,755	25,673	118
Total liabilities	5,897,425	5,553,616	343,809	6
Total equity	59,243	24,956	34,287	137
Total liabilities and stockholders equity	$ 5,956,668	$ 5,578,572	$ 378,096	7%

As a result of the net earnings in the first quarter of 2015 primarily attributed to the net earnings from the CCM transactions, book value per share increased 135% to $6.11 at March 31, 2015 as compared to $2.60 at December 31, 2014.

In the first quarter of 2015, cash balances decreased, primarily due to an increase in warehouse haircuts associated with warehouse borrowings used to fund increased originations volume. Because the warehouse lenders fund less than 100% of the principal balance of the loans, we are required to fund the remaining balance from cash, called warehouse haircuts. Warehouse haircuts increased to $30.0 million at March 31, 2015 from $20.0 million at December 31, 2014. We recover the warehouse haircuts at the time the loans are sold and the warehouse borrowing is repaid to the warehouse lender. In our long-term mortgage portfolio, the residuals generated cash flows of $1.9 million in the first quarter of 2015 as compared to $2.3 million in the fourth quarter of 2014.

At March 31, 2015, cash decreased to $5.6 million from $10.1 million at December 31, 2014. The primary sources of cash between periods were $13.6 million from the sale of mortgage servicing rights, $5.0 million from short-term borrowings and $1.9 million from residual interests in securitizations. Offsetting the sources of cash were operating expenses totaling $16.6 million (net of non-cash depreciation expense), an increase in haircuts of approximately $10.0 million, $5.0 million repayment of the short-term borrowing, an increase in restricted cash of $2.5 million, $1.7 million in interest payments on the 2013 Convertible Notes, long-term debt and short-term structure debt and settlements of repurchase requests associated with loans sold by the previously discontinued non-conforming mortgage operations of approximately $1.0 million.

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Mortgage loans held-for-sale increased $292.2 million to $531.6 million at March 31, 2015 as compared to $239.4 million at December 31, 2014. The increase was due to $2.4 billion in originations offset by $2.1 billion in loan sales primarily associated with the acquisition of CCM. As a normal course of our origination and sales cycle, loans held-for-sale at the end of any period are generally sold within one or two subsequent months.

Finance receivables increased $45.0 million to $53.3 million at March 31, 2015 as compared to $8.4 million at December 31, 2014. The increase was due to $124.2 million in funding s offset by $79.1 million in settlements.

Mortgage servicing rights increased $2.2 million to $26.7 million at March 31, 2015 as compared to $24.4 million at December 31, 2014. The increase was due to servicing retained loan sales of $2.1 billion. Partially offsetting the increase were bulk sales of servicing rights totaling $1.6 billion in UPB and a mark-to-market reduction in fair value of $3.1 million. At March 31, 2015, we serviced $2.6 billion in UPB for others as compared to $2.3 billion at December 31, 2014.

Warehouse borrowings increased $325.8 million to $552.5 million at March 31, 2015 as compared to $226.7 million at December 31, 2014. The increase was due to an increase in mortgage loans held-for-sale attributable to the acquisition of CCM and finance receivables at March 31, 2015. During the three months ended March 31, 2015, we increased our total borrowing capacity to $625.0 million as compared to $315.0 million at December 31, 2014.

In the fourth quarter of 2014, we entered into a $6.0 million short-term structured debt agreement collateralized by the residual interests in securitizations. The agreement bears interest at LIBOR + 5.75% per annum, has a maturity date of June 29, 2015 and we have the right to repay the debt without penalty prior to the maturity. The holder receives monthly principal and interest payments which are equal to the distributions from the residual interest underlying collateral with a minimum payment of $500,000. If the cash flows received from the collateralized residual interests are less than $500,000, we would be required to pay the difference to avoid the transfer of the residual interests and the rights to the associated future cash flows to the note holder. During the three months ended March 31, 2015, cash flows from the collateralized residual interests were $1.9 million which were $300 thousand greater than the minimum payments. As a result, at March 31, 2015 the short-term structured debt agreement decreased to $4.2 million as compared to $6.0 million at December 31, 2014.

Long-term debt increased $7.5 million to $29.6 million at March 31, 2015 as compared to $22.1 at December 31, 2014. The increase was primarily due to a mark-to-market adjustment of $7.1 million as a result of the increase in the estimated fair value of long-term debt. The increase in the estimated fair value of long-term debt was primarily the result of a decrease in the discount rate attributable to an improvement in our own credit risk profile, an improvement in our financial condition and results of operations.

Repurchase reserve liability decreased to $5.5 million at March 31, 2015 as compared to $5.7 million at December 31, 2017. As previously reported, in the first quarter of 2015, we settled our repurchase liability with FNMA related to our legacy non-conforming mortgage operations. As part of the agreement, the Company paid FNMA $1.0 million during the first quarter with a final payment of $228 thousand paid in April 2015. We have received a minimal amount of repurchase requests for loans sold by IMC s mortgage lending operation.

The changes in total assets and liabilities, at fair market value, are primarily attributable to decreases in our trust assets and trust liabilities as summarized below.

	March 31, 2015	December 31, 2014	Increase (Decrease)	% Change
Securitized mortgage collateral	$ 5,110,983	$ 5,249,639	$ (138,656)	(3)%
Other trust assets	19,210	18,892	318	2
Total trust assets	5,130,193	5,268,531	(138,338)	(3)
Securitized mortgage borrowings	$ 5,109,133	$ 5,245,860	$ (136,727)	(3)%
Other trust liabilities	4,499	5,447	(948)	(17)
Total trust liabilities	5,113,632	5,251,307	(137,675)	(3)

Since the consolidated and unconsolidated securitization trusts are nonrecourse to the Company, trust assets and liabilities have been netted to present our interest in these trusts more simply, which are considered the residual interests in securitizations. For unconsolidated securitizations the residual interests represent the fair value of investment securities available-for-sale. For consolidated securitizations, the residual interests are represented by the fair value of securitized mortgage collateral and real estate

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owned, offset by the fair value of securitized mortgage borrowings and derivative liabilities. We receive cash flows from our residual interests in securitizations to the extent they are available after required distributions to bondholders and maintaining specified overcollateralization levels and other specified parameters (such as maximum delinquency and cumulative default) within the trusts. The estimated fair value of the residual interests, represented by the difference in the fair value of total trust assets and total trust liabilities, was $16.6 million at March 31, 2015, compared to $17.2 million at December 31, 2014.

We update our collateral assumptions quarterly based on recent delinquency, default, prepayment and loss experience. Additionally, we update the forward interest rates and investor yield (discount rate) assumptions based on information derived from market participants. During the three months ended March 31, 2015, the actual and forecasted losses increased. In addition to the increase in losses, principal payments and liquidations of securitized mortgage collateral and securitized mortgage borrowings further reduced trust assets and liabilities. Partially offsetting the decrease in securitized mortgage collateral and securitized mortgage borrowings was a decrease in forward LIBOR as compared to December 31, 2014. The increase in losses and loss assumptions and decrease in in the forward LIBOR curve resulted in a slight reduction in the value of our residual interests at March 31, 2015.

- The estimated fair value of securitized mortgage collateral decreased $138.7 million during the three months ended March 31, 2015, primarily due to reductions in principal from borrower payments and transfers of loans to REO for single-family and multi-family collateral. Additionally, other trust assets increased $318 thousand during the three months ended March 31, 2015, primarily due to $9.2 million in REO foreclosures. Partially offsetting the increase was decreases in REO from liquidations of $6.2 million plus a $2.7 million decrease in the net realizable value (NRV) of REO.

- The estimated fair value of securitized mortgage borrowings decreased $136.7 million during the three months ended March 31, 2015, primarily due to reductions in principal balances from principal payments during the period for single-family and multi-family collateral as well as a slight increase in loss assumptions. The $948 thousand reduction in other trust liabilities during the three months ended March 31, 2015, was primarily due to $1.1 million in derivative cash payments from the securitization trusts, and a $241 thousand increase in derivative fair value resulting from changes in forward LIBOR interest rates.

In previous years, we securitized mortgage loans by transferring originated and acquired residential single-family mortgage loans and multi-family commercial loans (the transferred assets) into non-recourse bankruptcy remote trusts which in turn issued tranches of bonds to investors supported only by the cash flows of the transferred assets. Because the assets and liabilities in the securitizations are nonrecourse to us, the bondholders cannot look to us for repayment of their bonds in the event of a shortfall. These securitizations were structured to include interest rate derivatives. We retained the residual interest in each trust, and in most cases would perform the master servicing function. A trustee and sub-servicer, unrelated to us, was utilized for each securitization. Cash flows from the loans (the loan payments as well as liquidation of foreclosed real estate properties) collected by the loan sub-servicer are remitted to us, the master servicer. The master servicer remits payments to the trustee who remits payments to the bondholders (investors). The sub-servicer collects loan payments and performs loss mitigation activities for defaulted loans. These activities include foreclosing on properties securing defaulted loans, which results in REO. Our real estate services segment also performs mitigation activities for loans within the portfolio.

To estimate fair value of the assets and liabilities within the securitization trusts each reporting period, management uses an industry standard valuation and analytical model that is updated monthly with current collateral, real estate, derivative, bond and cost (servicer, trustee, etc.) information for each securitization trust. We employ an internal process to validate the accuracy of the model as well as the data within this model. Forecasted assumptions sometimes referred to as curves, for defaults, loss severity, interest rates (LIBOR) and prepayments are inputted into the valuation model for each securitization trust. We hire third-party market participants to provide forecasted curves for the aforementioned assumptions for each of the securitizations. Before inputting this information into the model, management employs a process to qualitatively and quantitatively review the assumption curves for reasonableness using other information gathered from the mortgage and real estate market (*i.e.*,

third party home price indices, published industry reports discussing regional mortgage and commercial loan performance and delinquency) as well as actual default and foreclosure information for each trust from the respective trustees.

We use the valuation model to generate the expected cash flows to be collected from the trust assets and the expected required bondholder distribution (trust liabilities). To the extent that the trusts are over collateralized, we may receive the excess interest as the holder of the residual interest. The information above provides us with the future expected cash flows for the securitized mortgage collateral, real estate owned, securitized mortgage borrowings, derivative assets/liabilities, and the residual interests.

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To determine the discount rates to apply to these cash flows, we gather information from the bond pricing services and other market participants regarding estimated investor required yields for each bond tranche. Based on that information and the collateral type and vintage, we determine an acceptable range of expected yields an investor would require including an appropriate risk premium for each bond tranche. We use the blended yield of the bond tranches together with the residual interests to determine an appropriate yield for the securitized mortgage collateral in each securitization (after taking into consideration any derivatives in the securitization).

The following table presents changes in the trust assets and trust liabilities for the three months ended March 31, 2015:

	TRUST ASSETS				TRUST LIABILITIES			
	Level 3 Recurring Fair Value Measurements		NRV (1)		Level 3 Recurring Fair Value Measurements			
	Investment securities available-for-sale	Securitized mortgage collateral	Real estate owned	Total trust assets	Securitized mortgage borrowings	Derivative liabilities	Total trust liabilities	Net trust assets
Recorded book value at December 31, 2014	**$ 92**	**$ 5,249,639**	**$ 18,800**	**$ 5,268,531**	**$ (5,245,860)**	**$ (5,447)**	**$ (5,251,307)**	**$ 17,224**
Total gains/(losses) included in earnings:								
Interest income	4	17,718		17,722				17,722
Interest expense					(56,366)		(56,366)	(56,366)
Change in FV of net trust assets, excluding REO	34	(1,854)		(1,820)(2)	3,855	(241)	3,614(2)	1,794
Losses from REO - not at FV but at NRV			(2,670)	(2,670)(2)				(2,670)
Total gains (losses) included in earnings	38	15,864	(2,670)	13,232	(52,511)	(241)	(52,752)	(39,520)
Transfers in and/or out of level 3								
Purchases, issuances and settlements	(42)	(154,520)	2,992	(151,570)	189,238	1,189	190,427	38,857
Recorded book value at March 31, 2015	**$ 88**	**$ 5,110,983**	**$ 19,122**	**$ 5,130,193**	**$ (5,109,133)**	**$ (4,499)**	**$ (5,113,632)**	**$ 16,561**

(1) Accounted for at net realizable value.

(2) Represents non-interest income-net trust assets in the consolidated statements of operations for the three months ended March 31, 2015.

Inclusive of gains from REO, total trust assets above reflect a net loss of $4.5 million as a result of a decrease in fair value of securitized mortgage collateral of $1.9 million, losses from REO of $2.7 million and increases from other trust assets of $34 thousand. Net gains on trust liabilities were $3.6 million as a result of $3.9 million in gains from the decrease in fair value of securitized mortgage borrowings and losses from derivative liabilities of $241 thousand. As a result, non-interest income net trust assets totaled a loss of $876 thousand for the three months ended March 31, 2015.

The table below reflects the net trust assets as a percentage of total trust assets (residual interests in securitizations):

	March 31, 2015	December 31, 2014
Net trust assets	$ 16,561	$ 17,224
Total trust assets	5,130,193	5,268,531
Net trust assets as a percentage of total trust assets	0.32%	0.33%

For the three months ended March 31, 2015, the estimated fair value of the net trust assets decreased as a percentage of total trust assets. The decrease was primarily due to cash received as well as a slight increase in loss assumptions.

Since the consolidated and unconsolidated securitization trusts are nonrecourse to us, our economic risk is limited to our residual interests in these securitization trusts. Therefore, in the following table we have netted trust assets and trust liabilities to present these residual interests more simply. Our residual interests in securitizations are segregated between our single-family (SF) residential and multi-family (MF) residential portfolios and are represented by the difference between trust assets and trust liabilities.

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The following tables present the estimated fair value of our residual interests, including investment securities available for sale, by securitization vintage year and other related assumptions used to derive these values at March 31, 2015 and December 31, 2014:

Origination Year		Estimated Fair Value of Residual Interests by Vintage Year at March 31, 2015			Estimated Fair Value of Residual Interests by Vintage Year at December 31, 2014		
		SF	MF	Total	SF	MF	Total
2002-2003	(1)	$ 10,624	$ 1,752	$ 12,376	$ 10,826	$ 1,975	$ 12,801
2004		1,778	1,175	2,953	1,846	1,506	3,352
2005	(2)	17	223	240	11	209	220
2006	(2)		992	992		851	851
2007	(2)						
Total		**$ 12,419**	**$ 4,142**	**$ 16,561**	**$ 12,683**	**$ 4,541**	**$ 17,224**
Weighted avg. prepayment rate		4.2%	12.5%	4.9%	4.3%	12.4%	4.9%
Weighted avg. discount rate		19.0%	16.5%	18.4%	19.0%	16.2%	18.3%

(1) 2002-2003 vintage year includes CMO 2007-A, since the majority of the mortgages collateralized in this securitization were originated during this period.

(2) The estimated fair values of residual interests in vintage years 2005 through 2007 is reflective of higher estimated future losses and investor yield requirements compared to earlier vintage years.

We utilize a number of assumptions to value securitized mortgage collateral, securitized mortgage borrowings and residual interests. These assumptions include estimated collateral default rates and loss severities (credit losses), collateral prepayment rates, forward interest rates and investor yields (discount rates). We use the same collateral assumptions for securitized mortgage collateral and securitized mortgage borrowings as the collateral assumptions determine collateral cash flows which are used to pay interest and principal for securitized mortgage borrowings and excess spread, if any, to the residual interests. However, we use different investor yield (discount rate) assumptions for securitized mortgage collateral and securitized mortgage borrowings and the discount rate used for residual interests based on underlying collateral characteristics, vintage year, assumed risk and market participant assumptions.

The table below reflects the estimated future credit losses and investor yield requirements for trust assets by product (SF and MF) and securitization vintage at March 31, 2015:

	Estimated Future Losses (1)		Investor Yield Requirement (2)	
	SF	MF	SF	MF
2002-2003	8%	*(3)	5%	8%
2004	12%	*(3)	5%	5%
2005	15%	3%	5%	4%
2006	23%	5%	6%	5%
2007	28%	2%	6%	4%

(1) Estimated future losses derived by dividing future projected losses by UPB at March 31, 2015.

(2) Investor yield requirements represent our estimate of the yield third-party market participants would require to price our trust assets and liabilities given our prepayment, credit loss and forward interest rate assumptions.

(3) Represents less than 1%.

Despite the increase in housing prices through March 31, 2015, housing prices in many parts of the country are still at levels which have significantly reduced or eliminated equity for loans originated after 2003. Future loss estimates are significantly higher for mortgage loans included in securitization vintages after 2004 which reflect severe home price deterioration and defaults experienced with mortgages originated during these periods.

Long-Term Mortgage Portfolio Credit Quality

We use the Mortgage Bankers Association (MBA) method to define delinquency as a contractually required payment being 30 or more days past due. We measure delinquencies from the date of the last payment due date in which a payment was received. Delinquencies for loans 60 days delinquent or greater, foreclosures and delinquent bankruptcies were $1.3 billion or 19.6% of the long-term mortgage portfolio as of March 31, 2015.

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The following table summarizes the gross UPB of loans in our mortgage portfolio, included in securitized mortgage collateral, that were 60 or more days delinquent (utilizing the MBA method) as of the periods indicated:

		March 31, 2015	Total Collateral %		December 31, 2014	Total Collateral %
Securitized mortgage collateral						
60 - 89 days delinquent	$	120,027	1.8%	$	137,913	2.0%
90 or more days delinquent		415,503	6.3%		503,849	7.5%
Foreclosures (1)		482,744	7.4%		443,751	6.6%
Delinquent bankruptcies (2)		268,171	4.1%		281,936	4.2%
Total 60+ days delinquent long-term mortgage portfolio		1,286,445	19.6%		1,367,449	20.3%
Total 60 or more days delinquent	$	1,286,445	19.6%	$	1,367,449	20.3%
Total collateral	$	6,552,903	100%	$	6,745,411	100%

(1) Represents properties in the process of foreclosure.

(2) Represents bankruptcies that are 30 days or more delinquent.

The following table summarizes the gross securitized mortgage collateral and REO (at NRV), that were non-performing as of the dates indicated (excludes 60-89 days delinquent):

		March 31, 2015	Total Collateral %		December 31, 2014	Total Collateral %
90 or more days delinquent, foreclosures and delinquent bankruptcies	$	1,166,418	17.8%	$	1,229,536	18.2%
Real estate owned		19,122	0.3%		18,800	0.3%
Total non-performing assets	$	1,185,540	18.1%	$	1,248,336	18.5%

Non-performing assets consist of non-performing loans (mortgages that are 90 or more days delinquent, including loans in foreclosure and delinquent bankruptcies) plus REO. It is the Company s policy to place a mortgage on nonaccrual status when it becomes 90 days delinquent and to reverse from revenue any accrued interest, except for interest income on securitized mortgage collateral when the scheduled payment is received from the servicer. The servicers are required to advance principal and interest on loans within the securitization trusts to the extent the advances are considered recoverable. IFC, a subsidiary of IMH and master servicer, may be required to advance funds, or in most cases cause the loan servicers to advance funds, to cover principal and interest payments not received from borrowers depending on the status of their mortgages. As of March 31, 2015, non-performing assets (UPB of loans 90 or more days delinquent, foreclosures and delinquent bankruptcies plus REO) as a percentage of the total collateral was 18.1%. At December 31, 2014, non-performing assets to total collateral was 18.5%. Non-performing assets decreased by approximately $62.8 million at March 31, 2015 as compared to December 31, 2014. At March 31, 2015, the estimated fair value of non-performing assets (representing the fair value of loans 90 or more days delinquent, foreclosures and delinquent bankruptcies plus REO) was $421.7 million or 7.1% of total assets. At December 31, 2014, the estimated fair value of non-performing assets was $410.3 million or 7.3% of total assets.

REO, which consists of residential real estate acquired in satisfaction of loans, is carried at the lower of cost or net realizable value less estimated selling costs. Adjustments to the loan carrying value required at the time of foreclosure are included in the change in the fair value of net trust assets. Changes in our estimates of net realizable value subsequent to the time of foreclosure and through the time of ultimate disposition are recorded as gains or losses from real estate owned in the consolidated statements of operations.

The increase in REO at March 31, 2015 was the result of a decrease in REO liquidations as compared to the fourth quarter of 2014. Additionally, for the three months ended March 31, 2015, we recorded a decrease in net realizable value of the REO in the amount of $2.7 million, compared to an increase of $6.1 million for the comparable 2014 period. Increases and write-downs of the net realizable value reflect increases or declines in value of the REO subsequent to foreclosure date, but prior to the date of sale.

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The following table presents the balances of REO:

	March 31, 2015	December 31, 2014
REO	$ 23,666	$ 20,674
Impairment (1)	(4,544)	(1,874)
Ending balance	$ 19,122	$ 18,800
REO inside trusts	$ 19,122	$ 18,800
REO outside trusts		
Total	$ 19,122	$ 18,800

(1) Impairment represents the cumulative write-downs of net realizable value subsequent to foreclosure.

In calculating the cash flows to assess the fair value of the securitized mortgage collateral, we estimate the future losses embedded in our loan portfolio. In evaluating the adequacy of these losses, management takes many factors into consideration. For instance, a detailed analysis of historical loan performance data is accumulated and reviewed. This data is analyzed for loss performance and prepayment performance by product type, origination year and securitization issuance. The data is also broken down by collection status. Our estimate of losses for these loans is developed by estimating both the rate of default of the loans and the amount of loss severity in the event of default. The rate of default is assigned to the loans based on their attributes (e.g., original loan-to-value, borrower credit score, documentation type, geographic location, etc.) and collection status. The rate of default is based on analysis of migration of loans from each aging category. The loss severity is determined by estimating the net proceeds from the ultimate sale of the foreclosed property. The results of that analysis are then applied to the current mortgage portfolio and an estimate is created. We believe that pooling of mortgages with similar characteristics is an appropriate methodology in which to evaluate the future loan losses.

Management recognizes that there are qualitative factors that must be taken into consideration when evaluating and measuring losses in the loan portfolios. These items include, but are not limited to, economic indicators that may affect the borrower s ability to pay, changes in value of collateral, political factors, employment and market conditions, competitor s performance, market perception, historical losses, and industry statistics. The assessment for losses is based on delinquency trends and prior loss experience and management s judgment and assumptions regarding various matters, including general economic conditions and loan portfolio composition. Management continually evaluates these assumptions and various relevant factors affecting credit quality and inherent losses.

Results of Operations

For the Three Months Ended March 31, 2015 compared to the Three Months Ended March 31, 2014

	For the Three Months Ended March 31,			
	2015	2014	Increase (Decrease)	% Change
Revenues	$ 34,343	$ 10,229	$ 24,114	236%
Expenses	(17,141)	(14,928)	(2,213)	(15)

Net interest income (expense)		1,058		(313)		1,371	438
Change in fair value of long-term debt		(7,116)		(650)		(6,466)	(995)
Change in fair value of net trust assets, including trust REO gains (losses)		(876)		3,038		(3,914)	(129)
Income tax benefit (expense)		23,704		(342)		24,046	7,031
Net earnings (loss) attributable to IMH		33,972		(2,966)		36,938	1,245
Earnings (loss) per share available to common stockholders - basic	$	3.54	$	(0.33)	$	3.87	1,164%
Earnings (loss) per share available to common stockholders - diluted	$	2.94	$	(0.33)	$	3.27	998%

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Revenues

	For the Three Months Ended March 31,			
	2015	2014	Increase (Decrease)	% Change
Gain on sale of loans, net	$ 37,398	$ 4,573	$ 32,825	718%
Real estate services fees, net	2,742	3,679	(937)	(25)
Servicing income, net	635	1,569	(934)	(60)
Loss on mortgage servicing rights	(6,568)	(977)	(5,591)	(572)
Other revenues	136	1,385	(1,249)	(90)
Total revenues	$ 34,343	$ 10,229	$ 24,114	236%

For the three months ended March 31, 2015, results of operation include the operations of CCM, but do not reflect certain accounting adjustments that will be included in future periods, but were not required to be included in the 2015 first quarter, since the acquisition did not close until March 31, 2015. Such adjustments include accretion (or imputed interest) related to the estimated future contingent earn-out liability, amortization of intangible assets recorded in connection with the acquisition and possible adjustments to the contingent earn-out liability that may arise as a result of future actual operations differing from projected operations.

Gain on sale of loans, net. For the three months ended March 31, 2015, gain on sale of loans, net were $37.4 million compared to $4.6 million in the comparable 2014 period. The $32.8 million increase is primarily related to a $41.2 million increase in premiums received from the sale of mortgage loans, an $18.6 million increase in premiums from servicing retained loan sales, a $10.4 million increase in mark-to-market gains and a $7.2 million increase in realized and unrealized net gains on derivative financial instruments, partially offset by $44.0 million increase in net direct loan origination expenses and a $612 thousand increase in provision for repurchases.

The overall increase in gain on sale of loans, net was due to increased gain on sale margins associated with $2.4 billion and $2.1 billion of loans originated and sold, respectively, during the three months ended March 31, 2015, as compared to $353.1 million and $379.4 million of loans originated and sold, respectively, during the same period in 2014. The increase was predominantly due to the first quarter acquisition of CCM which generated $1.5 billion in loan originations. Margins increased to approximately 155 bps for the three months ended March 31, 2015 as compared to 130 bps for the same period in 2014 due to the acquisition of CCM and a higher concentration of retail loans which have higher margins. However, in the first quarter of 2015, gain on sale of loans, net included increased loan origination costs related to the acquisition of CCM. Beginning in the second quarter of 2015, the operations of CCM will be consolidated with our mortgage lending segment, therefore, the operating expenses of CCM will be included in personnel and general, administrative, and other expense, which should increase our gain on sale margins and correspondingly increase our operating expenses.

Real estate services fees, net. For the three months ended March 31, 2015, real estate services fees, net were $2.7 million compared to $3.7 million in the comparable 2014 period. The $937 thousand decrease was primarily the result of a decrease in transactions related to the decline in the number of loans and the UPB of the long-term mortgage portfolio.

Servicing income, net. For the three months ended March 31, 2015, servicing income, net was $635 thousand compared to $1.6 million in the comparable 2014 period. The decrease in servicing income, net was the result of the servicing portfolio decreasing 28% to an average balance of $2.1 billion for the three months ended March 31, 2015 as compared to an average balance of $2.9 billion for the three months ended March 31, 2014. The decrease in the average balance was due to servicing sales in the first quarter of 2015 of approximately $1.6 billion.

Loss on mortgage servicing rights. For the three months ended March 31, 2015, loss on mortgage servicing rights was $6.6 million compared to $977 thousand in the comparable 2014 period. For the three months ended March 31, 2015, loss on mortgage servicing rights was primarily the result of a ($3.1) million change in fair value of mortgage servicing rights due to a decrease in interest rates during the period coupled with a $3.5 million loss on sale of servicing primarily due to FHA dropping its required mortgage insurance premium by 0.50% in January 2015 as compared to a loss of $961 thousand for the same period in 2014.

Other revenues. For the three months ended March 31, 2015, other revenue was $136 thousand compared to $1.4 million for the comparable 2014 period. The decrease in other revenue was primarily due to the sale of AmeriHome during the first quarter of 2014 resulting in a $1.2 million gain.

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Expenses

	For the Three Months Ended March 31,			
	2015	2014	Increase (Decrease)	% Change
Personnel expense	$ 11,490	$ 9,460	$ 2,030	21%
General, administrative and other	5,651	5,468	183	3
Total expenses	$ 17,141	$ 14,928	$ 2,213	15%

In accordance with the purchase agreement, from the beginning of January 2015 until the March 31, 2015 closing date of the CCM acquisition, IMC received all of the net earnings of CCM s mortgage loan transactions, however a majority of the net earnings were paid to the seller as an earn-out payment as part of the purchase price. IMC reimbursed CashCall for all mortgage loan origination costs including personnel and other operating costs. Prior to the March 31, 2015 closing date, IMC recorded these expenses as loan origination costs within gain on sale of loans, net.

Total expenses were $17.1 million for the three months ended March 31, 2015, compared to $14.9 million for the comparable period of 2014. Personnel expense increased $2.0 million to $11.5 million for the three months ended March 31, 2015. The increase is primarily due to the addition of new sales personnel in the wholesale and correspondent division as compared to the first quarter of 2014. This increase does not include the increase in personnel related costs from the acquisition of CCM as those costs will be recorded beginning in the second quarter of 2015 as a result of the consolidation of CCM on the March 31, 2015 acquisition date. Beginning in the second quarter of 2015, personnel related costs from CCM will be included within their respective expense line.

As part of a review of the overall compensation and retention structure of the executive management team, the Company discovered that a retention plan created three years ago to retain key executives included an aspect associated with the financing of premiums on a life insurance benefit that may be inconsistent with the requirements of the Sarbanes-Oxley Act. However, the Company is taking all steps necessary to insure that the retention plan is in compliance with the Sarbanes-Oxley Act.

General, administrative and other expenses increased to $5.7 million for the three months ended March 31, 2015, compared to $5.5 million for the same period in 2014. The increase was primarily related to a $775 thousand increase in legal and professional fees partially offset by a $533 thousand decrease in occupancy expense. The decrease in occupancy expense is due to a non-cash lease impairment charge of $548 thousand during the first quarter of 2014. Additionally, as previously discussed, general, administrative and other costs do not include any costs from CCM as CCM s operations were not consolidated until the March 31, 2015 acquisition date. The costs were booked as loan acquisition costs within gain on sale of loans, net during the first quarter of 2015. Beginning in the second quarter of 2015, general, administrative and other costs from CCM will be recorded within their respective expense line.

Net Interest Income (Expense)

We earn net interest income primarily from mortgage assets which include securitized mortgage collateral, loans held-for-sale, finance receivables and investment securities available-for-sale, or collectively, mortgage assets, and, to a lesser extent, interest income earned on cash and cash equivalents. Interest expense is primarily interest paid on borrowings secured by mortgage assets, which include securitized mortgage borrowings and warehouse borrowings and to a lesser extent, interest expense paid on long-term debt, Convertible Notes, short-term structured

debt and line of credit. Interest income and interest expense during the period primarily represents the effective yield, based on the fair value of the trust assets and liabilities.

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The following tables summarize average balance, interest and weighted average yield on interest-earning assets and interest-bearing liabilities, for the periods indicated. Cash receipts and payments on derivative instruments hedging interest rate risk related to our securitized mortgage borrowings are not included in the results below. These cash receipts and payments are included as a component of the change in fair value of net trust assets.

	For the Three Months Ended March 31,					
	2015			2014		
	Average Balance	Interest	Yield	Average Balance	Interest	Yield
ASSETS						
Securitized mortgage collateral	$ 5,180,311	$ 69,282	5.35%	$ 5,477,334	$ 71,083	5.19%
Mortgage loans held-for-sale	288,481	2,631	3.65%	85,040	924	4.35%
Finance receivables	84,050	687	3.27%			0.00%
Other	4,530	8	0.71%	10,601	14	0.53%
Total interest-earning assets	$ 5,557,372	$ 72,608	5.23%	$ 5,572,975	$ 72,021	5.17%
LIABILITIES						
Securitized mortgage borrowings	$ 5,177,496	$ 67,124	5.19%	$ 5,476,715	$ 70,048	5.12%
Warehouse borrowings (1)	360,580	2,750	3.05%	80,145	746	3.72%
Long-term debt	22,341	960	17.19%	16,553	1,111	26.85%
Convertible Notes	20,000	388	7.76%	20,000	387	7.74%
Short-term structured debt	5,217	104	7.97%			0.00%
Short-term borrowing	3,222	173	21.48%			0.00%
Other	3,178	51	6.42%	1,501	42	11.19%
Total interest-bearing liabilities	$ 5,592,034	$ 71,550	5.12%	$ 5,594,914	$ 72,334	5.17%
Net Interest Spread (2)		$ 1,058	0.11%		$ (313)	0.00%
Net Interest Margin (3)			0.08%			-0.02%

(1) Warehouse borrowings include the borrowings from mortgage loans held-for-sale and finance receivables.

(2) Net interest spread is calculated by subtracting the weighted average yield on interest-bearing liabilities from the weighted average yield on interest-earning assets.

(3) Net interest margin is calculated by dividing net interest spread by total average interest-earning assets.

Net interest spread increased $1.4 million for the quarter ended March 31, 2015 primarily attributable to an increase in the net interest spread on the long-term mortgage portfolio due to increases in yields between periods on securitized mortgage collateral and securitized mortgage borrowings. an increase in the net interest spread between loans held-for-sale and finance receivables and their related warehouse borrowings and a decrease in interest expense on the long-term debt. Offsetting the increase in net spread was an increase in interest expense from the issuance of the short-term structured debt and short-term borrowing. As a result, net interest margin increased to 0.08% for the three months ended March 31, 2015 from (0.02%) for the three months ended March 31, 2014.

During the quarter ended March 31, 2015, the yield on interest-earning assets increased to 5.23% from 5.17% in the comparable 2014 period. The yield on interest-bearing liabilities decreased to 5.12% for the quarter ended March 31, 2015 from 5.17% for the comparable 2014 period. In connection with the fair value accounting for investment securities available-for-sale, securitized mortgage collateral and borrowings and long-term debt, interest income and interest expense is recognized using effective yields based on estimated fair values for these instruments. The increase in yield for securitized mortgage collateral and securitized mortgage borrowings is primarily related to a slight deterioration in the 2006 and 2007 vintage as compared to the previous period. The decrease in prices for these vintages caused the overall yields to increase. Partially offsetting the increase in overall yields was improved pricing and lower yields on the earlier vintages. The result was an improvement in net interest income and cash flows in the earlier vintage trusts which include our residual interests.

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Change in the fair value of long-term debt.

Change in the fair value of long-term debt resulted in a loss of $7.1 million for the three months ended March 31, 2015, compared to a loss of $650 thousand for the comparable 2014 period as a result of the increase in the estimated fair value of long-term debt. The increase in the estimated fair value of long-term debt was primarily the result of a decrease in the discount rate attributable to an improvement in our own credit risk profile, improvement in our financial condition and results of operations from the mortgage lending segment including the acquisition of CCM as well as a decrease in forward LIBOR interest rates during the first quarter of 2015 as compared to 2014. Long-term debt (consisting of trust preferred securities and junior subordinated notes) is measured based upon an analysis prepared by the Company, which considers the Company s own credit risk and discounted cash flow analyses. Improvements in financial results and financial condition of the Company in the future could result in additional increases in the estimated fair value of the long-term debt, while a deterioration in financial results and financial condition could result in a decrease in the estimated fair value of the long-term debt.

Change in fair value of net trust assets, including trust REO gains (losses)

	For the Three Months Ended March 31, 2015	2014
Change in fair value of net trust assets, excluding REO	$ 1,794	$ (3,043)
(Losses) gains from REO	(2,670)	6,081
Change in fair value of net trust assets, including trust REO (losses) gains	$ (876)	$ 3,038

The change in fair value related to our net trust assets (residual interests in securitizations) was a loss of $876 thousand for the quarter ended March 31, 2015, compared to a gain of $3.0 million in the comparable 2014 period. The change in fair value of net trust assets, including REO was due to $1.8 million in gains from changes in fair value of securitized mortgage borrowings, securitized mortgage collateral and investment securities available-for-sale primarily associated with lower interest rates. Additionally, the NRV of REO decreased $2.7 million during the period attributed to higher expected loss severities on properties held in the long-term mortgage portfolio during the period.

The change in fair value related to our net trust assets (residual interests in securitizations) was a gain of $3.0 million for the quarter ended March 31, 2014. The change in fair value of net trust assets, including REO was due to $3.0 million in losses from changes in fair value of securitized mortgage borrowings, securitized mortgage collateral and investment securities available-for-sale primarily associated with updating assumptions of increased collateral losses in the future and higher interest rates. Offsetting the loss was a $6.1 million increase in NRV of REO during the period attributed to lower expected loss severities on properties held in the long-term mortgage portfolio during the period.

Income Taxes

For the three months ended March 31, 2015, we recorded a benefit of $23.7 million primarily the result of reversal of valuation allowance partially offset by federal alternative minimum tax (AMT), amortization of the deferred charge and state income taxes from states where we do not have net operating loss carryforwards or state minimum taxes, including AMT. For the three months ended March 31, 2014, we recorded an expense of $0.3 million primarily related to alternative minimum taxes associated with taxable income generated from the sale of AmeriHome

and mortgage servicing rights.

As of December 31, 2014, we had estimated federal and California net operating loss (NOL) carryforwards of approximately $495.9 million and $427.3 million, respectively. Federal and state net operating loss carryforwards begin to expire in 2027 and 2018, respectively.

Based on pretax income of $10.3 million, the expected tax expense would be $4.1 million at an effective rate of 40%. However, we utilized $3.7 million in available NOL s by offsetting tax expense for the period with a reversal of the valuation allowance. Additionally, based on the weight of available evidence at March 31, 2015, we determined that it was more likely than not that we would generate sufficient taxable income in future periods to utilize a portion of our net deferred tax asset.

As of December 31, 2014, we had deferred tax assets of $163.2 million which we recorded a full valuation allowance against. During the first quarter of 2015, with the aforementioned acquisition of CCM, we significantly expanded our mortgage lending operations and profitability. As of March 31, 2015, in part because of the earnings of CCM during the first quarter of 2015, current year projected earnings, future projected earnings as well as the historical earnings of CCM, management determined that sufficient positive evidence exists to conclude that it is more likely than not that deferred taxes of $24.4 million are realizable, and therefore, reduced the valuation allowance accordingly.

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Results of Operations by Business Segment

We have three primary operating segments: Mortgage Lending, Real Estate Services and Long-Term Mortgage Portfolio. Unallocated corporate and other administrative costs, including the cost associated with being a public company, are presented in Corporate. Segment operating results are as follows:

Mortgage Lending

	For the Three Months Ended March 31,			
	2015	2014	Increase (Decrease)	% Change
Gain on sale of loans, net	$ 37,398	$ 4,573	$ 32,825	718%
Servicing income, net	635	1,569	(934)	(60)
Loss on mortgage servicing rights	(6,568)	(977)	(5,591)	(572)
Other	17	1,216	(1,199)	(99)
Total revenues	31,482	6,381	25,101	393
Other income	368	156	212	136
Personnel expense	(11,055)	(6,585)	(4,470)	(68)
General, administrative and other	(2,260)	(2,477)	217	9
Net earnings (loss) before income taxes	$ 18,535	$ (2,525)	$ 21,060	834%

For the quarter ended March 31, 2015, gain on sale of loans, net were $37.4 million or 1.55% compared to $4.6 million or 1.30% in the comparable 2014 period. The $32.8 million increase is primarily related to a $41.3 million increase in premiums received from the sale of mortgage loans, an $18.6 million increase in premiums from servicing retained loan sales, a $10.4 million increase in mark-to-market gains and a $7.2 million increase in realized and unrealized net gains on derivative financial instruments, partially offset by $44.3 million increase in net direct loan origination expenses and a $315 thousand increase in provision for repurchases.

The overall increase in gain on sale of loans, net was due to increased gain on sale margins associated with $2.4 billion and $2.1 billion of loans originated and sold, respectively, during the three months ended March 31, 2015, as compared to $353.1 million and $379.4 million of loans originated and sold, respectively, during the same period in 2014. The increase was predominantly due to the first quarter acquisition of CCM which generated $1.5 billion in loan originations. Margins increased to approximately 155 bps for the three months ended March 31, 2015 as compared to 130 bps for the same period in 2014 due to the acquisition of CCM and a higher concentration of retail loans which have higher margins. However, in the first quarter of 2015, gain on sale of loans, net included increased loan origination costs related to the acquisition of CCM. Beginning in the second quarter of 2015, the operations of CCM will be consolidated with our mortgage lending segment, therefore, the operating expenses of CCM will be included in personnel and general, administrative, and other expense, which should increase our gain on sale margins and increase our operating expenses.

For the quarter ended March 31, 2015, servicing income, net was $635 thousand compared to $1.6 million in the comparable 2014 period. The decrease in servicing income, net was the result of the servicing portfolio decreasing 28% to an average balance of $2.1 billion for the three months ended March 31, 2015 as compared to an average balance of $2.9 billion for the three months ended March 31, 2014. The decrease in

the average balance was due to servicing sales in the first quarter of 2015 of approximately $1.6 billion.

For the three months ended March 31, 2015, loss on mortgage servicing rights was $6.6 million compared to $977 thousand in the comparable 2014 period. For the three months ended March 31, 2015, loss on mortgage servicing rights was primarily the result of a ($3.1) million change in fair value of mortgage servicing rights due to a decrease in interest rates during the period coupled with a $3.5 million loss on sale of servicing primarily due to FHA dropping its required mortgage insurance premium by 0.50% in January as compared to a loss of $961 thousand for the same period in 2014.

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Personnel expense increased $4.5 million to $11.1 million for the three months ended March, 2015. The increase is primarily due to the addition of new sales personnel by IMH in the wholesale and correspondent division as compared to the first quarter of 2014. Additionally, the growth of the mortgage lending division resulted in increased allocations of certain corporate costs. These increases do not include the increase in personnel related costs from the acquisition of CCM as those costs were booked as loan acquisition costs within gain on sale of loans, net during the first quarter of 2015. Beginning in the second quarter of 2015, personnel related costs from CCM will be recorded within their respective expense line. The average number of mortgage lending employees increased to 213 in the first quarter of 2015 as compared to 176 during the same period in 2014.

For the three months ended March 31, 2015, other revenue was $17 thousand compared to $1.2 million for the comparable 2014 period. The decrease in other revenue was primarily due to the sale of AmeriHome during the first quarter of 2014 resulting in a $1.2 million gain.

Real Estate Services

	For the Three Months Ended March 31,			
	2015	**2014**	**Increase (Decrease)**	**% Change**
Real estate services fees, net	$ 2,742	$ 3,679	$ (937)	(25)%
Other income		1	(1)	(100)
Personnel expense	(1,453)	(1,218)	(235)	(19)
General, administrative and other	(202)	(304)	102	34
Net earnings before income taxes	$ 1,087	$ 2,158	$ (1,071)	(50)%

For the quarter ended March 31, 2015, real estate services fees, net were $2.7 million compared to $3.7 million in the comparable 2014 period. The $937 thousand decrease in real estate services fees, net was the result of a $420 thousand decrease in loss mitigation fees, a $310 thousand decrease in real estate services and a $207 thousand decrease in real estate and recovery fees.

For the quarter ended March 31, 2015, personnel expense increased to $1.5 million as compared to $1.2 million for the comparable 2014 period. The $235 thousand increase is primarily related to an increase in personnel and related expenses as well as certain allocated corporate costs.

Long-term Mortgage Portfolio

	For the Three Months Ended March 31,			
	2015	**2014**	**Increase (Decrease)**	**% Change**
Other revenue	$ 61	$ 169	(108)	(64)%
Personnel expense	(7)	(91)	(84)	(92)
General, administrative and other	(104)	(150)	(46)	(31)
Total expenses	(111)	(241)	130	54

Net interest income (expense)		1,201		(69)		1,270	1841
Change in fair value of long-term debt		(7,116)		(650)		(6,466)	(995)
Change in fair value of net trust assets, including trust REO (losses) gains		(876)		3,038		(3,914)	(129)
Total other (expense) income		(6,791)		2,319		(9,110)	(393)
Net (loss) earnings before income taxes	$	(6,841)	$	2,247	$	(9,088)	(404)%

For the three months ended March 31, 2015, other revenue totaled $61 thousand as compared to $169 thousand for the comparable 2014 period. The $108 thousand decrease is primarily due to a $73 thousand decrease in investment earnings and a $35 thousand decrease in master servicing revenue earned on the long-term mortgage portfolio.

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For the three months ended March 31, 2015, personnel expense was $7 thousand as compared to $91 thousand for the comparable 2014 period. The $84 thousand decrease in personnel expense was primarily due to a decrease in allocated personnel expenses associated with ongoing activities in the long-term mortgage portfolio associated with a decline in loans and balances of the long-term mortgage portfolio.

For the three months ended March 31, 2015, net interest income totaled $1.2 million as compared to an expense of $69 thousand for the comparable 2014 period. Net interest income increased $1.3 million for the quarter ended March 31, 2015 primarily attributable to a $1.1 million increase in net interest spread on the long-term mortgage portfolio due to an improvement in net interest income and cash flows in the earlier vintage trusts which include our residual interests. Additionally, net interest income increased $151 thousand due to a decrease in interest expense on the long-term debt.

Change in the fair value of long-term debt was a loss of $7.1 million for the three months ended March 31, 2015, compared to a loss of $650 thousand for the comparable 2014 period as a result of the increase in the estimated fair value of long-term debt. The increase in the estimated fair value of long-term debt was primarily the result of a decrease in the discount rate attributable to an improvement in our own credit risk profile due to our financial condition and results of operations from the mortgage lending segment including the acquisition of CCM as well as a decrease in forward LIBOR interest rates during the first quarter of 2015 as compared to 2014.

The change in fair value related to our net trust assets (residual interests in securitizations) was a loss of $876 thousand for the quarter ended March 31, 2015, compared to a gain of $3.0 million in the comparable 2014 period. The change in fair value of net trust assets, including REO was due to $1.8 million in gains from changes in fair value of securitized mortgage borrowings, securitized mortgage collateral and investment securities available-for-sale primarily associated with lower interest rates. Additionally, the NRV of REO decreased $2.7 million during the period attributed to higher expected loss severities on properties held in the long-term mortgage portfolio during the period.

Corporate

The corporate segment includes all compensation applicable to the corporate services groups, public company costs, unused office space as well as debt expense related to the Convertible Notes and capital leases. This corporate services group supports all operating segments. A portion of the corporate services costs is allocated to the operating segments. The costs associated with being a public company, unused space as well as the interest expense related to the 2013 Convertible Notes and capital leases are not allocated to our other segments and remain in this segment.

	For the Three Months Ended March 31,			
	2015	**2014**	**Increase (Decrease)**	**% Change**
Interest expense	$ (511)	$ (401)	(110)	(27)
Other expenses	(2,002)	(4,103)	2,101	51
Net loss before income taxes	$ (2,513)	$ (4,504)	$ 1,991	44%

For the three months ended March 31, 2015, interest expense increased to $511 thousand as compared to $401 thousand for the comparable 2014 period. The increase was primarily due to a $104 thousand increase in interest expense from the short-term structured debt agreement entered into in December 2014.

For the three months ended March 31, 2015, expenses decreased to $2.0 million as compared to $4.1 million for the comparable 2014 period. The decrease was primarily due to a $2.4 million increase in allocated corporate expenses and a $434 thousand reduction in occupancy expense. The growth of the mortgage lending division resulted in increased allocations of certain corporate costs due to increased headcount. The decrease in occupancy expense is due to a non-cash lease impairment charge of $548 thousand during the first quarter of 2014. Partially offsetting the decrease was a $498 thousand increase in legal and professional fees. The combination of items resulted in a net decrease in expenses recorded in the corporate segment.

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ITEM 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As a smaller reporting company, the Company is not required to provide the information required by this Item.

ITEM 4: CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures (as defined in the Securities Exchange Act of 1934 Rules 13a-15(e) or 15d-15(e)) designed to ensure that information required to be disclosed in reports filed or submitted under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by the Company in its reports that it files or submits under the Exchange Act is accumulated and communicated to the Company s management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

As required by Rules 13a-15 and 15d-15 under the Exchange Act, in connection with the filing of this Quarterly Report on Form 10-Q, our management, under the supervision and with the participation of our CEO and CFO, conducted an evaluation of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e). Based on that evaluation, the Company s chief executive officer and chief financial officer concluded that, as of that date, the Company s disclosure controls and procedures were effective at a reasonable assurance level.

Changes in Internal Control Over Financial Reporting

There has been no change in the Company s internal control over financial reporting during the Company s quarter ended March 31, 2015, that has materially affected, or is reasonably likely to materially affect, the Company s internal control over financial reporting.

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PART II. OTHER INFORMATION

ITEM 1: LEGAL PROCEEDINGS

The Company is a defendant in or a party to a number of legal actions or proceedings that arise in the ordinary course of business. In some of these actions and proceedings, claims for monetary damages are asserted against the Company. In view of the inherent difficulty of predicting the outcome of such legal actions and proceedings, the Company generally cannot predict what the eventual outcome of the pending matters will be, what the timing of the ultimate resolution of these matters will be, or what the eventual loss related to each pending matter may be, if any.

In accordance with applicable accounting guidance, the Company establishes an accrued liability for litigation when those matters present loss contingencies that are both probable and estimable. In any cases, there may be an exposure to losses in excess of any such amounts whether accrued or not. Any estimated loss is subject to significant judgment and is based upon currently available information, a variety of assumptions, and known and unknown uncertainties. The matters underlying the estimated loss will change from time to time, and actual results may vary significantly from the current estimate. Therefore, an estimate of possible loss represents what the Company believes to be an estimate of possible loss only for certain matters meeting these criteria. It does not represent the Company s maximum loss exposure.

Based on the Company s current understanding of these pending legal actions and proceedings, management does not believe that judgments or settlements arising from pending or threatened legal matters, individually or in the aggregate, will have a material adverse effect on the consolidated financial position, operating results or cash flows of the Company. However, in light of the inherent uncertainties involved in these matters, some of which are beyond the Company s control, and the very large or indeterminate damages sought in some of these matters, an adverse outcome in one or more of these matters could be material to the Company s results of operations or cash flows for any particular reporting period.

The legal matters summarized below are ongoing and may have an effect on the Company s business and future financial condition and results of operations:

On December 14, 2013, a matter was filed in the US District Court, District of Minnesota, entitled Residential Funding Company, LLC v. Impac Funding Corp. alleging the defendant is responsible for unspecific debts of Pinnacle Direct Funding Corp., as its successor in interest. On April 3, 2014, the plaintiff filed a First Amended Complaint alleging the defendant is responsible for breaches of representations and warranties in connection with certain loan sales from Pinnacle to plaintiff. The plaintiff seeks declaratory relief and unspecified damages. On April 17, 2014, the Company filed a motion to dismiss the First Amended Complaint, which the court denied. The Company answered the First Amended Complaint on September 24, 2014, and filed a motion for summary judgment on January 6, 2015, which remains pending.

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The Company is a party to other litigation and claims which are normal in the course of our operations. While the results of such other litigation and claims cannot be predicted with certainty, we believe the final outcome of such matters will not have a material adverse effect on our financial condition or results of operations. The Company believes that it has meritorious defenses to the above claims and intends to defend these claims vigorously and as such the Company believes the final outcome of such matters will not have a material adverse effect on its financial condition or results of operations. Nevertheless, litigation is uncertain and the Company may not prevail in the lawsuits and can express no opinion as to their ultimate resolution. An adverse judgment in any of these matters could have a material adverse effect on the Company s financial position and results of operations.

Please refer to IMH s report on Form 10-K for the year ended December 31, 2014 for a description of litigation and claims.

ITEM 1A: RISK FACTORS

We may not realize all of the anticipated benefits of our acquisition, which could adversely affect our business, financial condition and results of operations.

We have recently expanded our business through the acquisition of CCM. Our ability to realize the anticipated benefits of this acquisition will depend, in part, on our ability to integrate the CCM platform and business with our business. The process of integrating the platform may disrupt our business and may not result in the full benefits expected. The risks associated with acquisitions include, among others:

- unanticipated issues in integrating information, communications and other systems;
- unanticipated incompatibility of purchasing, logistics, marketing and administration methods;
- direct and indirect costs and liabilities;
- not retaining key employees;
- the diversion of management s attention from ongoing business concerns; and
- the inability to make contingent consideration payments to the seller due to lack of cash or the ability to borrow the needed cash, which could result in a default to the seller.

Moreover, the acquisition of the CCM platform may not contribute to our revenues or earnings to any material extent, and cost savings and synergies we expect at the time of an acquisition may not be realized once the acquisition has been completed. If we inappropriately value the assets we acquire or the value of the assets we acquire declines after we acquire them, the resulting charges may negatively affect the carrying value of the assets on our balance sheet and our earnings. Furthermore, if we incur additional indebtedness to finance the acquisition, the acquired business may not be able to generate sufficient cash flow to service that additional indebtedness. An unsuitable or unsuccessful acquisition could materially and adversely affect our business, financial condition and results of operations.

The Company has deferred tax assets that it may not be able to use under certain circumstances.

We recognize deferred tax assets and liabilities based on the differences between the financial statement carrying amounts and the tax basis of assets and liabilities. Our deferred tax assets, net of valuation allowances, totaled approximately $24.4 million at March 31, 2015. Significant judgment is required in determining our provision for income taxes. We regularly review our deferred tax assets for recoverability and establish a valuation allowance if it is more likely than not that some portion or all of a deferred tax asset will not be realized. If we are unable to generate sufficient future taxable income, if there is a material change in the actual effective tax rates, if there is a change to the time period within which the underlying temporary differences become taxable or deductible, then we could be required to increase our valuation allowance against our deferred tax assets, which could result in a material increase in our effective tax rate and an adverse impact on future operating results.

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In addition, changes in tax laws or tax rulings could materially affect our financial position and results of operations. We are also subject to ongoing tax audits in various jurisdictions, the outcomes of which could result in the assessment of additional taxes. Our effective tax rate in the future could be adversely affected by changes in the mix of earnings in states with differing statutory tax rates, the changes in the valuation of deferred tax assets and liabilities and changes in tax laws and regulations.

Our Annual Report on Form 10-K for the year ended December 31, 2014 includes a detailed discussion of our risk factors.

ITEM 2: UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3: DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4: MINE SAFETY DISCLOSURES

None.

ITEM 5: OTHER INFORMATION

On January 22, 2015, the Company entered into with Richard H. Pickup, as trustee of the RHP Trust dated May 31, 2011, as amended and restated, a stockholder of the Company, a $5.0 million short-term borrowing secured by Ginnie Mae servicing rights with an interest rate of 15% and transaction costs of $50,000. The balance was repaid in March 2015.

Note Purchase Agreement and Convertible Promissory Notes

On May 8, 2015, the Company entered into a Note Purchase Agreement (the Note Purchase Agreement) with the purchasers named therein (the Noteholders), whereby the Company issued $25 million in original aggregate principal amount of Convertible Promissory Notes Due 2020 (the Notes). The Notes mature on or before May 9, 2020 and accrue interest at a rate of 7.5% per annum, to be paid quarterly. The Notes carry an

additional penalty interest rate of 2% per annum upon an event of default. Interest is computed on the basis of a 360 day year of twelve (12) months each comprised of thirty (30) days. The Notes may not be prepaid, in whole or in part, by the Company without the prior written consent of the Noteholders. The Notes contain customary affirmative and negative covenants of the Company, including covenants not to incur certain indebtedness that is not subordinated and not to make optional payments on its indebtedness (other than on the Notes) or amend material indebtedness in a manner that is adverse in any material manner to the Noteholders.

Noteholders may convert at any time after January 1, 2016 all or a portion of the outstanding principal amount of the Notes into shares of the Company s Common Stock (Conversion Shares) at a rate of $21.50 per share, subject to adjustment for stock splits and dividends (the Conversion Price). The Company has the right to convert the entire outstanding principal of the Notes into Conversion Shares at the Conversion Price if the market price per share of the Common Stock, as measured by the average volume-weighted closing stock price per share of the Common Stock on the NYSE MKT (or any other U.S. national securities exchange then serving as the principal such exchange on which the shares of Common Stock are listed) for any twenty (20) trading days in any period after in any period after January 1, 2016 of thirty (30) consecutive trading days, reaches the level of $30.10. Upon conversion of the Notes by the Company, the entire amount of accrued and unpaid interest (and all other amounts owing) under the Notes are immediately due and payable. Furthermore, if the conversion of the Notes by the Company occurs prior to the third anniversary of the Closing Date, then the entire amount of interest under the Notes through the third anniversary is immediately due and payable. To the extent the Company pays any cash dividends on its shares of Common Stock prior to conversion of the Notes, upon conversion of the Notes, the Noteholders will also receive such dividends on an as-converted basis of the Notes less the amount of interest paid by the Company prior to such dividend.

Upon a change of control of the Company, the holders of a majority of the outstanding principal balance of the Notes have the right to either (a) cause all unpaid principal and accrued but unpaid interest and other amounts owing to become immediately due and payable in full, (b) cause the entire unpaid principal balance of the Notes to be converted into shares of the Common Stock at the Conversion Price then in effect, with the entire amount of accrued but unpaid interest and other amounts owing under the Notes to be immediately due and payable in cash, or (c) cause the Notes to continue in full force and effect. Pursuant to the terms of the Note Purchase Agreement, a change of control will occur when (a) any person, excluding the purchasers of the Notes, becomes the beneficial owner of more than 50% of the voting power of the Company and the purchasers of the Notes (along with certain related parties) at that time do not own a greater percentage of voting power, (b) the existing members of the Company s board of directors cease to constitute a majority of the board of directors, or (c) all or substantially all of the assets as sold or a merger of the Company.

The Notes include customary events of default including: failure to pay principal on any Notes when due; failure to pay interest on the Notes for two business days after it becomes due; failure in the performance of any other covenant contained in the terms of the Notes for a period of thirty (30) days after written notice from any Noteholder; acceleration of other debt agreements representing in excess of $3 million of indebtedness at any one time; the entry of judgments in excess of $3 million against the Company and certain bankruptcy events. Upon an event of default, holders of 66 2/3% of the aggregate unpaid principal balance of all outstanding Notes may declare the Notes immediately due and payable.

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Unless an event of default has occurred and is continuing, each purchaser of the Notes agrees, for the three years after the closing date, to vote all Conversion Shares for each of the Company s nominees for election to the Company s board of directors and not to nominate any other candidate for election to the board of directors at any time within such three year period.

The securities described above were offered and sold pursuant to an exemption from the registration requirements of the Securities Act pursuant to Section 4(2) thereof and Rule 506 of Regulation D promulgated thereunder since, among other things, the transactions did not involve a public offering and the securities were acquired for investment purposes only and not with a view to or for sale in connection with any distribution thereof.

Registration Rights

As part of the Note Purchase Agreement and in connection with the issuance of the Notes, the Company agreed to provide the Noteholders certain registration rights to have the Conversion Shares registered with the Securities and Exchange Commission for public resale until such time all securities are registered or may be sold pursuant to Rule 144 under the Securities Act within a three (3) month period. The Company agreed to file registration statements upon request by holders of a majority of the Conversion Shares. The Noteholders may make a request for long form registrations and short form registrations up to two and four times, respectively, and registration of other securities (other than the Company s securities) will not be included without prior written consent from at least a majority of the registrable securities included in a registration. The Noteholders also have piggyback registration rights.

The description of the terms and conditions of the Note Purchase Agreement, the registration rights, and the Notes set forth herein do not purport to be complete and are qualified in their entirety by reference to the terms of the Note Purchase Agreement and the form of the Notes, as applicable, copies of which will filed as exhibits.

The Company entered into an Amended and Restated Asset Purchase Agreement with CashCall, Inc. dated May 11, 2015 and effective March 31, 2015 designating the Company as the purchaser.

The information set forth above is included herewith for the purpose of providing disclosure required under Item 1.01 - Entry into a Material Definitive Agreement, Item 2.03 - Creation of a Direct Financial Obligation or an Obligation under an Off-Balance Sheet Arrangement of a Registrant, and Item 3.02 - Unregistered Sales of Equity Securities of Form 8-K.

ITEM 6: EXHIBITS

(a) Exhibits:

2.1 Amended and Restated Asset Purchase Agreement dated as of May 11, 2015 and effective as of March 31, 2015 among Impac Mortgage Holdings, Inc, Impac Mortgage Corp and CashCall, Inc. Schedules and exhibits are omitted pursuant to Item 601(b)(2) of Regulation S-K. The Company agrees to furnish a supplemental copy of any omitted schedules or exhibits to the SEC upon request.

10.1	Master Repurchase Agreement dated January 22, 2015 with Richard H. Pickup, as Trustee of the RHP Trust dated May 31,2011, as amended and restated.
31.1	Certification of Chief Executive Officer pursuant to Item 601(b)(31) of Regulation S-K, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Item 601(b)(31) of Regulation S-K, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
99.1	Press Release dated May 8, 2015.
101	The following materials from Impac Mortgage Holdings, Inc. s Quarterly Report on Form 10-Q for the quarter ended March 31, 2015, formatted in XBRL (Extensible Business Reporting Language): (1) the Condensed Consolidated Balance Sheets, (2) the Condensed Consolidated Statements of Operations, (3) the Condensed Consolidated Statements of Cash Flows, and (4) Notes to Consolidated Financial Statements, tagged as blocks of text.

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* This exhibit shall not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934 or otherwise subject to the liabilities of that section, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, whether made before or after the date hereof and irrespective of any general incorporation language in any filings.

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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.

IMPAC MORTGAGE HOLDINGS, INC.

/s/ TODD R. TAYLOR
Todd R. Taylor
Chief Financial Officer
(authorized officer of registrant and principal financial officer)

May 14, 2015