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SOYO GROUP INC
Form 10-Q
August 14, 2008

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the fiscal quarter ended June 30, 2008

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 333-42036

SOYO GROUP, INC.

(Exact Name of Registrant as specified in its Charter)

Nevada

95-4502724

(State or other Jurisdiction
of Incorporation or Organization)

(I.R.S. Employer
Identification Number)

1420 South Vintage Avenue, Ontario, California 91761-3646

(Address of Principal Executive Offices) (Zip Code)

(909) 292-2500

(Issuer's Telephone Number, Including Area Code)

Securities registered under Section 12(b) of the Exchange Act: None

Securities registered under Section 12(g) of the Exchange Act: None

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes No

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

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Large accelerated filer [] Accelerated filer [] Non-accelerated filer [X]

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

Indicate the number of shares outstanding of each of the Registrant's classes of Common Stock as of the latest practicable date.

As of August 14, 2008 there were 55,813,656 shares Outstanding.

Documents Incorporated by Reference: None

SOYO GROUP, INC. AND SUBSIDIARY

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SOYO Group, Inc. and Subsidiary Condensed Consolidated Balance Sheets

Consolidated Balance Sheets

	June 30, 2008	December 31, 2007
	----- (Unaudited)	----- (Restated)
ASSETS		
Current Assets		
Cash and cash equivalents	571,855	1,848,249
Accounts receivable, net of allowance for doubtful accounts of \$ 1,134,900 and \$783,573 at June 30, 2008 and December 31, 2 007 respectively	30,261,898	27,123,985
Inventories, net of allowance for inventory obsolescence of \$222,044 and \$88,114 at June 30, 2008and December 31, 2007 respectively	14,960,525	12,221,265
Prepaid expenses	700,160	187,749
Deferred income tax assets	575,000	544,688
Deposits	4,151,958	8,808,408
	-----	-----
Total Current Assets	51,221,396	50,734,344
	-----	-----
Investment in 247 MGI	400,000	400,000
Property and equipment	326,009	316,287
Less accumulated depreciation and amortization	(166,777)	(141,613)
	-----	-----
	159,232	174,674
Deferred income tax - noncurrent	677,000	658,312
Total noncurrent assets	1,236,232	1,232,986
	-----	-----
Total Assets	\$ 52,457,628	\$ 51,967,330
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 8,327,606	\$ 14,336,196
Accrued liabilities	742,202	789,526
Commercial Loans due to UCB	23,907,492	27,824,490
Gateway Trade Finance	3,198,539	

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Income Tax Payable	1,088,697	889,518
	-----	-----
Total current liabilities	37,264,536	43,839,730
	-----	-----
Long term payable	0	
	-----	-----
Total liabilities	37,264,536	43,839,730
	-----	-----
EQUITY		
Class B Preferred stock, \$0.001 par value, authorized - 10,000,000 shares, Issued and outstanding - 2,750,000 shares in 2008 and 2,797,738 shares in 2007	2,344,400	2,187,165
Preferred stock backup withholding	(277,572)	(230,402)
Common stock, \$0.001 par value. Authorized - 75,000,000 shares, Issued and outstanding - 52,179,656 shares in 2008 and 52,004,656 shares in 2007	58,964	52,005
Additional paid-in capital	27,666,380	20,233,500
Accumulated deficit	(13,879,080)	(14,114,668)
Subscriptions Receivable	(720,000)	0
	-----	-----
Total shareholders' Equity	15,193,092	8,127,600
	-----	-----
Total liabilities and shareholders' equity	\$ 52,457,628	\$ 51,967,330
	=====	=====
	0	0

See accompanying notes to the unaudited condensed consolidated financial statements

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SOYO Group, Inc. and Subsidiary
Condensed Consolidated Statements of Operations
(Unaudited)

	Three months ended - June 30,	
	2008	2007
	-----	-----
Net revenues	\$ 32,194,960	\$ 24,202,395
Cost of revenues	27,208,878	20,399,303
	-----	-----
Gross margin	4,986,082	3,803,092
	-----	-----
Costs and expenses:		
Sales and marketing	1,140,379	1,124,882
General and administrative	2,086,432	2,168,198
Provision for doubtful accounts	729,037	125,063
Depreciation and amortization:		
Property and equipment	12,529	22,409

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Total costs and expenses	3,968,377	3,440,552
Income from operations	1,017,705	362,540
Other income (expense):		
Interest income	363	17,409
Interest expense	(739,790)	(322,166)
Other income (expense)	(312,983)	(16,876)
Other income (expense), net	(1,052,410)	(321,633)
Income before provision for income taxes	(34,705)	40,907
Provision for income taxes	24,820	129,775
Deferred income tax benefit	8,000	(439,802)
Net income (loss)	(67,525)	350,934
Less: dividends on convertible preferred stock	(97,403)	65,160
Net income (loss) attributable to common shareholders	29,878	285,174
Net income (loss) per common share - Basic and diluted	.00	.01
Weighted average number of shares of common stock outstanding - Basic and diluted	52,324,723	49,039,156
	57,357,723	56,541,914

See accompanying notes to unaudited condensed consolidated financial statements.

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	Six months ended - 2008	June 30, 2007
	-----	-----
Net revenues	\$ 56,990,275	\$ 38,893,505
Cost of revenues	48,898,089	32,482,217
Gross margin	8,092,186	6,411,288
Costs and expenses:		
Sales and marketing	1,568,014	1,715,738
General and administrative	3,490,609	3,746,372
Provision for doubtful accounts	1,181,127	126,501
Depreciation and amortization:		
Property and equipment	25,164	45,700
Total costs and expenses	6,264,914	5,634,311
Income from operations	1,827,272	776,977
Other income (expense):		
Interest income	12,470	48,794
Interest expense	(1,124,937)	(381,881)
Other income (expense)	87,017	(104,566)
Other income (expense), net	(1,025,450)	(437,653)
Income before provision for income taxes	801,822	339,324

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Provision for income taxes	458,000	192,860
Deferred income tax benefit	(49,000)	(726,660)
Net income (loss)	392,822	873,124
Less: dividends on convertible preferred stock	157,235	126,923
Net income (loss) attributable to common shareholders	235,587	746,201
Net income (loss) per common share - Basic and diluted	01	02
	01	02
Weighted average number of shares of common stock outstanding - Basic and diluted	52,192,584	49,039,156
	57,225,584	56,541,914

See accompanying notes to unaudited condensed consolidated financial statements.

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SOYO Group, Inc. and Subsidiary
Condensed Consolidated Statements of Cash Flows
(Unaudited)

	Six months ended June 30,	
	2008	2007
	-----	-----
OPERATING ACTIVITIES		
Net Income (loss)	392,822	873,124
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and Amortization	25,164	45,700
Unrealized gain (loss) on investment in 247MGI		
Non cash payments for director's compensation		6,825
Non cash payments for public relations		6,825
Stock based compensation	366,761	959,230
Provision for doubtful accounts	1,069,877	126,501
Provision for Inventory Obsolescence	53,444	
Payment of long term debt		(3,735,198)
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Accounts Receivable	(4,207,790)	(5,587,034)
Inventories	(2,792,704)	(3,269,060)
Prepaid expenses	(512,411)	6,972
Deposits	4,656,450	(4,794,294)
Deferred income tax asset - current	(30,312)	(726,660)
Deferred income tax asset - non current	(18,688)	
Increase (Decrease) in:		
Accounts payable	(4,562)	(241,251)
Accrued liabilities	(47,324)	92,582
Income tax payable	199,179	
	-----	-----
Net cash used in operating activities	(850,094)	(16,242,562)
	-----	-----
INVESTING ACTIVITIES		
Purchase of property and equipment	(9,722)	(18,839)

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Proceeds from sale of equipment	-----	-----
Net cash used in investing activities	-----	(18,839)
	-----	-----
FINANCING ACTIVITIES		
Proceeds from business loan - net	(718,458)	15,983,324
Payment of backup withholding tax on accreted dividends on preferred stock	(47,170)	(38,077)
Proceeds from Issuance of Common Stock	349,050	
Payment of Short term loan		(100,000)
	-----	-----
Net cash provided by (used in) financing activities	(416,578)	15,845,247
	-----	-----
CASH AND CASH EQUIVALENTS		
Net Increase (Decrease)	(1,276,394)	(416,154)
At beginning of Period	1,848,249	1,501,040
	-----	-----
At End of Period	571,855	1,084,886
	=====	=====
Non cash investing and financing activities		
Accretion of discount on Class B preferred stock	157,235	126,923
Stock Option Compensation	357,425	959,230
Non Cash- conversion of accounts payable to common stock	6,004,028	
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest	258,821	381,881
Cash paid for income taxes	458,000	--

See accompanying notes to unaudited condensed consolidated financial statements.

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SOYO Group, Inc. and Subsidiary
Notes to Condensed Consolidated Financial Statements
(Unaudited)

Six Months Ended June 30, 2008 and 2007

1. Organization and Basis of Presentation

Organization - Effective October 24, 2002, Vermont Witch Hazel Company, Inc., a Nevada corporation ("VWHC"), acquired SOYO, Inc., a Nevada corporation ("SOYO Nevada"), from SOYO Computer, Inc., a Taiwan corporation ("SOYO Taiwan"), in exchange for the issuance of 1,000,000 shares of convertible preferred stock and 28,182,750 shares of common stock, and changed its name to SOYO Group, Inc. ("SOYO"). The 1,000,000 shares of preferred stock were issued to SOYO Taiwan and the 28,182,750 shares of common stock were issued to certain members of SOYO Nevada management.

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Subsequent to this transaction, SOYO Taiwan maintained an equity interest in SOYO, continued to be the primary supplier of inventory to SOYO, and was a major creditor. In addition, there was no change in the management of SOYO and no new capital invested, and there was a continuing family relationship between certain members of the management of SOYO and SOYO Taiwan. As a result, this transaction was accounted for as a recapitalization of SOYO Nevada, pursuant to which the accounting basis of SOYO Nevada continued unchanged subsequent to the transaction date. Accordingly, the pre-transaction financial statements of SOYO Nevada are now the historical financial statements of the Company.

On December 9, 2002, SOYO's Board of Directors elected to change SOYO's fiscal year end from July 31 to December 31 to conform to SOYO Nevada's fiscal year end.

On October 24, 2002, the primary members of SOYO Nevada management were Ming Tung Chok, the Company's President, Chief Executive Officer and Director, and Nancy Chu, the Company's Chief Financial Officer. Ming Tung Chok and Nancy Chu are husband and wife. Andy Chu, the President and major shareholder of SOYO Taiwan, is the brother of Nancy Chu.

Unless the context indicates otherwise, SOYO and its wholly-owned subsidiary, SOYO Nevada, are referred to herein as the "Company".

Basis of Presentation - The accompanying unaudited condensed consolidated financial statements include the accounts of SOYO and SOYO Nevada. All significant intercompany accounts and transactions have been eliminated in consolidation. The unaudited condensed consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles, and with the instructions to Form 10-Q and Rule 10-1 of Regulation S-X.

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Interim Financial Statements - The accompanying interim unaudited condensed consolidated financial statements are unaudited, but in the opinion of management of the Company, contain all adjustments, which include normal recurring adjustments, necessary to present fairly the financial position at June 30, 2008, the results of operations for the three and six months ended June 30, 2008 and 2007, and cash flows for the six months ended June 30, 2008 and 2007. The condensed consolidated balance sheet as of December 31, 2007 is derived from the Company's audited consolidated financial statements.

Certain information and footnote disclosures normally included in financial statements that have been prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission, although management of the Company believes that the disclosures contained in these condensed consolidated financial statements are adequate to make the information presented therein not misleading. For further information, refer to the consolidated financial statements and the notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2007, as filed with the Securities and Exchange Commission.

The results of operations for the three and six months ended June 30, 2008 are not necessarily indicative of the results of operations to be expected for the full fiscal year ending December 31, 2008. The largest part of the Company's business, the importing and resale of consumer electronic products, is a seasonal business. The busiest time of the year is the holiday season, which occurs at the end of the year. Accordingly, sales for the year should improve as

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the year passes, culminating in strongest sales in the third and fourth quarters.

Business - Through 2007, The Company sold products under four different product lines: 1) Computer products ; 2) Consumer Electronics; 3) Furniture 4) Communications (VoIP).

The Company began selling furniture under the Levello brand name during the second quarter of 2007. A series of wood and glass tables and stands, the Levello products are meant to enhance the physical appearance of the Company's consumer electronics products. The Levello furniture is a series of pieces that can be sold independently, or bundled with large screen televisions. During the initial product roll out during the second quarter, the Company began selling the Levello series to Costco.com, as well as furniture distributors in the United States and Mexico. In the last year, the line has matured, and the products are now available to customers at various brick and mortar stores as well as online retailers. After one year, the furniture line still comprises less than one half of one percent of the Company's revenues.

On December 31, 2007, the Company sold all of the assets related to the VoIP business to 247MGI of Fort Lauderdale, Florida for 40,000,000 shares of 247MGI's

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common stock. The stock is traded on the OTC pink sheets. The Company has no plans to dispose of the 247MGI stock, and intends to hold it long-term as an investment.

The Company's products are sold to distributors and retailers primarily in North and South America.

SOYO Group Inc. has signed a license agreement with Honeywell International Inc., effective January 1, 2007, under which SOYO will create and market certain consumer electronics products under the Honeywell Brand.

The agreement is for a minimum period of 6.5 years and calls for the payment of MINIMUM royalties by SOYO to Honeywell totaling \$3,840,000 (Three Million, Eight Hundred and Forty Thousand Dollars U.S.). Sales levels in excess of minimum agreed targets will result in associated increases in the royalty payments due. Minimum royalty payments due under the agreement were \$353,000 through December 31, 2007, and \$469,000 through December 31, 2008. The Company made the required payments in 2007, and through June 30, had paid \$255,000 in royalties in 2008.

Through this agreement, SOYO is planning to develop and market consumer electronics products under the Honeywell brand. Over the life of the contract, SOYO has the right to create and bring to market LCD monitors and televisions, front and rear projectors, home audio and video DVD (receivers, AMPS, tuners, VHS recorders, DVD players and recorders, clock radio, bookshelf systems, speakers and audio intercom), portable audio/video DVD (boom boxes, portable CD/DVD players, MP3, MPEG, camcorders/ digital recorders) and accessories for TV monitors and audio visual products such as cables, surge protectors, Bluetooth, antennas, headphones (wireless and wired) remote controls, multimedia speakers, IPOD and PC accessories including portable hard drives and flash drives, wall mounts, set top boxes and PC embedded boxes. Since there are many market factors at play in the consumer electronics world, including consumer preferences, pricing and other market conditions, SOYO plans to spend the majority of its time and money on the most profitable products. There can be no assurance that SOYO will bring all of these products to market in a timely fashion, or at all.

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Accounting Estimates - The preparation of financial statements in conformity with United States generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant estimates primarily relate to the realizable value of accounts receivable, vendor programs and inventories. Actual results could differ from those estimates.

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2. Earnings Per Share

Statement of Financial Accounting Standards No. 128, "Earnings Per Share", requires presentation of basic earnings per share ("Basic EPS") and diluted earnings per share ("Diluted EPS"). Basic income (loss) per share is computed by dividing net income (loss) available to common shareholders by the weighted average number of common shares outstanding during the period. Diluted income per share gives effect to all dilutive potential common shares outstanding during the period. Potentially dilutive securities consist of the outstanding shares of preferred stock, and stock options granted to employees in 2005 and 2007. The calculation of fully diluted shares is as follows:

Weighted average Shares outstanding at 6/30/2008	52,192,584
Add: Conversion of Preferred Stock 2,750,000 shares (see footnote 7b) Vested in the money options	2,750,000 2,283,000
Total fully diluted shares at 6/30/2008	57,225,584

On August 7, 2008, the Company reached an agreement with the independent 3rd party that owned the Class B preferred stock to fix the conversion of the Class B preferred stock to common stock at 2,750,000 common shares. With the mandatory conversion date less than six months away, recent volatility of the Company's share price, weakness in the stock market and perceived market uncertainty, the Company believed it was prudent to fix the conversion at this time. Based on these factors, the Company believes that it made a very favorable deal.

As of June 30, 2008, potentially dilutive securities consisted of 2,750,000 shares of Class B Convertible Preferred Stock with a stated liquidation value of \$1.00 per share that are convertible into common stock at fair market value, but not less than \$0.25 per share. As of June 30, 2007, 5,902,758 shares of common stock were issuable upon conversion of the Class B Convertible Preferred Stock based on the \$0.55 per share conversion price.

The Company applies the treasury stock method to each individual compensation grant. If a grant is out-of-the-money based on the stated exercise price, the effects of including any component of the assumed proceeds associated with that grant in the treasury stock method calculation would be antidilutive. A holder would not be expected to exercise out-of-the money awards. For the period ended June 30, 2008, the stock options granted in 2007 were "in the money" and therefore are included in the computation of diluted EPS.

Comprehensive Income (Loss) - The Company reports comprehensive income or loss, its components and accumulated balances in its consolidated financial

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statements. Comprehensive income or loss includes all changes in equity except those resulting from investments by owners and distributions to owners. The

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Company did not have any items of comprehensive income (loss) during the three and six months ended June 30, 2008 and 2007.

Significant Risks and Uncertainties - The Company operates in a highly competitive industry subject to aggressive pricing practices, pressures on gross margins, frequent introductions of new products, rapid technological advances, continuous improvement in product price/performance characteristics, and changing consumer demand.

As a result of the dynamic nature of the business, it is possible that the Company's estimates with respect to the realizability of inventories and accounts receivable may be materially different from actual amounts. These differences could result in higher than expected allowance for bad debts or inventory reserve costs, which could have a materially adverse effect on the Company's financial position and results of operations.

Stock Options and Warrants - As of December 31, 2007, the Company had both warrants and options outstanding. The outstanding warrants were those issued to Evergreen Technology as part of the private placement completed in March 2005. The warrants expired unexercised on March 20, 2008.

On July 22, 2005, the Company issued 2,889,000 option grants to employees at a strike price of \$0.75. One third of those options vested and were available for purchase on July 22, 2006, one third vested on July 22, 2007, and one third will vest on July 22, 2008. The grants will expire if unused on July 22, 2010. As of June 30, 2008, none of the options had been exercised, none were "in the money" and 1,200,000 options issued to Ming Chok and Nancy Chu had been returned to the Company. Seventeen employees who were issued stock options in 2005 had left the Company, and those 17 employees forfeited 714,000 options. Of the remaining 987,000 outstanding options, 662,000 were vested as of June 30, 2008. The remaining 325,000 will vest on July 22, 2008. If not exercised, all 987,000 options will expire on July 22, 2010.

The Company did not grant any stock options to employees, officers or directors in 2006. On February 2, 2007, the Company issued 4,805,000 option grants to employees at a strike price of \$0.35. One third of those options were immediately vested and available for purchase on February 2, 2007, one third vested on February 2, 2008, and the remaining one third will vest on February 2, 2009. The grants will expire if unused on February 2, 2012.

During 2007, 674,500 of the options granted in 2007 were exercised. During the six months ended June 30, 2008, 283,000 stock options were exercised. As of June 30, 2008, nine individuals who were granted options in 2007 had left the Company. Those individuals exercised a total of 232,000 options, and forfeited an additional 621,000 options.

As of June 30, 2008, employees held 3,460,500 options of the options granted in 2007, of which 2,250,000 have vested. The Company also issued 100,000 options to three new employees later in 2007. One of those employees left the Company and surrendered 50,000 options. Of the 50,000 remaining options, 33,000 have vested.

For the three months ended June 30, 2008 and 2007, the Company recorded \$144,594 and \$649,295 respectively, in compensation costs relating to stock options granted to employees. The amounts recorded represent equity-based compensation

expense related to options that were issued in 2005 and 2007. The compensation costs are based on the fair value at the grant date.

The fair value of the options issued in July 2005 was estimated using the Black-Scholes option-pricing model with the following assumptions: risk free interest rate of 4.04 %, expected life of five (5) years and expected volatility 147%. The fair value of the options issued in February 2007 was estimated using the Black-Scholes option-pricing model with the following assumptions: risk free interest rate of 4.82 %, expected life of five (5) years and expected volatility 129%.

Revenue Recognition

The Company recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred, the sales price is fixed or determinable, and collectibility is probable.

The Company recognizes product sales generally at the time the product is shipped, although under certain circumstances the Company recognizes product sales at the time the product reaches its destination. Concurrent with the recognition of revenue, the Company provides for the estimated cost of product warranties and reduces revenue for estimated product returns. Sales incentives are generally classified as a reduction of revenue and are recognized at the later of when revenue is recognized or when the incentive is offered. When other significant obligations remain after products are delivered, revenue is recognized only after such obligations are fulfilled. Shipping and handling costs are included in cost of goods sold.

3. Investment in 247MGI

On December 31, 2007, the Company completed the sale of all assets of the VoIP division to 247MGI, Inc., a Miami, Florida based publicly traded corporation just beginning operations. The sales price of the assets was \$1,000,000, which was paid by 40,000,000 shares of 247MGI's restricted common stock. As of March 31, 2008, the shares had not been registered under the Securities Act of 1933, and any future sale of the shares was restricted completely for one year, and subject to volume restrictions after that. The Company has no management participation in 247MGI's business. At December 31, 2007, 247MGI had only 75,272,814 common shares outstanding, so the Company owned a majority of the outstanding shares. In February, 2008, 247MGI issued 335,000,000 common shares, diluting our holding to approximately 10% of the outstanding common shares. The Company intends to hold the 247MGI shares as a long-term investment.

Since the Company's shares are unregistered and illiquid, the net realizable value of the Company's investment is difficult to calculate. The Company has initially recorded the investment for \$400,000 and will mark the investment to market each quarter. At June 30, 2008, the share price was identical to the

share price on the date of the transaction, so the Company has valued the investment at \$400,000, resulting in no gain or loss on a YTD basis.

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4. Accounts Payable

During the quarter, the Company was able to reach an agreement with a supplier over unpaid debts. To settle the debt, the Company issued 5,900,000 shares of its restricted common stock to the supplier in return for the retirement of \$6,004,028 of debt. The Company took this step to improve its balance sheet and financial ratios as it continues to negotiate a large financing line. The Company has negotiated a buy back provision, at its sole discretion, with the supplier, and intends to buy back all of the shares issued within the next five years.

5. Commercial Loans Due to UCB

At June 30, 2008, Commercial loans due to UCB consisted of:

Asset based financing	\$ 23,907,492
Purchase Order financing	0
Total	\$ 23,907,492

In March 2007, the Company announced that it had secured a \$12 million Asset Based Credit Facility from a California bank to provide funding for future growth. The agreement stated that UCB would provide SOYO with a revolving financing facility of up to \$12 million to finance working capital, letters of credit or other capital needs. The maximum amount of the facility to be extended at any point in time based on the Company's accounts receivable and inventory, which would serve as collateral for the loan.

In April 2007, by mutual agreement of the parties, the maximum loan balance was increased from \$12 million to \$14 million. The maximum loan balance was increased in December 2007 to \$17 million, and then to \$18 million. All other terms of the agreement, including the interest rate, maturity date and method of evaluating the Company's inventory and receivables to determine eligible collateral were left unchanged during the increases.

In June 2007, UCB offered to provide the Company with an alternative source of financing- Purchase Order financing. This line differed from all other forms of financing in that the bank was offering to advance funds against our customers specific purchase orders, provided the customer met the bank's stringent credit requirements. The end result is that the Company can use this credit line only

by obtaining purchase orders from large customers before ordering the merchandise. The funds would then be advanced to the manufacturer after product was shipped, and once the product was delivered to the customer, and the status of the order was changed from a purchase order to a receivable, the loan would have to be paid back, or the balance transferred to the asset based credit line. The Company began buying merchandise under the Purchase Order financing line in June 2007.

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In June 2008, the Purchase Order finance line and the Asset Based Finance line were consolidated as an Asset Based Finance Line with a \$24 million limit. At June 30, 2008, the balance of the loan due to UCB was \$23,907,492.

6. Gateway Trade Finance

During March 2008, the Company received a large order from a customer that could not be financed by its current credit facilities. The Company negotiated for Gateway Trade Finance to issue a letter of credit to a vendor to guarantee payment of the production run. The letter of credit was paid off during the second quarter. The Company has used Gateway's financing during the second quarter as needed to pay for goods that were not able to be financed using traditional methods. The terms of each letter of credit are negotiated independently. The interest rate, commission rate, and other variables change for each addendum. At June 30, 2008, the Company owed Gateway \$3,198,539. The Company does not plan to utilize external financing like this for future purchases due to the high cost, but may do so on a limited basis if the transaction warrants it.

7 Shareholders' Equity

a. Common Stock

As of December 31, 2002, the Company had authorized 75,000,000 shares of common stock with a par value of \$0.001 per share.

Effective October 24, 2002, the Company issued 28,182,750 shares of common stock to Ming Tung Chok and Nancy Chu, who are members of SOYO Nevada management (see Note 1). The shares of common stock were valued at par value, since the transaction was deemed to be a recapitalization of SOYO Nevada. During October 2002, the management of SOYO Nevada also separately purchased 6,026,798 shares of the 11,817,250 shares of common stock of VWHC outstanding prior to VWHC's acquisition of SOYO Nevada, for \$300,000 in personal funds. The 6,026,798 shares represented 51% of the outstanding shares of common stock. When the transaction was complete, and control of the Company was transferred, SOYO Nevada management owned 34,209,548 shares of the 40,000,000 outstanding shares of the Company's common stock. Subsequent to the transaction, management distributed 8,000,000 shares of common stock to various brokers, bankers and other individuals that assisted with the transaction. In 2007, Mr. Chok gave a gift of 1,000,000 shares to an individual. In March, 2008, Mr. Chok announced that he and his wife bought 776,000 shares of the Company's common stock in a private placement at \$1.25 per

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share. No one individual or corporation other than those named in Item 12 of this report ever owned more than 5% of the common shares outstanding.

b. Preferred Stock

Through the bylaws, the Company has authorized 10,000,000 shares of preferred stock with a par value \$0.001 per share.

The Board of Directors is vested with the authority to divide the authorized shares of preferred stock into series and to determine the relative rights and preferences at the time of issuance of the series.

During the first quarter of 2004, SOYO Taiwan entered into an agreement with an unrelated third party to sell the \$12,000,000 long-term payable due it by the

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Company. As part of the agreement, SOYO Taiwan required that the purchaser would be limited to collecting a maximum of \$1,630,000 of the \$12,000,000 from the Company without the prior consent of SOYO Taiwan. SOYO Taiwan forgave debt in an amount equal to the difference between \$12,000,000 and the value of the preferred stock. This forgiveness will be treated as a capital transaction.

Payment was received by SOYO Taiwan in February and March 2004. An agreement was reached whereby 2,500,000 shares of Class B cumulative Preferred stock would be issued by the Company to the unrelated third party in exchange for the long-term payable.

The Class B cumulative Preferred stock has a stated liquidation value of \$1.00 per share and a 6% dividend, payable quarterly in arrears, in the form of cash, additional shares of preferred stock, or common stock, at the option of the Company. The Class B cumulative Preferred stock has no voting rights. The shares of Class B cumulative Preferred stock are convertible, in increments of 100,000 shares, into shares of common stock at any time through December 31, 2008, based on the fair market value of the common stock, subject, however, to a minimum conversion price of \$0.25 per share. No more than 500,000 shares of Class B cumulative Preferred stock may be converted into common stock in any one year. On December 31, 2008, any unconverted shares of Class B cumulative Preferred stock automatically convert into shares of common stock based on the fair market value of the common stock, subject, however, to a minimum conversion price of \$0.25 per share. Beginning one year after issuance, upon ten days written notice, the Company or its designee will have the right to repurchase for cash any portion or all of the outstanding shares of Class B cumulative Preferred stock at 80% of the liquidation value (\$0.80 per share). During such notice period, the holder of the preferred stock will have the continuing right to convert any such preferred shares pursuant to which written notice has been received into common stock without regard to the conversion limitation. The Class B cumulative Preferred stock has unlimited piggy-back registration rights, and is non-transferrable.

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On August 7, 2008, the Company reached an agreement with the independent 3rd party that owned the Class B preferred stock to fix the conversion of the Class B preferred stock to common stock at 2,750,000 common shares. With the mandatory conversion date less than six months away, recent volatility of the Company's share price, weakness in the stock market and perceived market uncertainty, the Company believed it was prudent to fix the conversion at this time. Based on these factors, the Company believes that it made a very favorable deal.

8 Income Taxes

Components of the provision (benefit) for income taxes for the periods ended:

	Year Ended 12/31/2006	Year Ended 12/31/2007	Six Months Ended 6/30/2008
	-----	-----	-----
Current:			
Federal	\$ 1,000	\$ 515,000	\$ 381,000
State	52,000	324,000	77,000
	-----	-----	-----
Total	53,000	839,000	458,000
	-----	-----	-----

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Deferred:			
Federal	--	(1,038,000)	(38,000)
State	--	(165,000)	(11,000)
Total	--	(1,203,000)	(49,000)
Total	\$ 53,000	\$ (364,000)	\$ 409,000

Components of deferred income taxes as of:

	12/31/2006	12/31/2007	6/30/2008
Net operating loss carryforwards	\$ 1,310,000	\$ --	\$ --
Depreciation	288,000	214,000	202,000
Reserves and allowances	214,000	442,000	501,000
Shares-based compensation	--	444,000	475,000
State income taxes	69,000	103,000	74,000
Total deferred tax assets	1,881,000	1,203,000	1,252,000
Valuation allowance	(1,881,000)	--	--
Net deferred tax assets	\$ --	\$ 1,203,000	\$ 1,238,000

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Reconciliation of federal income tax rate:

	Year Ended 12/31/2006	Year Ended 12/31/2007	Six Months Ended 6/30/2008
Federal statutory rate	34.0%	34.0%	34.0%
Stock-based compensation	33.0%	9.5%	12.3%
State income taxes	6.5%	3.6%	5.5%
Non-deductible expenses	2.9%	0.6%	0.3%
Change in valuation allowance	-67.2%	-60.0%	0.0%
Other	0.8%	0.0%	-1.1%
Effective tax rate	10.0%	-12.3%	51.0%

9 Significant Concentrations

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a. Customers

The Company sells to both distributors and retailers. Revenues through such distribution channels are summarized as follows:

	Three Months Ended June 30,		
	2008	%	2007
Revenues:			
Distributors	\$22,732,206	70.61	\$14,253,365
Retailers	6,407,805	19.90	7,826,878
Others	3,054,949	9.49	2,122,152
Total	\$32,194,960	100.00	\$24,202,395

	Six Months Ended June 30,		
	2008	%	2007
Revenues:			
Distributors	\$35,549,427	62.38	\$26,136,700
Retailers	17,039,249	29.90	8,768,291
Others	4,401,599	7.72	3,988,514
Total	\$56,990,275	100.00	\$38,893,505

During the three months ended June 30, 2008 and 2007, the Company offered price protection to certain customers under specific programs aggregating \$ 198,000 and \$434,475 respectively, which reduced net revenues and accounts receivable accordingly.

During the three months ended June 30, 2008, the Company had no customers that accounted for more than 10% of net revenues during the quarter.

During the three months ended June 30, 2007, the Company had no customers that accounted for more than 10% of net revenues during the quarter.

b. Geographic Segments

Financial information by geographic segments is summarized as follows:

	Three Months Ended June 30,			
	2008	%	2007	%

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Gross revenues:				
United States	\$ 18,330,448	56.94	\$ 15,802,272	6
Canada	(1,163,136)	(3.61)	3,750,830	1
Central and South America	1,201,867	3.73	4,635,606	1
Others	13,825,781	42.94	13,687	
Total	\$ 32,194,960	100.00	\$ 24,202,395	10

Six Months Ended June 30,				
	2008	%	2007	%
Gross revenues:				
United States	\$ 38,509,745	67.57	\$ 28,723,443	7
Canada	(239,740)	(.42)	3,715,965	
Central and South America	2,733,399	4.80	5,199,902	1
Asia and Others	15,986,871	28.05	1,254,195	
Total	\$ 56,990,275	100.00	\$ 38,893,505	10

Three Months Ended June 30,				
	2008	%	2007	%
Revenues:				
Computer Parts and Peripherals	\$ 26,204,643	81.40	\$ 12,091,899	4
Consumer Electronics	5,875,953	18.25	12,074,241	4
VoIP			17,773	
Furniture	114,364	.35	18,482	
Total	\$ 32,194,960	100.00	\$ 24,202,395	10

Six Months Ended June 30,				
	2008	%	2007	%
Revenues:				
Computer Parts and Peripherals	\$ 44,941,025	78.87	\$ 23,775,318	6
Consumer Electronics	11,628,194	20.40	15,055,439	3
VoIP			44,266	

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Furniture	421,056	.73	18,482	
Total	\$ 56,990,275	100.00	\$ 38,893,505	10

d. Suppliers

As of June 30, 2008, no more than 37% of the products distributed by the SOYO Group in 2008 were being supplied by any one supplier. Other than that single supplier, no other vendor supplied more than 27% percent of the Company's inventory available for sale. SOYO Group, Inc. is establishing new partnerships with other OEM manufacturers in the North America and Asia Pacific Regions in order to provide innovative products for consumers.

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

Cautionary Statement Pursuant to Safe Harbor Provisions of the Private Securities Litigation Reform Act of 1995:

This Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2008 contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, including statements that include the words "believes", "expects", "anticipates", or similar expressions. These forward-looking statements include, but are not limited to, statements concerning the Company's expectations regarding its working capital requirements, financing requirements, business prospects, and other statements of expectations, beliefs, future plans and strategies, anticipated events or trends, and similar expressions concerning matters that are not historical facts. The forward-looking statements in this Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2008 involve known and unknown risks, uncertainties and other factors that could cause the actual results, performance or achievements of the Company to differ materially from those expressed in or implied by the forward-looking statements contained herein.

Financial Outlook:

For the six months ended June 30, 2008, the Company earned \$392,822 or \$0.01 per share before dividends on preferred stock.

For the six months ended June 30, 2007, The Company earned \$873,124, or .02 per share before dividends on preferred stock.

As a general rule, the Company has been totally reliant upon the cash flows from

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its operations to fund future growth. In the last few years, the Company has begun and continues to implement the following steps to increase its financial position, liquidity, and long term financial health:

In 2005, the Company completed a small private placement, began factoring invoices to improve cash flows, and converted several million dollars of debt to equity, all of which improved the Company's financial condition.

In 2006, the Company changed factors to a more beneficial arrangement, and entered into a Trade Finance Flow facility with GE Capital to fund "Star" transactions. The agreement provided for GE Capital to guarantee payment, on the Company's behalf, for merchandise ordered from GE Capital approved manufacturers in Asia. GE Capital guarantees the payment subject to a purchase order from one of our customers. The Company accepts delivery of the goods in the US, and then has the option to either pay for the goods or sell the receivable (from the customer) to our factor, which pays GE Capital.

In March 2007, the Company announced that it had secured a \$12 million Asset Based Credit Facility from UCB, a California bank, to provide funding for future growth.

During the first quarter of 2007, the Company began to use the \$12 million asset based credit facility arranged with United Commercial Bank (see Form 8-K dated March 2, 2007). The agreement calls for UCB to provide funds for SOYO to purchase inventory in an amount determined by an evaluation of SOYO's current inventory and accounts receivable. According to the terms of the agreement, all accounts receivable sold to other factors were purchased by UCB.

In April 2007, by mutual agreement of the parties, the maximum loan balance was increased several times. All other terms of the agreement, including the interest rate, maturity date and method of evaluating the Company's inventory and receivables to determine eligible collateral were left unchanged. For reporting purposes, the loan has been segregated from other payables and reported as a separate line item on the balance sheet.

In June 2007, UCB offered to provide the Company with an alternative source of financing- Purchase Order financing. This line differed from all other forms of financing in that the bank was offering to advance funds against our customers specific purchase orders, provided the customer met the bank's stringent credit requirements. The end result is that the Company can use this credit line only by obtaining purchase orders from large customers before ordering the merchandise. The funds would then be advanced to the manufacturer after product

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was shipped, and once the product was delivered to the customer, and the status of the order was changed from a purchase order to a receivable, the loan would have to be paid back, or the balance transferred to the asset based credit line. The Company began buying merchandise under the Purchase Order financing line in June 2007.

In September 2007, the Company announced to shareholders that it was negotiating with several independent third parties to raise capital. The capital would be used to improve the balance sheet and increase the Company's borrowing capabilities. The Company further stated that with the large increases in sales during the year, all of the Company's credit had been utilized, and that the Company was having difficulties purchasing enough products to maintain the 2007 level of sales growth. As of the date of this report, the Company had not yet finalized any capital transaction with an outside party.

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Critical Accounting Policies:

The Company prepared its condensed consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Management periodically evaluates the estimates and judgments made. Management bases its estimates and judgments on historical experience and on various factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates as a result of different assumptions or conditions.

The Company operates in a highly competitive industry subject to aggressive pricing practices, pressures on gross margins, frequent introductions of new products, rapid technological advances, continual improvement in product price/performance characteristics, and changing consumer demand.

As a result of the dynamic nature of the business, it is possible that the Company's estimates with respect to the realizability of inventories and accounts receivable may be materially different from actual amounts. These differences could result in higher than expected allowance for bad debts or inventory reserve costs, which could have a materially adverse effect on the Company's financial position and results of operations.

The following critical accounting policies affect the more significant judgments and estimates used in the preparation of the Company's condensed consolidated financial statements.

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Vendor Programs:

Firm agreements with vendors for price protection, product rebates, marketing and training, product returns and promotion programs are generally recorded as adjustments to product costs, revenue or sales and marketing expenses according to the nature of the program. Depending on market conditions, the Company may implement actions to increase customer incentive offerings, which may result in a reduction of revenue at the time the incentive is offered. The Company records the corresponding cost or expense at the time it has a firm agreement with a vendor.

Accounts Receivable:

The Company recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred, the sales price is fixed or determinable, and collectibility is probable.

The Company records estimated reductions to revenue for incentive offerings and promotions. Depending on market conditions, the Company may implement actions to increase customer incentive offerings, which may result in an incremental reduction of revenue at the time the incentive is offered. The Company records the corresponding effect on receivable and revenue when the Company offers the incentive to customers. All accruals estimating sales incentives, warranties, rebates and returns are based on historical experience and the Company

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management's collective experience in anticipating customers actions. These amounts are reviewed and updated each month when financial statements are generated.

Complicating these estimates is the Company's different return policies. The Company does not accept returns from customers for refunds, but does repair merchandise as needed. The cost of the shipping and repairs may be borne by the customer or the Company, depending on the amount of time that has passed since the sale and the product warranty.

The Company has different return policies with different customers. While the Company does not participate in "guaranteed sales" programs, the Company has begun to sell products to several national retail chains. Some of these chains have standard contracts which require the Company to accept returns for credit within standard return periods, usually sixty days. While these return policies are more generous than the Company usually offers, management has made the decision to accept the policies and sell the products to these national chains for both the business volume and exposure such sales generate. These sales have been taking place since late 2005, and returns have consistently been below management's expectations. Therefore, no adjustments to the financial statements have been necessary.

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Each month, management reviews the accounts receivable aging report and adjusts the allowance for bad debts based on that review. The adjustment is made based on historical experience and management's evaluation of the collectibility of outstanding accounts receivable over 90 days. At all times, the allowance for bad debts is large enough to cover all receivables that management is not certain it will collect, plus another one percent of the net accounts receivable.

Inventories:

Inventories are stated at the lower of cost or market. Cost is determined by using the average cost method. The Company maintains a perpetual inventory system which provides for continuous updating of average costs. The Company evaluates the market value of its inventory components on a regular basis and reduces the computed average cost if it exceeds the component's market value.

Income Taxes:

The Company accounts for income taxes using the asset and liability method whereby deferred income taxes are recognized for the tax consequences of temporary differences by applying statutory tax rates applicable to future years to differences between the financial statement carrying amounts and the tax bases of certain assets and liabilities. Changes in deferred tax assets and liabilities include the impact of any tax rate changes enacted during the year. Through 2006, a valuation allowance was provided for the amount of deferred tax assets that, based on available evidence, were not expected to be realized. Beginning in 2007, the Company discontinued the use of the valuation allowance. Based on its current financial condition, current business and profitability forecasts, the Company believes that the benefits accrued as deferred tax assets were more likely than not to be realized in future periods.

Results of Operations:

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Three Months Ended June 30, 2008 and 2007::

Net Revenues. Net revenues increased by \$7,992,565 or 33.0%, to \$32,194,960 in the three months ended June 30, 2008, as compared to \$24,202,395 in 2007. The increase in revenues was mainly due to opening new accounts, the strong relationship with Office Max that began in 2007, and increased sales of components in Asia.

Gross Margin. Gross margin was \$4,986,082 or 15.4% in 2008, as compared to \$3,803,092 or 15.7% in 2007. Gross margins decreased on a percentage basis as the Company increased sales to larger national retail chains, and the cost of shipping goods increased substantially as a result of higher fuel costs. The Company's internal analysis shows that shipping costs during the quarter were more than \$1.3 million above forecast for the volume of goods shipped. The Company expects gross margins to stabilize around 15% and remain there throughout the year, as sales of higher margin products increase. However, if the price of fuel continues to increase, leading to higher shipping costs, the

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Company is going to be forced to pass those costs on to buyers, possible affecting sales volumes.

Sales and Marketing Expenses. Selling and marketing expenses increased by \$15,497 to \$1,140,379 in 2008, as compared to \$1,124,882 in 2007. The increase is due entirely to the product development cost of creating and rolling out the new Honeywell brand of consumer electronics products. During the quarter, the first computer monitors were shipped from the factory to the Company, and the planning and development of the televisions was completed.

General and Administrative Expenses. General and administrative expenses decreased by \$81,766 to \$2,086,432 in 2008, as compared to \$2,168,198 in 2007. During the first part of 2007, the Company was defending itself against several lawsuits and investigations filed by various entities accusing the Company of not processing rebate claims correctly. The Company cooperated with the investigations, but the cost of defending the investigations and fixing the rebate problems was substantial. The Company has spent a substantially lower amount on legal fees in 2008. That decrease is partially offset by the cost of organizing and staging a proxy vote and an annual meeting, and increased payroll costs for adding two executives to manage and supervise the roll out of the Honeywell line of consumer electronics. .

Bad Debts. The Company recorded a provision for doubtful accounts of \$729,037 in the three months ended June 30, 2008, and \$125,063 for the three months ended June 30, 2007. The provision has increased substantially as the Company's revenues have grown, and as the Company has had trouble collecting from some smaller independent accounts during the quarter. The problem began in the first quarter, and has carried over to the second quarter. As a result, the Company has tightened its credit policies to protect against bad debts, cut credit limits to several customers, and has been negotiating with several external parties in an attempt to obtain credit insurance at a reasonable price.

Depreciation and Amortization. Depreciation and amortization of property and equipment was \$12,529 for the three months ended June 30, 2008, as compared to \$22,409 for the three months ended June 30, 2007. The decrease was caused by the sale of the VoIP assets in December 2007. The Company owns less property and equipment subject to depreciation.

Income from Operations. The income from operations was \$1,017,705 for the three

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months ended June 30, 2008, as compared to \$362,540 for the three months ended June 30, 2007. This is a result of the increased revenues and gross margins described above.

Miscellaneous Income (Loss). The miscellaneous income (loss) for the three months ended June 30, 2008 was a loss of \$312,983. That was due to a \$400,000 unrealized loss on investment in 247MGI which was marked-to-market. Miscellaneous income was a loss of \$16,867 for the three months ended June 30, 2007.

Interest Income. Interest income was \$363 for the three months ended June 30,

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2008, as compared to \$17,409 for the three months ended June 30, 2007. The decrease, while insignificant, is due to the Company having less cash on hand due to very tight credit constraints. All available cash is being used to purchase inventory.

Interest Expense. Interest expense was \$739,790 for the three months ended June 30, 2008. Interest expense was \$322,166 for the three months ended June 30, 2007. The increase was due to a single factor. The Company's revenues have grown significantly throughout the last year, as has the need for capital. The Company is borrowing more money under its credit lines. Additionally, to finance customer purchase orders, the Company has borrowed money from non traditional sources such as Gateway Finance, which is a much more expensive source than using banks.

Provision for Income Taxes. The Company's provision for income taxes for the three months ended June 30, 2008 is \$24,820. The reduction was permitted by the flat earnings during the quarter. The Company's provision and income tax liability are correctly stated on the Company's interim balance sheet as of June 30, 2008.

Deferred Income Tax Benefit/ (Expense): The deferred income tax benefit (expense) was (\$8,000) for the three months ended June 30, 2008. This is a result of timing differences between GAAP income and taxable income.

Net Income (loss). Net income (loss) was \$29,878 for the three months ended June 30, 2008, as compared to \$285,174 for the three months ended June 30, 2007.

Six Months Ended June 30, 2008 and 2007::

Net Revenues. Net revenues increased by \$18,096,770 or 46.6%, to \$56,990,275 in six Months Ended June 30, 2008, as compared to \$38,893,505 in 2007. The increase in revenues was mainly due to strong US sales, and several new accounts opened during the first half of the year. The Company managed to increase revenue by over 46 percent despite having no single customers that accounted for over 10% of revenues.

Gross Margin. Gross margin was \$8,092,186 or 14.2% in 2008, as compared to \$6,411,288 or 16.5% in 2007. Gross margins decreased on a percentage basis as the cost of delivering goods to customers was markedly higher than in prior periods due to increased fuel prices. The Company's cost of delivering goods was significantly higher than forecast, leading to profit shortfalls.

Sales and Marketing Expenses. Selling and marketing expenses decreased by \$147,724 to \$1,568,014 in 2008, as compared to \$1,715,738 in 2007. The decrease

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is due to the Company not sponsoring MMA marketing programs during the period. The Company plans to use its marketing budget to publicize the roll out of the Honeywell product line. The Company continued to use outside sales reps during the period. The Company began using outside sales reps to open new markets in

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2006, and as the sales have grown, the commissions grew through 2007. The Company has not employed a lot of new outside sales reps over the last few quarters, although that number will grow again when the Honeywell products are available for sale in the second half of 2008. The Company continues to believe this is a cost effective way to obtain shelf space at various retailers, so the outside commissions are likely to continue to grow larger as the business continues to grow and mature.

General and Administrative Expenses. General and administrative expenses decreased by \$255,763 to \$3,490,609 in 2008, as compared to \$3,746,372 in 2007. The primary reason for the decrease is the lower expense recorded for stock options issued to employees. Over the six month period, the amount dropped by approximately \$500,000 due to the amount of options previously exercised, and the relatively small amount of options issued in the last twelve months. That decrease is partly offset by higher bank charges and insurance costs. Rental expense will rise significantly beginning later this year when the Company moves to a new corporate headquarters, doubling both the size of the warehouse and the rental expense. (see the principal commitments section of this report for more details).

Bad Debts. The Company recorded a provision for bad debts of \$1,181,127 in the six months ended June 30, 2008, and \$126,501 for the six months ended June 30, 2007. The provision has jumped as the Company's revenues have increased 46% in the comparable period. Additionally, the Company has had trouble collecting from some smaller accounts during the quarter. As a result, the Company has tightened its credit policies to protect against bad debts.

Depreciation and Amortization. Depreciation and amortization of property and equipment was \$25,164 for the six months ended June 30, 2008, as compared to \$45,700 for the six months ended June 30, 2007. The decrease was caused by the sale of the VoIP assets in December 2007. The Company owns less property and equipment subject to depreciation.

Income from Operations. The income from operations was \$1,827,272 for the six months ended June 30, 2008, as compared to \$776,977 for the six months ended June 30, 2007. This is a result of the increased revenues and gross margins described above.

Miscellaneous Income. The miscellaneous income for the six months ended June 30, 2008 amounted to \$87,017. Miscellaneous income was a loss of \$104,566 for the six months ended June 30, 2007.

Interest Income. Interest income was \$12,470 for the six months ended June 30, 2008, as compared to \$48,794 for the six months ended June 30, 2007. The decrease, while insignificant, is due to the Company having less cash on hand due to very tight credit constraints. All available cash is being used to purchase inventory.

Interest Expense. Interest expense was \$1,124,937 for the six months ended June 30, 2008. Interest expense was \$381,881 for the six months ended June 30, 2007.

The increase was due to a single factor. The Company's revenues have grown significantly throughout the last year, as has the need for capital. The Company is borrowing more money under its credit lines, and is not getting as favorable terms on its borrowings. The Company has even used non traditional lenders such as Gateway Finance Corp. to meet its obligations to its customers.

Provision for Income Taxes. The Company recognized a provision for income taxes of \$458,000 in 2008, as compared to \$192,860. The provision is now necessary as net operating loss carry forwards will no longer offset all of the Company's tax liabilities.

Deferred Income Tax Benefit/ (Expense): The deferred income tax benefit (expense) was \$49,000 for the six months ended June 30, 2008. This is a result of timing differences between GAAP income and taxable income. The deferred income tax benefit was \$726,660 in the six months ended June 30, 2007. The difference is mainly due to the decreased cost related to employee stock options, from which a large portion of the deferred tax benefit is generated.

Net Income. Net income was \$235,587 for the six months ended June 30, 2008, as compared to \$746,201 for the six months ended June 30, 2007.

Financial Condition - June 30, 2008:

Liquidity and Capital Resources:

As a general rule, the Company has been totally reliant upon the cash flows from its operations to fund future growth. In the last few years, the Company has begun and continues to implement the following steps to increase its financial position, liquidity, and long-term financial health:

In 2005, The Company completed a small private placement, began factoring invoices to improve cash flows, and converted several million dollars of debt to equity, all of which improved the Company's financial condition.

In 2006, the Company changed factors to a more beneficial arrangement, and entered into a Trade Finance Flow facility with GE Capital to fund "Star" transactions. The agreement provided for GE Capital to guarantee payment, on the Company's behalf, for merchandise ordered from GE Capital approved manufacturers in Asia. GE Capital guarantees the payment subject to a purchase order from one of our customers. The Company accepts delivery of the goods in the US, and then has the option to either pay for the goods or sell the receivable (from the customer) to our factor, who pays GE Capital.

In March 2007, the Company announced that it had secured a \$12 million Asset Based Credit Facility from a California bank to provide funding for future growth.

In September 2007, the Company announced to shareholders that it was negotiating

with several independent third parties to raise capital. The capital would be used to improve the balance sheet and increase the Company's borrowing capabilities. The Company further stated that with the large increases in sales during the year, all of the Company's credit had been utilized, and that the

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Company was having difficulties purchasing enough products to maintain the 2007 level of sales growth. As of the date of this report, the Company had not yet agreed with any outside party on any capital transaction.

In March 2008, Ming Chok, Chief Executive Officer, purchased 776,000 shares of the Company's common stock in a private placement at \$1.25 per share. At the same time, he announced plans to invest approximately another \$1 million in the Company's common stock during the second quarter of 2008.

Operating Activities. The Company utilized cash of \$850,094 from operating activities during the six months ended June 30, 2008, as compared to utilizing cash of \$16,242,562 in operating activities during the six months ended June 30, 2007.

At June 30, 2008, the Company had cash and cash equivalents of \$571,855, as compared to \$1,848,249 at December 31, 2007.

The Company had working capital of \$14,142,823 at June 30, 2008, as compared to working capital of \$6,894,614 at December 31, 2007, resulting in current ratios of 1.37:1 and 1.16:1 at June 30, 2008 and December 31, 2007, respectively.

Accounts receivable increased to \$30,211,898 at June 30, 2008, as compared to \$27,123,985 at December 31, 2007, an increase of \$3,087,913. The Company's provision for doubtful accounts increased to \$1,134,900 as of June 30, 2008.

Inventories increased to \$14,960,525 at June 30, 2008, as compared to \$12,221,265 at December 31, 2007, an increase of \$2,739,260. Inventory in transit was \$2,462,192 at June 30, 2008.

Accounts payable decreased to \$8,327,606 at June 30, 2008, as compared to \$14,336,196 at December 31, 2007, a decrease of \$5,788,590. During the quarter, the Company was able to reach an agreement with a former supplier over unpaid debts. To settle the debt, the Company issued 5,900,000 shares of its restricted common stock to the supplier in return for the retirement of \$6,004,028 of debt.

Accrued liabilities decreased to \$742,202 at June 30, 2008, as compared to \$789,526 at December 31, 2007, a decrease of \$47,324 or less than eight percent.

Commercial loans due to UCB decreased to \$23,907,492 at June 30, 2008 from \$27,824,490 at December 31, 2007. The decrease is due to payments the Company made on the Purchase Order financing line.

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Due to Gateway Trade Finance was \$3,198,539 at June 30, 2008. During March 2008, the Company received a large order from a customer that could not be financed by its current credit facilities. The Company negotiated for Gateway Trade Finance to guarantee payment of the production run. This balance was paid off during the second quarter, however the Company ran into the same issues with credit lines, and again turned to a non conventional lender. The Company does not plan to utilize external financing like this for future purchases due to the high cost, but may do so on a limited basis if the transaction warrants it.

Principal Commitments:

A summary of the Company's contractual cash obligations as of June 30, 2008, is as follows:

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Contractual Cash Obligations	Less than 1 year	2-3 years	4-5 years	Ove
Operating Leases	\$236,119	\$909,632	\$1,047,916	
Advances from Directors	N/A	N/A	N/A	
Notes Payable/ Short Term Loan	N/A	N/A	N/A	
Purchase Commitments	\$2,462,192	N/A		
Royalty Payments Due	\$479,000	\$1,287,500	\$1,250,500	
Long-Term Debt	--	--	--	
Total	\$3,177,311	\$2,1,97,132	\$2,298,416	

At June 30, 2008, the Company did not have any long-term purchase commitment contracts to honor. The only purchase commitments were for inventory already purchased and in transit of \$5,062,989.

On July 15, 2008, the Company announced that it had signed a five-year agreement to lease a 74,731 square foot multi-purpose facility, which will nearly double its headquarters, operations and warehouse space. The lease term begins on September 15, 2008 and extends for five years.

At June 30, 2008, the Company did not have any material commitments for capital expenditures or have any transactions, obligations or relationships that could be considered off-balance sheet arrangements.

On February 8, 2007, SOYO Group announced that the Company had entered into a licensing agreement with Honeywell International Inc., effective January 1st 2007, under which SOYO will supply and market certain consumer electronics products under the Honeywell Brand.

The agreement is for a minimum period of 6.5 (six point five) years and calls for the payment of MINIMUM royalties by SOYO to Honeywell International Inc. totaling \$3,840,000 (Three Million, Eight Hundred and Forty Thousand Dollars U.S.). Sales levels in excess of minimum agreed targets will result in associated increases in the royalty payments due. Minimum royalty payments due under the agreement are \$424,000 in 2008. Although the Company signed the agreement in 2007 and no sales of Honeywell branded products were made in 2007, \$383,000 in royalties were paid to Honeywell International Inc. in 2007, and \$255,000 has been paid in 2008.

Off-Balance Sheet Arrangements:

At June 30, 2008, the Company did not have any transactions, obligations or relationships that could be considered off-balance sheet arrangements.

Commitments and Contingencies:

At June 30, 2008, the Company did not have any material commitments for capital expenditures.

Recent Accounting Pronouncements:

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In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements. SFAS No. 157 provides accounting guidance on the definition of fair value, establishes a framework for measuring fair value and requires expanded disclosures about fair value measurements. SFAS 157 is effective for the Company starting January 1, 2008 and did not have an impact on the Company as the Company does not have financial instruments subject to the expanded disclosure requirements of SFAS 157. In February 2008, the FASB issued FASB Staff Position FAS 157-2, Effective Date of FASB Statement No. 157, which provides a one year delay of the effective date of FAS 157 as it relates to nonfinancial assets and liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). The provisions of SFAS 157 relating to nonfinancial assets and liabilities will be effective as of the beginning of the Company's 2009 fiscal year.

Effective January 1, 2008, the Company adopted SFAS No. 159 ("FAS 159"), "The Fair Value Option for Financial Assets and Financial Liabilities - Including an Amendment of FASB Statement No. 115." FAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value, and establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. The adoption of FAS 159 had no impact on the Company's financial statements as the Company did not elect the fair value option.

In December 2007, the FASB issued Statement No. 141 (revised 2007), "Business Combinations." The new standard requires the acquiring entity in a business combination to recognize all (and only) the assets acquired and liabilities assumed in the transaction; establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed; and requires the acquirer to disclose to investors and other users all of the information they need to evaluate and understand the nature and financial effect of the business combination. This statement is effective for fiscal years beginning January 1, 2009 and the Company believes this will have no impact on its financial statements.

In December, 2007, the FASB issued Statement No. 160, "Noncontrolling Interests in Consolidated Financial Statements--an amendment of ARB No. 51." This statement establishes accounting and reporting standards for the noncontrolling

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interest in a subsidiary and for the deconsolidation of a subsidiary. This statement is effective prospectively, except for certain retrospective disclosure requirements, for fiscal years beginning after December 15, 2008. The Company believes this will have no impact on its financial statements.

In March 2008, the Financial Accounting Standards Board (FASB) issued Statement No. 161, "Disclosures about Derivative Instruments and Hedging Activities." This statement requires companies with derivative instruments to disclose information that should enable financial statement users to understand how and why a company uses derivative instruments, how derivative instruments and related hedged items are accounted for under FASB Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities" and how derivative instruments and related hedged items affect a company's financial position, financial performance and cash flows. This statement is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008 and the Company believes this will have no impact on its financial statements.

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In May 2008, the FASB issued SFAS No. 162, "The Hierarchy of Generally Accepted Accounting Principles ("SFAS No. 162"). SFAS 162 identifies a consistent framework, or hierarchy, for selecting accounting principles to be used in preparing financial statements that are presented in conformity with U.S. generally accepted accounting principles for nongovernmental entities (the "Hierarchy"). The Hierarchy within SFAS 162 is consistent with that previously defined in the AICPA Statement on Auditing Standards No. 69, "The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles" ("SAS 69"). SFAS 162 is effective 60 days following the United States Securities and Exchange Commission's (the "SEC") approval of the Public Company Accounting Oversight Board amendments to AU Section 411, "The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles". The adoption of SFAS 162 will not have a material effect on the Consolidated Financial Statements because the Company has utilized the guidance within SAS 69.

In May 2008, the FASB issued SFAS No. 163, "Accounting for Financial Guarantee Insurance Contracts--an interpretation of FASB Statement No. 60 ("SFAS No. 163"). SFAS 163 requires recognition of an insurance claim liability prior to an event of default when there is evidence that credit deterioration has occurred in an insured financial obligation. SFAS 163 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and all interim periods within those fiscal years. Early application is not permitted. The Company's adoption of SFAS 163 will not have a material effect on the Consolidated Financial Statements.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Through December 31, 2007, Company did not have any market risk with respect to such factors as commodity prices, equity prices, and other market changes that affect market risk sensitive investments. On December 31, 2007, the Company sold all of the assets related to the VoIP business to 247MGI of Fort Lauderdale, Florida for 40,000,000 shares of 247MGI's common stock. The stock is traded on the OTC pink sheets. The Company has no plans to dispose of the 247MGI stock, and intends to hold it as a long-term investment.

The Company's debt obligations at June 30, 2008 were primarily short-term in nature. As of June 30, 2008, The Company does not have any long-term debt. However, the Company does have \$23,907,492 of debt at a variable interest rate. As a result, the Company does have some financial risk from an increase in interest rates. To the extent that the Company arranges new interest-bearing borrowings in the future, an increase in current interest rates would cause a commensurate increase in the interest expense related to such borrowings.

Through 2006, The Company had absolutely no foreign currency risk, as its revenues and expenses, as well as its debt obligations, are denominated and settled in United States dollars. In 2007, the Company began selling product to a Canadian vendor who paid in Canadian dollars. The Company believes that risk is immaterial to its overall business, and has no plans to hedge that risk in 2008. If the risk grows, or the Company begins to sell product to other customers in non US dollar related transactions, the Company may reevaluate that position.

4. CONTROLS AND PROCEDURES

Evaluation of Disclosure and Control Procedures

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Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act. Our internal control system was designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes, in accordance with United States generally accepted accounting principles. Because of inherent limitations, a system of internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate due to change in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

An internal control material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected.

Our management, including our principal executive officer and principal accounting officer, conducted an evaluation of the effectiveness of our internal controls as of December 31, 2007, and this assessment identified material weaknesses in our internal control over the financial reporting process. In particular, our accounting system can not be relied upon to properly value inventory, or to generate timely and accurate financial information to allow for the preparation of timely and complete financial statements. The system's output has been reviewed, and our financial statements for the period ended June 30, 2008 properly reflect the Company's financial position.

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In making the assessment of internal control over financial reporting management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework. Because of the material weakness described in the preceding paragraph, our management concluded that our internal control over financial reporting was not effective as of June 30, 2008.

We are actively engaged in the implementation of remediation efforts to address the material weakness in internal control over financial reporting. These remediation efforts include devising and implementing effective controls to review and monitor the system output, and to replace our current accounting software with new software. Management hired experts to assist in the evaluation and implementation of new accounting software. The evaluation was completed, the software has been paid for, and significant customization has been performed to adapt the software to the Company's business. All employees, managers and other system users have been trained and tested on the use of the new software. The Company has begun parallel testing of the software, and the software is not yet stable enough to "go live". The software will be "live" once all deficiencies have been addressed..

The Company believes that once the new software is installed and operational, all significant deficiencies will have been addressed and corrected.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934) during the fiscal quarter ended June 30, 2008 that have

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materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

On January 26, 2007, the Company filed a lawsuit against Astar Electronics USA, Inc., KXD Technology, Inc. and Does 1 - 25 in the Superior Court of California for the County of Los Angeles, Central District (Case No. BC365349). The Company alleges claims for breach of contract, fraud, and tortious interference with economic relations and seeks compensatory and punitive damages. Both named defendants were served on January 26, 2007. On May 17, 2007, the Company filed a First Amended Complaint against Defendants alleging additional claims for trademark infringement, trademark dilution, unfair competition and false advertising. In or about June 2007, Astar Electronics USA, Inc. and KXD Technology, Inc. answered and KXD Technology, Inc. filed a cross-complaint against the Company and two of its officers, Nancy Chu and Ming Chok alleging claims for breach of contract, fraud, tortious interference with economic relations and common counts. In or about July 2007, Astar Electronics USA, Inc. filed a notice of dissolution with the California Secretary of State. On August 15, 2007, KXD Technology, Inc. filed for bankruptcy protection in the United States Bankruptcy Court, Central District of California. On September 13, 2007, the Court entered an order sua sponte to stay the entire action pending the resolution of the bankruptcy proceeding. No trial date has been set.

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On November 11, 2007, the Company filed a lawsuit against MDG Computers Canada, Inc. in the Ontario Superior Court of Justice in Canada. The Company alleges claims for trademark infringement, passing off and false designation related to the sales of televisions by MDG Computers Canada, Inc. bearing the Company's trademarks. On December 18, 2007, MDG Computers Canada, Inc. filed an answer to the complaint. The Company shall continue to vigorously pursue its claims against MDG Computers Canada, Inc. No trial date has been set.

There are no other legal proceedings that have been filed against the Company.

None of the Company's directors, officers or affiliates, or owner of record of more than five percent (5%) of its securities, or any associate of any such director, officer or security holder, is a party adverse to the Company or has a material interest adverse to the Company in reference to pending litigation.

ITEM 1A: RISK FACTORS

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2007, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

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ITEM 2. CHANGES IN SECURITIES, USE OF PROCEEDS AND ISSUER PURCHASES OF EQUITY SECURITIES

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None

ITEM 5. OTHER INFORMATION

None

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ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

A list of exhibits required to be filed as part of this report is set forth in the Index to Exhibits, which immediately precedes such exhibits, and is incorporated herein by reference.

(b) Reports on Form 8-K

None

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.

SOYO GROUP, INC.

(Registrant)

DATE: August 14, 2008

By: /s/ Ming Tung Chok

Ming Tung Chok
President and Chief
Executive Officer

DATE: August 14, 2008

By: /s/ Nancy Chu

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Nancy Chu
Chief Financial Officer

DATE: August 14, 2008

By /s/ Jay Schrankler

Name: Jay Schrankler
Title: Director

DATE: August 14, 2008

By /s/ Chung Chin Keung

Name: Chung Chin Keung
Title: Director

DATE: August 14, 2008

By /s/ Henry Song

Name: Henry Song
Title: Director

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INDEX TO EXHIBITS

Exhibit Number -----	Description of Document -----
10.6	SOYO Group Agreement with UCB Bank, dated March 2, 2007
10.7	SOYO Group Agreement with Urmstrom Capital dated August 7, 2008
10.8	SOYO Group Agreement with Tatung dated June 27, 2008
23.1	Consent of Independent Registered Public Accounting Firm, Vasquez & Company LLP
31.1	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 - Ming Tung Chok
31.2	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 - Nancy Chu
32.1	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 - Ming Tung Chok
32.2	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 - Nancy Chu

