SOYO GROUP INC
Form 10-Q/A
August 07, 2007

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q/A

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

For the fiscal quarter ended March 31, 2007

[ ] 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 [X] No [ ]

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

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):

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 6, 2007 there were 49,039,156 shares Outstanding.

Documents Incorporated by Reference: None

SOYO GROUP, INC. AND SUBSIDIARY

INDEX

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Condensed Consolidated Balance Sheets - March 31, 2007 (Unaudited) and December 31, 2006....5

Condensed Consolidated Statements of Operations (Unaudited) - Three Months Ended March 31, 2007 and 2006....7

Condensed Consolidated Statements of Cash Flows (Unaudited) - Three Months Ended March 31, 2007 and 2006....8

Notes to Condensed Consolidated Financial Statements (Unaudited) - Three Months Ended March 31, 2007 and 2006....10

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations....18

Item 3. Quantitative and Qualitative Disclosures about Market Risk....28

Item 4. Controls and Procedures....28

PART II. OTHER INFORMATION

Item 1. Legal Proceedings....................30

Item 1A. Risk Factors....................32

Item 2. Changes in Securities, Use of Proceeds and Issuer Purchases of Equity Securities....................33

Item 3. Defaults upon Senior Securites....................33

Item 4. Submission of Matters to a Vote of Security Holders....................33

Item 5. Other Information....................33

Item 6. Exhibits and Reports on Form 8-K....................33

SIGNATURES....................33

SOYO Group, Inc. and Subsidiary
Consolidated Balance Sheets

Consolidated Balance Sheets

	March 31, 2007	December 31, 2006

	(Restated)	(Restated)
ASSETS		
Current Assets		
Cash and cash equivalents	1,919,248	1,501,040
Accounts receivable, net of allowance for doubtful accounts of $388,958 at March 31, 2007 and December 31, 2006 Respectively	16,235,424	16,467,135
Inventories	8,334,469	7,792,621
Prepaid expenses	29,324	36,633
Deferred tax assets	464,035	177,177
Deposits	313,228	243,095
Total Current Assets	27,295,728	26,217,701
Property and equipment	720,806	711,015
Less: accumulated depreciation and amortization	(182,590)	(159,300)
	538,216	551,715
Total Assets	27,833,944	26,769,416
LIABILITIES		
Current		
Accounts payable	12,877,013	16,073,617
Accrued liabilities	543,533	539,767
Business loan	11,000,512	3,588,403
Short term loan	0	100,000
Total current liabilities	24,421,058	20,301,787
Long term payable	0	3,735,198
Total liabilities	24,421,058	24,036,985
EQUITY		
Class B Preferred stock, $0.001 par value, authorized - 10,000,000 shares, Issued and outstanding - 3,181,357shares in 2007 and 2,797,738 shares in 2006	1,980,737	1,918,974
Preferred stock backup withholding	(168,474)	(149,945)
Common stock, $0.001 par value. Authorized - 75,000,000 shares, Issued and outstanding - 49,025,511 shares	49,026	49,026
Additional paid-in capital	18,043,325	17,866,531
Accumulated deficit	(16,491,728)	(16,952,155)
Total shareholders' Equity	3,412,886	2,732,431
Total liabilities and shareholders' equity	27,833,944	26,769,416

	0	0

See accompanying notes to the unaudited condensed financial statements

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

	Three months ended March 31,	
	2007	2006
Net revenues	$ 14,691,110	$ 11,548,187
Cost of revenues	12,082,914	9,897,099
Gross margin	2,608,196	1,651,088
Costs and expenses:		
Sales and marketing	590,856	74,886
General and administrative	1,578,174	1,484,994
Provision for doubtful accounts	1,438	50,000
Depreciation and amortization:		
Property and equipment	23,291	25,815
Total costs and expenses	2,193,759	1,635,695
Income (loss) from operations	414,437	15,393
Other income (expense):		
Interest income	31,385	3,247
Interest expense	(59,715)	(72,387

Other income (expense)	(87,690)	4,531
Other income (expense), net	(116,020)	(64,609)
Income (Loss) before provision (benefit) for income taxes	298,417	(49,216)
Provision (benefit) for income taxes	63,085	--
Deferred income tax benefit	(286,858)	--
Net income (loss)	522,190	(49,216)
Less: dividends on convertible preferred stock	61,763	49,856
Net income (loss) attributable to common shareholders	460,427	(99,072)
Net income (loss) per common share - Basic and diluted	.01 .01	N/A
Weighted average number of shares of common stock outstanding - Basic and diluted	49,025,511 54,706,506	48,540,681 53,296,071

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Three months ended March 31, 2007	2006
OPERATING ACTIVITIES		
Net Income (loss)	522,190	(274,135)
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and Amortization	23,290	25,815
Non cash payments for director's compensation		24,570
Stock based compensation	176,794	359,871
Provision for doubtful accounts	1,438	50,000
Payment of accounts payable previously converted to long term debt	(3,735,198)	
Changes in operating assets and liabilities:		
(Increase) decrease in:		

Accounts Receivable	230,273	407,037
Inventories	(541,848)	(3,263,986)
Prepaid expenses	7,309	18,879
Deposits	(70,133)	(5,525)
Deferred income tax asset	(286,858)	
Increase (Decrease) in:		
Accounts payable	(3,196,604)	2,953,329
Accrued liabilities	3,766	(939,599)
Net cash used in operating activities	(6,865,581)	(643,744)
INVESTING ACTIVITIES		
Purchase of property and equipment	(9,791)	(50,182)
Proceeds from sale of equipment		
Net cash used in investing activities	(9,791)	(50,182)
FINANCING ACTIVITIES		
Advances from Officers, Directors, Shareholders		(65,000)
Proceeds from accounts receivable discounting	1,294,217	
Repayments of accounts receivable discounting	(4,882,620)	
Proceeds from business loan	11,000,512	--
Payment of backup withholding tax on accreted dividends on preferred stock	(18,529)	(14,957)
Short term loan	(100,000)	
Net cash used in financing activities	7,293,580	(79,957)
CASH AND CASH EQUIVALENTS		
Net Increase (Decrease)	418,208	(773,883)
At beginning of Period	1,501,040	828,294
At End of Period	1,919,248	54,411

Supplemental disclosure of cash flow information

Cash paid for interest	159,715	72,387
Cash paid for income taxes	30,805	

Non cash investing and financing activities

Accretion of discount on Class B preferred stock	61,763	49,856
Director's Compensation	--	24,570
Stock Option Compensation	176,794	359,871

See accompanying notes to unaudited condensed consolidated financial statements.

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

Three Months Ended March 31, 2007 and 2006

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.

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, therFe 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.

In conjunction with this transaction, SOYO Nevada transferred $12,000,000 of accounts payable to SOYO Taiwan to long-term payable, without interest, due December 31, 2005. During the three months ended March 31, 2004, the Company agreed with a third party to convert the long-term payable into convertible preferred stock.

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..

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 March 31, 2007, the results of operations for the three months ended March 31, 2007 and 2006, and cash flows for the three months ended March 31, 2007 and 2006. The condensed consolidated balance sheet as of December 31, 2006 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, 2006, as filed with the Securities and Exchange Commission.

The results of operations for the three months ended March 31, 2007 are not necessarily indicative of the results of operations to be expected for the full fiscal year ending December 31, 2007. 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 the year passes, culminating in strongest sales in the fourth quarter.

Business - The Company sells products under three different product lines: 1) Computer Components and Peripherals 2) Consumer Electronics and 3) Communications Equipment and Services. The products are sold to distributors and retailers primarily in North and South America.

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.

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 per share is computed by dividing net income 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 owned by employees.

As of March 31, 2007, potentially dilutive securities consisted of 3,181,357 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 March 31, 2007, 5,680,995 shares of common stock were issuable upon conversion of the Class B Convertible Preferred Stock based on the $0.56 per share conversion price.

As of March 31, 2006, 4,755,390 shares of common stock were issuable upon conversion of the Class B Convertible Preferred Stock based on the $0.62 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 March 31, 2007, out-of-the-money awards are not included in the computation of diluted EPS. Since the 2005 options granted are all out of the money, and the 2007 options awarded are unvested, the only potentially dilutive securities are the 3,181,357 shares of Class B Convertible Preferred Stock.

Comprehensive Income (Loss) - The Company displays comprehensive income or loss, its components and accumulated balances in its consolidated financial statements. Comprehensive income or loss includes all changes in equity except those resulting from investments by owners and distributions to owners. The Company did not have any items of comprehensive income (loss) during the three months ended March 31, 2007 and 2006.

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, 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.

Stock-Based Compensation - The Company has adopted Statement of Financial

Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS No. 123"), which establishes a fair value method of accounting for stock-based compensation plans, as amended by Statement of Financial Accounting Standard No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure" ("SFAS No. 148").

SFAS No. 123(R) requires that companies recognize all share-based payments to employees, including grants of employee stock options, in the financial statements. The cost will be based on the fair value of the equity or liability instruments issued and recognized over the respective vesting period of the stock option. Pro forma disclosure of this cost will no longer be an alternative under SFAS No. 123(R). SFAS 123(R) is effective for public companies at the beginning of the first fiscal year that begins after June 15, 2005.

Transition methods available to public companies include either the modified prospective or modified retrospective adoption. The modified prospective transition method requires that compensation cost be recognized beginning on the effective date, or date of adoption if earlier, for all share-based payments granted after the date of adoption and for all unvested awards existing on the date of adoption. The modified retrospective transition method, which includes the requirements of the modified prospective transition method, additionally requires the restatement of prior period financial information based on amounts previously recognized under SFAS No. 123 for purposes of pro-forma disclosures. The Company adopted SFAS No. 123(R) effective January 1, 2006. The Company adopted the modified prospective method. As a result, the Company recognized a charge against earnings of $176,794 for the three months ended March 31, 2007. For further information, refer to note 4, Stock Based Compensation on page 14.

On March 7, 2005, the Company registered its 2005 Stock Compensation Plan on Form S-8 with the Securities and Exchange Commission, registering on behalf of our employees, officers, directors and advisors up to 5,000,000 shares of our common stock purchasable by them pursuant to common stock options granted under our 2005 Stock Compensation Plan. The plan was approved by shareholder vote during a special meeting of shareholders on February 17, 2006. However, since Mr. Chok and Ms. Chu, husband and wife, are directors who own more than 50% of the Company, shareholder approval is essentially a formality, hence the grant date of the stock options is July 22, 2005.

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 will vest and be available for purchase on July 22, 2006, one third on July 22, 2007, and one third on July 22, 2008. The grants will expire if unused on July 22, 2010.

On February 2, 2007, the Company issued 4,305,000 option grants to employees at a strike price of $0.35. One third of those options will vest and be available for purchase on February 2, 2008, one third on February 2, 2009, and one third on February 2, 2010.

The fair value of options granted was estimated using the Black-Scholes option-pricing model with the following assumptions: risk free interest rate of 4.82%, expected life of 5 years and expected volatility of 129.24%. The fair value of options granted during the first quarter of 2007 is $1,308,591 which will be recognized as expense over a three-year period from date of issuance. Compensation expense of $72,700 was recognized during the three months ended March 31, 2007.

On May 17, 2007, the Company modified the vesting period of these options as follows: one third of those options vests immediately at date of issuance, one

third will vest on February 2, 2008, and one third on February 2, 2009. Accordingly, an additional $436,197 of compensation expense will be recorded during the second quarter ended June 30, 2007 to recognize options that vested at date of issuance.

As of March 31, 2007, 10 employees who had been granted stock options in 2005 had left the Company, and grants totaling 462,000 options were returned to the Company. No employees who were granted stock options in 2007 had left the Company as of the date of this report.

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.

2. Short Term Loan

In October 2005, the Company borrowed $165,000 from an unrelated third party for working capital purposes. As of December 31, 2006, $65,000 of the loan had been repaid, and $100,000 was still outstanding. The balance was paid off during the first quarter of 2007.

3. Business Loan

During the quarter, the Company began to use the $12 million asset based credit facility arranged with United Commercial Bank (UCB) (see Form 8-K dated March 2, 2007). The agreement calls for UCB to provide Soyo with funds to purchase inventory. The maximum amount to be extended at any point in time is based on the Company's accounts receivable and inventory, which will serve as collateral for the loan. The initial interest rate is 8.375% and varies from time to time based on changes in an independent index which is the Wall Street Journal Prime Rate. Any outstanding loan plus accrued interest is payable in one payment on February 5, 2008. As of March 31, 2007, the amount Soyo owed to UCB was $11,000,512.

The credit facility has been personally guaranteed by the CEO and the CFO for $6.5 million. Events of default include insolvency, creditor or forfeiture proceedings, payment defaults, events affecting guarantor, change in ownership of 25% or more on the common stock of Soyo, and any material adverse change in the Company's financial condition.

The balance of business loan of $3,588,403 as of December 31, 2006 represents payable to Accord Financial Services relating to the discounting of accounts receivable. This has been paid off as of March 31, 2007.

4. Equity-Based Transactions

Effective December 30, 2003, SOYO Taiwan entered into an agreement with an unrelated third party to sell the $12,000,000 long-term payable due it by the 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. In substance, SOYO Taiwan forgave debt in an amount equal to the difference between the $12,000,000 and the value of the preferred stock issued in settlement of this debt. This forgiveness of debt was treated as a capital transaction. Payment from the third party was received by SOYO Taiwan in February and March 2004. An agreement was reached during the three months ended March 31, 2004 whereby 2,500,000 shares of Class B preferred stock would be issued by the Company to the unrelated third party in exchange for the long-term payable.

The Class B 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 preferred stock has no voting rights. The shares of Class B preferred stock are convertible, in increments of 100,000 shares, into shares of common stock based on the $1.00 stated value, 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 preferred stock may be converted into common stock in any one year. On December 31, 2008, any unconverted shares of Class B 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 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 preferred stock has unlimited piggy-back registration rights, and is non-transferable.

The Company recorded the issuance of the Class B preferred stock at its fair market value on March 31, 2004 of $1,304,000, which was determined by an independent investment banking firm. The $10,696,000 difference between the $12,000,000 long-term payable and the $1,304,000 fair market value of the Class B preferred stock was credited to additional paid-in capital. The difference between the fair market value and the liquidation value of the Class B preferred stock is being recognized as an additional dividend to the Class B preferred stockholder, and as a reduction to earnings available to common stockholders, and will be accreted from April 1, 2004 through December 31, 2008.

5. Stock-Based Compensation

Prior to January 1, 2006, the Company accounted for employee stock-based compensation using the intrinsic value method supplemented by pro forma disclosures in accordance with APB 25 and SFAS 123 "Accounting for Stock-Based Compensation" ("SFAS 123"). Under the intrinsic value based method, compensation cost is the excess, if any, of the quoted market price of the stock at grant date or other measurement date over the amount an employee must pay to acquire the stock.

Effective January 1, 2006 the Company adopted SFAS 123R using the modified prospective approach and accordingly prior periods have not been restated to reflect the impact of SFAS 123R. Under SFAS 123R, stock-based awards granted

prior to its adoption will be expensed over the remaining portion of their vesting period. These awards will be expensed under the straight line amortization method using the same fair value measurements which were used in calculating pro forma stock-based compensation expense under SFAS 123. For

stock-based awards granted on or after January 1, 2006, the Company will amortize stock-based compensation expense on a straight-line basis over the requisite service period, which is generally a three-year vesting period.

SFAS 123R requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from initial estimates. Stock-based compensation expense has been recorded net of estimated forfeitures for the period ended March 31, 2007 such that expense was recorded only for those stock-based awards that are expected to vest. Previously under APB 25 to the extent awards were forfeited prior to vesting, the corresponding previously recognized expense was reversed in the period of forfeiture.

6. Income Taxes

Through 2006, the Company used net operating loss carryforwards to offset all income taxes payable. As of December 31, 2006, the Company had federal operating loss carryforwards of approximately $4,195,130 expiring in various years through 2024, which can be used to offset future taxable income, if any. As of December 31, 2006, there were no state operating loss carryforwards available to the Company.

As a result, the Company recognized income tax expense of $63,805 during the quarter. Additionally, the Company recognized a gain related to deferred tax assets of $286,858, resulting from timing differences between taxable income and US GAAP.

7. Significant Concentrations

a. Customers

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

	Three Months Ended March 31,	
	2007	2006
Revenues:		
Distributors	$11,883,335	$ 4,479,959
Retailers	941,413	7,068,228
Others	1,866,362	--
Total	$14,691,110	$11,548,187

During the three months ended March 31, 2007 and 2006, the Company offered price protection to certain customers under specific programs aggregating $200,354 and $0, respectively, which reduced net revenues and accounts receivable accordingly.

During the three months ended March 31, 2007, the Company had no customer that

accounted for more than 10% of net revenues.

b. Geographic Segments

Financial information by geographic segments is summarized as follows:

	Three Months Ended March 31,	
	2007	2006
Revenues:		
United States	$ 12,921,171	$ 9,114,585
Canada	(34,865)	N/A
Central and South America	564,296	2,205,222
Others	1,240,508	228,380
Total	$ 14,691,110	$ 11,548,187

NOTE: Prior to mid 2006, the Company reported all United States and Canadian revenue as a single line item under the caption North America. As such, the breakout between US and Canadian revenue is not available. The 2006 revenue reported as US revenue includes sales to Canada.

c. During the quarter ended June 30, 2006, the Company began calculating net revenue by product line for financial reporting purposes. 2007 sales by product line are as follows:

	Three Months Ended March 31,	
	2007	2006
Revenues:		
Computer Parts and Peripherals	$11,683,419	N/A
Consumer Electronics	2,981,198	N/A
VoIP	26,493	N/A
Total	$14,691,110	

d. Suppliers

During 2006, no more than 44% of the products distributed by the SOYO Group were supplied by a third party vendor. 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.

In continuing efforts to work with and leverage its supply base, SOYO entered into an agreement with GE Capital in 2006 whereby GE guarantees payment to GE approved vendors thereby facilitating larger orders, decreasing risk and allowing SOYO to seamlessly finance these transactions.

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 September 30, 2006 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 March 31, 2007 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.

Background and Overview:

Historically, the Company has sold computer components and peripherals to distributors and retailers primarily in North, Central and South America. The Company operated in one business segment. A substantial majority of the Company's products were purchased from SOYO Taiwan pursuant to an exclusive distribution agreement effective through December 31, 2005, and were sold under the "SOYO" brand.

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. During October 2002, certain members of 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 VWHC common stock. Accordingly, SOYO Taiwan and SOYO Nevada management currently own 34,209,548 shares of the Company's common stock outstanding.

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, for financial reporting purposes, 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.

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

In 2004, the Company decided to make a significant change in the core offerings for sale. The emphasis switched from motherboards and hardware to peripherals, leading to a more diverse product offering. Also in 2004, the Company introduced its VoIP products. In 2005, SOYO Group, Inc. entered the LCD display market with the introduction of 17- and 19-inch LCD monitors, and 32 and 37 inch LCD televisions. Both products were introduced in the second quarter of 2005. Currently, the Company sells products under three different product lines: 1) Computer Components and Peripherals 2) Consumer Electronics and 3) Communications Equipment and Services. The products are sold to distributors and retailers primarily in North, Central and South America.

Financial Outlook:

For the year 2006, the Company earned $678,537,or $0.01 per share before dividends on preferred stock, The large increases in sales of LCD televisions and LCD monitors were primarily responsible for the large increase in net revenues.

For the year 2005, the Company earned $540,310 or $0.01 cents per share, before preferred dividends, and revamped its core product offerings. As a result, the consumer electronics division, featuring LCD televisions and monitors, was responsible for over 30% of the Company's sales, a number that was expected to grow in the coming years.

For the year 2004, the Company incurred a net loss before preferred dividends of ($3,920,245).

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 MM Asset Based Credit Facility from a California bank to provide funding for future growth.

There can be no assurances that these measures will result in an improvement in the Company's profitability or liquidity. To the extent that the Company's profitability and liquidity do not improve, the Company may be forced to reduce operations to a level consistent with its available working capital resources.

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.

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. The Company records estimated reductions to revenues 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 in 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 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.

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 records a valuation allowance to reduce its deferred tax assets to the amount that is more likely than not to be realized. In the event the Company was to determine that it would be able to realize its deferred tax assets in the future in excess of its recorded amount, an adjustment to the deferred tax assets would be credited to operations in the period such determination was made. Likewise, should the Company determine that it would not be able to realize all or part of its deferred tax assets in the future, an adjustment to the deferred tax assets would be charged to operations in the period such determination was made.

Results of Operations:

Three Months Ended March 31, 2007 and 2006::

Net Revenues. Net revenues increased by $3,142,923 or 27.2%, to $14,691,110 in the three months ended March 31, 2007, as compared to $11,548,187 in 2006. The increase in revenues was mainly due to new markets being opened by the sales department for LCD television sales. New customers during the quarter included American TV (15 stores in the Midwest U.S.), 6th Avenue Electronics, and featured spots during the quarter on ShopNBC.

Gross Margin. Gross margin was $2,608,196 or 17.7% in 2007, as compared to $1,651,088 or 14.3% in 2006. Gross margins increased both on a numerical and a percentage basis as the Company increased sales of higher margin products such as LCD monitors and wireless Bluetooth devices.

Sales and Marketing Expenses. Selling and marketing expenses increased by $515,970 to $590,856 in 2007, as compared to $74,886 in 2006. The increase is due to higher commissions to outside sales reps. The Company began using outside sales reps to open new markets in 2006, and as the sales have grown, the commissions have grown. The Company believes this is a cost effective way to obtain shelf space at various retailers, so the outside commissions are likely to continue to grow larger.

General and Administrative Expenses. General and administrative expenses increased by $93,180 to $1,578,174 in 2007, as compared to $1,484,994 in 2006. The increase is due entirely to increased labor costs. As sales have almost tripled in the last two years, the Company has added staff in the sales, finance and operations areas. The staff has been needed to keep up with the increased business volume. Approximately $50,000 of the increase is due to increased costs of implementing FASB 123(R). The non cash charge against earnings was approximately $135,000 in the quarter ended March 31, 2006 and $177,000 in the quarter ended March 31, 2007

Bad Debts. The Company recorded a provision for bad debts of $1,438 in the three months ended March 31, 2007, and $50,000 for the three months ended March 31, 2006. As of March 31, 2007, the Company believes its provision for bad debts is adequate.

Depreciation and Amortization. Depreciation and amortization of property and equipment was $23,291 for the three months ended March 31, 2007, as compared to $25,815 in 2006.

Income from Operations. The income from operations was $414,437 for the three months ended March 31, 2007, as compared to $15,393 for the three months ended March 31, 2006. This is a result of the increased expenses described above offsetting the higher gross margin.

Miscellaneous Income. Miscellaneous income was a loss of $87,690 for the three

months ended March 31, 2007. Miscellaneous income was $4,531 in the three months ended March 31, 2006.

Interest Income. Interest income was $31,385 for the three months ended March 31, 2007, as compared to $3,247 for the three months ended March 31, 2006. The increase is due to the Company having more cash on hand due to improved financial performance over the last year.

Interest Expense. Interest expense was $59,715 for the three months ended March 31, 2007. Interest expense was $72,387 for the three months ended March 31, 2006. The decrease was due to a single factor. The Company was operating under an expensive factoring agreement in 2006, but has since obtained much better terms on its financing. As a result, the cost of the financing is lower.

Provision for Income Taxes. The Company recognized a provision for income taxes of $63,085 in 2007. There was no provision in 2006. 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 Gain/ (Expense): The deferred income tax gain (expense) was a gain of $286,858 for the three months ended March 31, 2007. This is a result of timing differences between GAAP income and taxable income. There was no deferred income tax gain or loss in the three months ended March 31, 2006.

Net Income. Net income was $522,190 for the three months ended March 31, 2007, as compared to a net loss of ($49,216) for the three months ended March 31, 2006.

Financial Condition - March 31, 2007:

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 MM Asset Based Credit Facility from a California bank to provide funding for future growth.

On December 27, 2006, the Company filed Form 8-K detailing SOYO's agreements with vendors Eastech and Corion regarding SOYO's payment of trade debts. The Company had several issues with the quality of the merchandise received from both vendors, and refused to pay for the merchandise without concessions in regard to price, RMA, and other factors. Ultimately, the Company was able to come to mutually agreeable terms with both vendors. The end result is that the Company will pay both vendors over time, which results in a portion of each debt

being reclassified to long term debt, and helps the Company's liquidity. The Company does not expect that any other trade receivables or payables will be settled in such a manner.

Operating Activities. The Company utilized cash of $6,865,581 from operating activities during the three months ended March 31, 2007, as compared to utilizing cash of $643,744 in operating activities during the three months ended March 31, 2006.

At March 31, 2007, the Company had cash and cash equivalents of $1,919,248, as compared to $1,501,040 at December 31, 2006.

The Company had working capital of $2,874,670 at March 31, 2007, as compared to working capital of $5,915,914 at December 31, 2006, resulting in current ratios of 1.12:1 and 1.29:1 at March 31, 2007 and December 31, 2006, respectively. At year end, the Company had classified almost $4 million of debt as long term debt. That debt has now been reclassified as current debt, and is now part of the calculation of working capital.

Accounts receivable decreased to $16,235,424 at March 31, 2007, as compared to $16,467,135 at December 31, 2006, a decrease of $231,711. The Company's provision for doubtful accounts stood at $388,958 as of March 31, 2007 and December 31, 2006.

Inventories increased to $8,334,469 at March 31, 2007, as compared to $7,792,621 at December 31, 2006, an increase of $541,848 or 7%. Inventory in transit was $2,024,520 at March 31, 2007, down from $4,005,265 at December 31, 2006.

Accounts payable decreased to $12,877,013 at March 31, 2007, as compared to $16,073,617 at December 31, 2006, a decrease of $3,196,604. The decrease is due to the Company's trade accounts and payables being segregated into different balance sheet captions. The Company owed $11,000,512 to UCB at March 31, which is segregated on the balance sheet. On all previous financial statement dates,

the amount owed to factors or bankers was included in current liabilities. Now that the Company has secured a sophisticated borrowing arrangement, the amount will be segregated on all published balance sheets.

Accrued liabilities increased to $543,533 at March 31, 2007, as compared to $539,767 at December 31, 2006, an increase of $3,766 or less than one percent..

Business loan increased to $11,000,512 at March 31, 2007, as compared to $3,588,403 at December 31, 2006. The large increase is due to the Company's considerable growth in sales in receivables.

Financing Activities. In October 2005, the Company borrowed $165,000 from an individual for working capital purposes. As of March 31, 2007, the entire loan had been repaid.

In March 2007, the Company announced that it had secured a $12 MM Asset Based Credit Facility from a California bank to provide funding for future growth. As of March 31, 2007, the Company owed UCB bank $11,000,512 that had been borrowed under the facility. The $11,005,512 is included in the payables and working capital calculations described above.

Principal Commitments:

A summary of the Company's contractual cash obligations as of March 31, 2007, is as follows:

	Less than 1 year	1-3 years	4-5 years	Over 5 years
Contractual Cash Obligation				
Operating Leases	212,692	141,794		
Royalties Payable	353,000	1,047,000	1,480,000	960,000
Purchase Commitments	2,024,520			
Total	2,590,122	1,188,794	1,480,000	960,000

At March 31, 2007, 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 $2,024,520.

At December 31, 2006, 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 Properties Inc. and 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 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 $184,000 through December 31, 2007, and $424,000 in 2008.

Off-Balance Sheet Arrangements:

At March 31, 2007, the Company did not have any transactions, obligations or relationships that could be considered off-balance sheet arrangements.

Commitments and Contingencies:

At March 31, 2007, the Company did not have any material commitments for capital expenditures.

Recent Accounting Pronouncements:

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" ("SFAS 159") which permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. SFAS 159 will be effective for the Company on January 1, 2008. The Company is currently evaluating the impact SFAS 159 may have on its financial condition or results of operations.

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Issues No. 157, "Fair Value Measurements" ("SFAS 157"), which defines the fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. This statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. Early adoption is encouraged, provided that the Company has not yet issued financial statements for that fiscal year, including any financial statements for an interim period within that fiscal year. The Company is currently evaluating the impact SFAS 157 may have on its financial condition or results of operations.

In June 2006, the FASB released FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109 (FIN 48). FIN 48 clarifies the accounting and reporting for uncertainties in income tax law. This interpretation prescribes a comprehensive model for the financial statement recognition, measurement, presentation and disclosure of uncertain tax positions taken or expected to be taken in income tax returns. This statement is effective for fiscal years beginning after December 15, 2006. The Company is currently evaluating the impact FIN 48 may have on its financial condition or results of operations.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company does 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.

As the Company's debt obligations at March 31, 2007 are primarily short-term in nature and non-interest bearing, the Company does not have any risk from an increase in interest rates. However, 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.

The Company does not have any foreign currency risk, as its revenues and expenses, as well as its debt obligations, are denominated and settled in United States dollars.

4. CONTROLS AND PROCEDURES

Evaluation of Disclosure and Control Procedures

Based on a current evaluation under the supervision and with the participation of the Company's management, the Company's principal executive officer and principal financial officer have concluded that the Company's disclosure controls and procedures as defined in rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (Exchange Act) were not effective as of March 31, 2007 and did not ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms and (ii) accumulated and communicated to the Company's management, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure. Based on that evaluation, that as of such date, the Company's disclosure controls and procedures were not effective. In addition, the Company's automated financial reporting systems are overly complex, poorly integrated and inconsistently implemented.

The Company's Chief Executive Officer and Chief Financial Officer arrived at this conclusion based on a number of factors, including the fact that the Company's system of internal control requires considerable manual intervention to do the following: (1) to properly record accounts payable to vendors for purchases of inventory, (2) to properly record adjustments to inventory per the general ledger to physical inventory balances, (3) to properly record inventory adjustments to the lower of cost or market using the average inventory method, (4)to have effective controls over interim physical inventory procedures, and 5) to generate timely and accurate financial information to allow for the

preparation of timely and complete financial statements. The Company did not have an effective financial reporting process because of the aforementioned material weaknesses. Accordingly, the Company's Chief Executive Officer and Chief Financial Officer concluded that there were significant deficiencies, including material weaknesses, in the Company's internal controls over its financial reporting at the end of the period ended March 31, 2007.

To address these significant deficiencies and material weaknesses, the Company Has taken the following corrective actions:

The Company is operating without a permanent Accounting Manager or Controller.

While the Company does not have a permanent Accounting Manager or Controller, the Company believes it has enough staff working in the accounting department to complete all work required on a timely basis. The Company has retained a financial consultant and former CPA to oversee the day to day management of the accounting department. The Company has recently added additional personnel to complete the day to day accounting tasks. The Company promoted a bookkeeper to Acting Accounting Manager.

Management hired experts to assist in the evaluation and implementation of new accounting software. The evaluation was completed, and the software has been paid for. The Company has been testing and customizing the software for the last few months, and expects that the software will be installed and operational during the third quarter of 2007.

In conjunction with the Company's financial statements for the quarter ended March 31, 2007, the Company's Chief Executive Officer and its Chief Financial Officer reviewed and evaluated the corrective actions listed above. The officers believed that such corrective actions minimize the risk of material misstatement, but the corrective actions continued to have significant deficiencies.

As of March 31, 2007, the Chief Executive Officer and the Chief Financial Officer are satisfied that with the personnel in place, and with the additional efforts of the Financial Consultant/ CPA, that the books and records portray a completely accurate picture of the Company's financial position and that all transactions are being captured and reported as required. The Company believes that once the new software is installed and operational, all significant deficiencies will have been addressed and corrected.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Soyo Inc. v. XtraPlus, etc, et al. On or about September 27, 2004, Soyo, Inc. ("Soyo") sold computer components to XtraPlus Corporation, dba ZipZoomFly.com ("XtraPlus"), a computer retailer. Soyo invoiced XtraPlus for $183,600, but XtraPlus failed to pay the invoice and, on March 4, 2005, Soyo filed a civil complaint against XtraPlus in the Superior Court of the State of California for the County of San Bernardino ("Court"). XtraPlus thereafter filed a Cross-Complaint against Soyo on May 11, 2005 in which it alleged claims for: (1) Breach of Contract; (2) Breach of Warranty; (3) Breach of the Implied Covenant of Good Faith and Fair Dealing; and (4) Violation of Business & Professions Code ss. 17200. In its prayer in the Cross-Complaint, XtraPlus sought special and general damages in excess of $100,000, attorneys' fees and costs, and such other relief as the Court might determine to be just and proper. After it filed its Complaint, Soyo also sought an attachment of $183,600, plus interest and costs. Ultimately, XtraPlus paid Soyo $40,000 of the amount sought, and deposited into the registry of the Court the sum of $140,000 until the action was concluded.

On January 12, 2007, the Court ordered that summary adjudication be granted in favor of Soyo on two of the four claims in Soyo's Complaint against XtraPlus (Soyo voluntarily dismissed the other two claims), and that Soyo recover the remaining balance due on its claim. The Court also ordered that summary judgment be granted in favor of Soyo and against XtraPlus on all of the claims against Soyo that were contained in the XtraPlus Cross-Complaint. The formal order and the proposed judgment reflecting this disposition were entered on February 14, 2007. XtraPlus paid the Judgment of $168,498.20 plus additional costs of $5,176.03 for a total of $173,674.23 and a full Satisfaction of Judgment has been filed.

Normandin v. Soyo Group, Inc. et al. On August 2, 2004, Gerry Normandin, individually and on behalf of a proposed nationwide class of consumers, filed a Complaint in the Superior Court of the State of California for the County of San Bernardino against the Company and DOES 1 through 100. Normandin asserted three causes of action in his Complaint: (1) Violation of the Consumer Legal Remedies Act, Civil Code Section 1750 et seq.; (2) Violation of Business and Professions Code Section 17200 et seq.; and (3) Violation of Business and Professions Code Section 17500 et seq. Normandin prayed for an order certifying the case as a class action, an award of actual damages suffered by plaintiff and the class in an amount not less than $1,000 per person, an order for restitution and disgorgement of monies wrongfully acquired by defendants through the sales of motherboards having defective capacitors, an order enjoining the Company from further sales of motherboards with defective capacitors, an award of punitive damages, attorneys' fees and costs, pre-judgment interest and such other relief as the Court may deem just and proper.

The parties have reached a settlement of the action. However, the agreed upon settlement agreement must receive Preliminary Approval by the Court after a noticed hearing. Then, if preliminarily approved, Class Notice must be given to members of the class whom Normandin represents, and any objections to the settlement considered and addressed by the Court. The papers necessary for the Preliminary Approval Hearing are being drafted and will be filed within 30 days. We cannot predict the outcome of these pending matters, nor whether the settlement agreement will ultimately be approved and the case dismissed.

Soyo v. Hartford: Soyo tendered a claim to Hartford Insurance Company of the Midwest ("Hartford") under which it sought a defense and indemnity for the claims asserted in the Normandin action. Hartford rejected that claim, and on May 1, 2006, Soyo Group Inc. filed an action for: (1) Declaratory Relief; (2)

Breach of Contract; and (3) Bad Faith against Hartford. Soyo, Inc. was subsequently added as a Plaintiff in a First Amended Complaint ("FAC") that was filed in the action. In the Prayer in the FAC, Soyo sought general, special and punitive damages in amounts that were unspecified, as well as interest costs and attorneys fees.

The dispute was mediated, and an agreement in principle to resolve it was reached on December 21, 2006. The formal settlement agreement is being prepared and has not yet been executed by any of the parties.

On June 30, 2006, a lawsuit was filed in the United States District Court, Central District of California, Eastern Division, entitled Robert Lewis, Jr. v. Soyo Group, Inc., et al., Case No. EDCV 06-699 VAP (JWJx). The case seeks class action status and alleges failures to timely pay rebates to purchasers of Soyo products allegedly in violation of unfair competition laws, the California Consumer Legal Remedies Act and contracts with purchasers. The plaintiff seeks disgorgement of all amounts obtained by the Company as a result of the alleged misconduct, plus actual damages, punitive damages and attorneys' fees and costs. The Company has agreed to the terms of a settlement which is currently before the court for approval.

On May 22, 2005, the Company received notice of an investigation by the Attorney General of the State of California (the "AG") regarding the Company's alleged failures to timely pay rebates to purchasers of Soyo products. The Company has cooperated with the investigation and has agreed to the terms of a stipulation for entry of final judgment and permanent injunction (the "Injunction") relating to the Company's administration of rebate claims. On March 7, 2007, the Injunction was filed by the AG and entered by the Superior Court of California, County of San Diego in the action entitled People of the State of California v. Soyo Group, Inc., et al., Case No. GIC 8813770. The Company believes that compliance with the terms of the Injunction will have no material adverse effect on the Company.

On February 15, 2006, the Company received notice of an investigation by counsel for the Federal Trade Commission (the "FTC") regarding the Company's alleged failures to timely pay rebates to purchasers of Soyo products. The Company has cooperated with the investigation and has agreed to the terms of an agreement containing a consent order to be filed by the FTC relating to the Company's administration of rebate claims, which is currently before the FTC for approval.

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. No trial date has been set. The Company is vigorously asserting its claims against the defendants. No counterclaims have been asserted against the Company in the action to date.

On March 22, 2007, Semiconductor Energy Laboratory Co., Ltd. instituted an action against several defendants, including the Company, in the United States District Court for the Northern District of California (Case No. C071667 MHP) alleging patent infringement with respect to certain products the Company is alleged to have imported and sold in the United States. No trial date has been set. Pursuant to order of the Court, the Company's deadline to respond to the Complaint is currently on July 12, 2007. Discovery has not commence and no trial date has been set. The Company strongly dispute any liability in the matter and will vigorously defend itself in the action.

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, 2006, 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.

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

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 7, 2007

By: /s/ Ming Tung Chok
Ming Tung Chok
President and Chief
Executive Officer

DATE: August 7, 2007

By: /s/ Nancy Chu
Nancy Chu
Chief Financial Officer

DATE: August 7, 2007

By /s/ Paul F. Risberg
Name: Paul F. Risberg
Title: Director

DATE: August 7, 2007

By /s/ Chung Chin Keung
Name: Chung Chin Keung
Title: Director

DATE: August 7, 2007

By /s/ Zhi Yang Wu
Name: Zhi Yang Wu
Title: Director

INDEX TO EXHIBITS

Exhibit Number	Description of Document
10.6	SOYO Group Agreement with UCB Bank, dated March 2, 2007
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