SOYO GROUP INC
Form 10-Q
November 10, 2008

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the fiscal quarter ended September 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)

1290 East Elm St. , Ontario, California 91761
(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]   Smaller reporting Company [ ]

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 November 11, 2008 there were 61,718,656 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

	September 30, 2008 (Unaudited)	December 31, 2007 (Restated)
ASSETS		
Current Assets		
Cash and cash equivalents	44,186	1,848,249
Accounts receivable, net of allowance for doubtful accounts of $ 933,040 and $783,573 at September 30, 2008 and December 31, 2007 respectively	43,309,525	27,123,985
Inventories, net of allowance for inventory obsolescence of $222,044 and $168,600 at September 30, 2008 and December 31, 2007 respectively	8,358,053	12,221,265
Prepaid expenses	130,075	187,749
Deferred income tax assets	586,000	544,688
Deposits	2,390,967	8,808,408
Total Current Assets	54,818,806	50,734,344
Investment in 247 MGI	4,000	400,000
Property and equipment	340,993	316,287
Less accumulated depreciation and amortization	(172,194)	(141,613)
	168,799	174,674
Deferred income tax - noncurrent	801,000	658,312
Total noncurrent assets	973,799	1,232,986
Total Assets	$ 55,792,605	$ 51,967,330
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$ 10,770,431	$ 14,336,196
Accrued liabilities	217,707	789,526
Commercial Loans due to UCB	25,495,237	27,824,490
Gateway Trade Finance	2,049,064	0
Short Term Note Payable	557,082	0
Income Tax Payable	1,378,698	889,518
Total current liabilities	40,468,219	43,839,730

SOYO Group, Inc. and Subsidiary
Condensed Consolidated Balance Sheets (continued)

	September 30, 2008 (Unaudited)	December 31, 2007 (Restated)
Long term payable	0	
Total liabilities	40,468,219	43,839,730
EQUITY		
Class B Preferred stock, $0.001 par value, authorized - 10,000,000 shares, Issued and outstanding - 0 shares in 2008 and 2,614,195 shares in 2007	0	2,187,165
Preferred stock backup withholding	0	(230,402)
Common stock, $0.001 par value. Authorized - 200,000,000 in 2008 and 75,000,000 shares in 2007, Issued and outstanding - 61,718,656 shares in 2008 and 52,004,656 shares in 2007	61,719	52,005
Additional paid-in capital	29,839,107	20,233,500
Accumulated deficit	(13,856,440)	(14,114,668)
Subscriptions Receivable	(720,000)	0
Total shareholders' Equity	15,324,386	8,127,600
Total liabilities and shareholders' equity	$ 55,792,605	$ 51,967,330

See accompanying notes to the unaudited
condensed consolidated financial statements

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

	Three months ended September 30, 2008	Three months ended September 30, 2007
Net revenues	$ 29,481,939	$ 33,435,184
Cost of revenues	24,091,542	29,804,822
Gross margin	5,390,397	3,630,362

Costs and expenses:		
Sales and marketing	896,805	(315,296)
General and administrative	2,944,906	1,750,423
Provision for doubtful accounts	346,419	20,635
Depreciation and amortization:		
Property and equipment	5,417	27,107
Total costs and expenses	4,193,547	1,609,129
Income from operations	1,196,850	2,021,233
Other income (expense):		
Interest income	20	18,037
Interest expense	(490,139)	(440,277)
Unrealized gain (loss) on equity investment	(396,000)	--
Other income (expense)	(21,415)	(6,399)
Other income (expense), net	(907,534)	(177,786)
Income before provision for income taxes	289,316	1,843,447
Provision for income taxes	290,000	78,379
Deferred income tax benefit	(135,000)	--
Net income (loss)	134,316	2,509,857
Less: dividends on convertible preferred stock	111,676	68,744
Net income (loss) attributable to common shareholders	22,640	2,441,113
Net income (loss) per common share -	.00	.05
Basic and diluted	.00	.05
Weighted average number of shares of	58,963,656	49,039,156
common stock outstanding - Basic and diluted	62,736,230	54,163,754

See accompanying notes to unaudited
condensed consolidated financial statements.

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

	Nine months ended September 30, 2008	Nine months ended September 30, 2007
Net revenues	$ 86,472,214	$ 72,328,689
Cost of revenues	72,989,631	62,287,039
Gross margin	13,482,583	10,041,650
Costs and expenses:		
Sales and marketing	2,464,819	1,400,442
General and	6,435,515	5,496,795

administrative		
Provision for doubtful accounts	1,527,546	278,042
Depreciation and amortization:		
Property and equipment	30,581	68,161
Total costs and expenses	10,458,461	7,243,440
Income from operations	3,024,122	2,798,210
Other income (expense):		
Interest income	12,490	66,831
Interest expense	(1,615,076)	(822,158)
Unrealized gain (loss) on equity investment	(396,000)	--
Other income (expense)	65,602	139,888
Other income (expense), net	(1,932,984)	(615,439)
Income before provision for income taxes	1,091,138	2,182,771
Provision for income taxes	748,000	271,239
Deferred income tax benefit	(184,000)	(1,471,449)
Net income (loss)	527,138	3,382,981
Less: dividends on convertible preferred stock	268,911	195,667
Net income (loss) attributable to common shareholders	$ 258,227	$ 3,187,314
Net income (loss) per common share -	.01	.06
Basic and diluted	.01	.06
Weighted average number of shares of	55,248,798	49,039,156
common stock outstanding - Basic and diluted	59,021,372	54,163,754

See accompanying notes to unaudited
condensed consolidated financial statements.

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

	Nine months ended September 30, 2008	Nine months ended September 30, 2007
OPERATING ACTIVITIES		
Net Income (loss)	527,138	3,382,981
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and Amortization	30,581	68,159
Unrealized (gain) loss on investment in 247MGI	396,000	--

Non cash payments for public relations	6,825	
Stock based compensation	395,494	1,169,437
Provision for doubtful accounts	149,467	278,042
Provision for Inventory Obsolescence	53,444	--
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Accounts Receivable	(16,335,007)	(16,153,639)
Inventories	3,809,768	(8,825,582)
Prepaid expenses	57,674	(69,063)
Deposits	6,417,441	(314,453)
Deferred income tax asset	(184,000)	(1,370,569)
Increase (Decrease) in:		
Accounts payable	2,438,263	3,831,034
Accrued liabilities	(571,819)	551,884
Income tax payable	489,180	--
Net cash used in operating activities	(2,326,376)	(17,444,942)
INVESTING ACTIVITIES		
Purchase of property and equipment	(24,706)	(33,056)
Net cash used in investing activities	(24,706)	(33,056)
FINANCING ACTIVITIES		
Proceeds from business loan - net	276,893	22,506,404
Payment of backup withholding tax on accreted dividends on preferred stock	(80,674)	(58,700)
Proceeds from Issuance of Common Stock	350,800	
Payment of Short term loan		(100,000)
Payment of long term debt		(3,735,198)
Net cash provided by (used in) financing activities	547,019	18,612,506

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

	Nine months ended September 30, 2008	Nine months ended September 30, 2007
CASH AND CASH EQUIVALENTS		
Net Increase (Decrease)	(1,804,063)	1,134,506
At beginning of Period	1,848,249	1,501,040
At End of Period	44,186	2,635,546
Supplemental Disclosure of Cash Flow Information		
Cash paid for Interest	1,572,517	822,158
Cash paid for Income Taxes	458,000	21,503

Non cash investing and financing activities		
Accretion of discount on Class B preferred stock	268,911	195,666
Stock Option Compensation	395,494	1,169,437
Non Cash- conversion of accounts payable to common stock	6,004,028	
Non Cash- conversion of convertible preferred stock to common stock	2,456,075	

See accompanying notes to unaudited
condensed consolidated financial statements.

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

Nine Months Ended September 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.

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.

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 September 30, 2008, the results of operations for the three and nine months ended September 30, 2008 and 2007, and cash flows for the nine months ended September 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 nine months ended September 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.

Business - The Company sells products under four different product lines: 1) Computer products ; 2) Consumer Electronics; 3) Furniture 4) Bluetooth Devices.

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 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 revalues the stock on its balance sheet each quarter, based on the market price. At September 30, 2008, the price was $0.0001, which reduced the value of the Company's shares to $4,000.

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 September 30, 2008 had paid $330,000 in 2008 royalties.

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.

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.

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 stock options granted to employees in 2007. The calculation of fully diluted shares is as follows:

Weighted average Shares outstanding at 9/30/2008	55,248,798
Vested in the money options	3,772,574

Total fully diluted shares at 9/30/2008	59,021,372

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. If no deal had been made, at September 30, 2008, the amount of shares due to the 3rd party investor would have been 6,234,950.

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 September 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 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 and nine months ended September 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 September 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. All of the remaining 963,000 options were vested and 353,00 have benn exercised as of September 30, 2008. If not exercised, all 609,500 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 4,305,000 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, 609,000 of the options granted in 2007 were exercised. During the nine months ended September 30, 2008, 113,000 stock options were exercised. As of September 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 September 30, 2008, employees held 4,170,000 options of the options granted in 2007, of which 3,707,074 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, 32,000 have vested.

For the nine months ended September 30, 2008 and 2007, the Company recorded $404,697 and $1,169,437 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 September 30, 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 September 30, 2008, the Company has valued the investment at $4,000, resulting in an unrealized loss of $396,000.

4. Fair Value

SFAS 157 establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices (unadjusted) or identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing and asset or liability.

Assets measured at fair value are summarized below:

		Fair Value Measurements at September 30, 20		
	September 30, 2008	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Sig Unob I (L
I Investment in 247MGI	$ 4,000	$ 4,000	--	

5. Accounts Payable

During the second 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.

6 Commercial Loans Due to UCB

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

Asset based financing	$ 23,999,797
Additional loan	1,495,440
Total	$ 25,495,237

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.

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. During the 3rd quarter, the bank issued a Letter of Credit to one of the Company's suppliers for $1.5 million. At September30, 2008, the total balance of the loan due to UCB was $25,495,237.

7. 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 September 30, 2008, the Company owed Gateway $2,049,064. 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.

8. Short Term Loan

During the quarter, a third party individual provided $557,082 on the Company's behalf, which served as the deposit required for the Company to post a letter of credit and obtain finished goods from a vendor. The individual, who has had no other dealings with the Company and is not a shareholder, is affiliated with the vendor manufacturing the goods, and agreed to post the deposit required for the letter of credit. The entire amount of $557,082 was still outstanding at September 30,2008. The individual received no collateral for his deposit, and will be repaid his principal plus a weekly fee. There is no designated interest rate on the loan.

9 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.

On August 4, 2008, during the Company's 2007 annual meeting, the Company's shareholders voted to increase the number of authorized shares to 200,000,000 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 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.

During the nine months ended September 30, 2008, 288,000 shares were issued to employees exercising stock option, 5,900,00 shares were issued to a vendor in leiu of payment, and 2,750,000 shares were issued to Urmstrom Capital as payment for preferred stock.

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 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.

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 restricted common shares. The shares were issued by the Company on August 14, 2008. 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.

10. Income Taxes

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

	Year Ended 12/31/2006	Year Ended 12/31/2007	Nine Months Ended 9/30/2008

Current:			
Federal	$ 1,000	$ 515,000	$ 623,000
State	52,000	324,000	125,000
Total	53,000	839,000	748,000
Deferred:			
Federal	--	(1,038,000)	(150,000)
State	--	(165,000)	(34,000)
Total	--	(1,203,000)	(184,000)
Total	$ 53,000	$ (364,000)	$ 564,000

Components of deferred income taxes as of:

	12/31/2006	12/31/2007	9/30/2008
Net operating loss carryforwards	$ 1,310,000	$ --	$ --
Depreciation	288,000	214,000	202,000
Reserves and allowances	214,000	442,000	682,000
Shares-based compensation	--	444,000	441,000
State income taxes	69,000	103,000	62,000
Total deferred tax assets	1,881,000	1,203,000	1,387,000
Valuation allowance	(1,881,000)	--	--
Net deferred tax assets	$ --	$ 1,203,000	$ 1,387,000

Reconciliation of federal income tax rate:

	Year Ended 12/31/2006	Year Ended 12/31/2007	Nine Months Ended 9/30/2008
Federal statutory rate	34.0%	34.0%	34.0%
Stock-based compensation	33.0%	9.5%	12.6%
State income taxes	6.5%	3.6%	5.6%
Non-deductible expenses	2.9%	0.6%	1.6%
Change in valuation allowance	-67.2%	-60.0%	0.0%
Other	0.8%	0.0%	-2.1%
Effective tax rate	10.0%	-12.3%	51.7%

11 Significant Concentrations

a. Customers

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

	Three Months Ended September 30,		
	2008	%	2007
Revenues:			
Distributors	$ 20,998,180	71.22	$ 15,997,750
Retailers	7,868,246	26.69	14,652,522
Others	615,513	2.09	2,784,912
Total	$ 29,481,939	100.00	$ 33,435,184

	Nine Months Ended September 30,		
	2008	%	2007
Revenues:			
Distributors	$ 56,659,381	65.52	$ 42,134,450
Retailers	24,796,222	28.68	23,420,813
Others	5,016,611	5.80	6,773,426
Total	$ 86,472,214	100.00	$ 72,328,689

During the three months ended September 30, 2008 and 2007, the Company offered price protection to certain customers under specific programs aggregating $ 428,536 and $299,853 respectively, which reduced net revenues and accounts receivable accordingly.

During the nine months ended September 30, 2008 and 2007, the Company offered price protection to certain customers under specific programs aggregating $1,159,208 and $840,005 respectively, which reduced net revenues and accounts receivable accordingly.

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

During the three months ended September 30, 2007, the Company had one customer that accounted for more than 10% of net revenues during the quarter.

Customer	Revenues
Office Max	$8,207,597

b. Geographic Segments

Financial information by geographic segments is summarized as follows:

	Three Months Ended September 30,				
		2008	%		2007
Gross revenues:					
United States	$	15,971,149	54.17	$	25,048,776
Canada		2,293,622	7.78		3,651,806
Central and South America		11,231,552	38.10		1,993,723
Others		(14,384)	(.05)		2,740,879
Total	$	29,481,939	100.00	$	33,435,184

	Nine Months Ended September 30,				
		2008	%		2007
Gross revenues:					
United States	$	50,264,710	58.13	$	53,772,219
Canada		2,280,430	2.64		7,367,771
Central and South America		33,141,321	38.33		7,193,625
Asia and Others		785,753	00.90		3,995,074
Total	$	86,472,214	100.00	$	72,328,689

	Three Months Ended September 30,				
		2008	%		2007
Revenues:					
Computer Parts and Peripherals	$	25,294,205	85.80	$	14,340,348
Consumer Electronics		4,130,370	14.01		19,032,619
VoIP					21,557

Furniture		57,364	0.19	40,660
Total	$	29,481,939	100.00 $	33,435,184

		Nine Months Ended September 30,		
		2008	%	2007
Revenues:				
Computer Parts and Peripherals	$	71,028,384	82.14 $	38,115,666
Consumer Electronics		15,213,975	17.59	34,088,058
VoIP				65,823
Furniture		229,855	0.27	59,142
Total	$	86,472,214	100.00 $	72,328,689

d. Suppliers

As of September 30, 2008, no more than 28% 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 24% 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 September 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 September 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 nine months ended September 30, 2008, the Company earned $527,138 or

$0.01 per share before dividends on preferred stock

For the nine months ended September 30, 2007, The Company earned $3,382,981, or ..06 per share before dividends on preferred stock.

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, 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.

During 2008, the Company had its lending limits cut as a result of the global "credit crunch". As of September 30, 2008, the Company's ABL line with UCB had a limit of $24,000,000. UCB also extended further credit to the Company of $1,500,000. As of September 30, 2008, the Company's borrowings from UCB were at the maximum levels.

At September 30, 2008, the Company also owed $2,049,064 to Gateway Trade Finance, and $557,082 to an individual. See footnotes 7 and 8 for more details.

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.

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. 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 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 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:

Three Months Ended September 30, 2008 and 2007:

Net Revenues. Net revenues decreased by $3,953,245 or 11.8%, to $29,481,939 in the three months ended September 30, 2008, as compared to $33,435,184 in 2007. The decrease in revenues was mainly due to reduced sales in the United States, resulting from the poor economy and the Company's reducing its credit risk.

Additionally, the Company was unable to purchase some goods due to its credit limits being decreased by lenders..

Gross Margin. Gross margin was $5,390,397 or 18.3% in 2008, as compared to $3,630,362 or 10.9% in 2007. The large increase in gross margin has two causes. First, due to the current economic climate, the Company has cut out all marketing and sales promotion expenses. The Company feels that in the current climate, with sales prices and margins squeezed as they currently are, the Company is unwilling to spend any funds on promotions. Secondly, the Company has employed a logistics Company to coordinate movement of the Company's products throughout the world, including the initial purchases of goods from Asia. The corresponding savings in transportation costs reduced the landed costs of the goods and increased the gross margin on sales.

Sales and Marketing Expenses. Selling and marketing expenses were $896,805 in 2008, as compared to $ (315,296) in 2007. The Company began using outside sales reps to open new markets in 2006, and as the sales have grown, the commissions grew. 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. The negative expense in 2007 resulted from a $1,100,000 one time concession the Company was able to negotiate from one of its suppliers.

General and Administrative Expenses. General and administrative expenses increased by $1,194,483 to $2,944,906 in the quarter ended September 30, 2008, as compared to $1,750,423 in 2007. There are several reasons for the increase. The Company incurred penalties during the quarter of almost $300,000 due to late shipments to big box retailers in the US. Additionally, costs relating to the Company's proxy statement, annual meeting and shareholder vote were not incurred in 2007, and the Company's search for additional third party financing has been expensive,.

Bad Debts. The Company recorded a provision for doubtful accounts of $346,419 in the three months ended September 30, 2008, and $20,635 for the three months ended September 30, 2007. The provision has increased substantially as the Company's revenues have grown. During the quarter, the Company began using credit insurance to hedge against bad debts, as the Company has had trouble collecting from some smaller independent accounts during 2008. The Company believes the bad debts are reasonable at approximately 1% of revenues during the quarter. With the insurance policy in place during the third quarter, the Company's credit risk has been substantially reduced.

Depreciation and Amortization. Depreciation and amortization of property and equipment was $5,417 for the three months ended September 30, 2008, as compared to $27,107 for the three months ended September 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 $1,196,850 for the three months ended September 30, 2008, as compared to $2,021,233 for the three months ended September 30, 2007 This is a result of the large increase in operating expenses described above.

Miscellaneous Income (Loss). The miscellaneous income (loss) for the three months ended September 30, 2008 was a loss of $417,415. That was due to a $396,000 unrealized loss on investment in 247MGI which was marked-to-market. Miscellaneous income was a loss of $6,399 for the three months ended September 30, 2007.

Interest Income. Interest income was $20 for the three months ended September 30, 2008, as compared to $18,037 for the three months ended September 30, 2007. The decrease 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 $490,139 for the three months ended September 30, 2008. Interest expense was $440,277 for the three months ended September 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 September 30, 2008 is $290,000, as compared to $78,379 for the three months ended September 30, 2007. The increased provision, despite lower earnings, is due to the Company no longer having any loss carry forwards to offset income.

Deferred Income Tax Benefit/ (Expense): The deferred income tax benefit (expense) was ($135,000) for the three months ended September 30, 2008. This is a result of timing differences between GAAP income and taxable income.

Net Income (loss). Net income (loss) was $22,640 for the three months ended September 30, 2008, as compared to $2,441,113 for the three months ended September 30, 2007.

Nine Months Ended September 30, 2008 and 2007:

Net Revenues. Net revenues increased by $14,143,525 or 19.55%, to $86,472,214 in the nine months ended September 30, 2008, as compared to $72,328,689 in 2007. The increase in revenues was mainly due to strong US sales in the first six months, and several new accounts opened during the first half of the year. The third quarter of 2008 was the first quarter in almost two years that the Company did post a year over year revenue increase of at least 40%.

Gross Margin. Gross margin was $13,482,583 or 16.0% in 2008, as compared to $10,041,650 or 14.0% in 2007. Gross margins increased on a percentage basis as the Company drastically cut all promotion and marketing costs. Additionally, gross margins were helped as the Company increased its business in Latin America, where the margins are better than on US sales.

Sales and Marketing Expenses. Selling and marketing expenses increased by $1,064,377 to $2,464,819 in 2008, as compared to $1,400,442 in 2007. The increase is due completely to the continued use of outside sales reps during the period. The Company began using outside sales reps to open new markets in 2006, and as the sales have grown, the commissions grew. 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. However, these costs must be monitored carefully as margins and prices shrink in difficult economic circumstances.

General and Administrative Expenses. General and administrative expenses increased by $938,720 to $6,435,515 in 2008, as compared to $5,496,795 in 2007. There are several reasons for the increase. First, royalties to Honeywell are being booked as expenses in 2008, whereas they were booked as prepayments in 2007. The Company also incurred penalties of almost $300,000 due to late shipments to big box retailers in the US. Third, costs relating to RMA and repair of goods has increased as sales have increased, and lastly, the cost of funding the Company's operations has increased significantly. Although those costs are primarily interest related, there are several fees relating to those costs that are booked to SG&A expenses.

Future quarters will see rental expense will rise significantly. On November 3, 2008, the Company moved 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 $1,527,546 for the nine months ended September 30, 2008, and $278,042 for the nine months ended September 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 year. The problem began in the first quarter, and 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 buying credit insurance when management has deemed that the prudent course of action. .

Depreciation and Amortization. Depreciation and amortization of property and equipment was $30,581 for the nine months ended September 30, 2008, as compared to $68,161 for the nine months ended September 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 $3,024,122 for the nine months ended September 30, 2008, as compared to $2,798,210 for the nine months ended September 30, 2007. This is a result of the increased revenues and gross margins described above.

Miscellaneous Income. The miscellaneous income for the nine months ended September 30, 2008 amounted to $65,602. Miscellaneous income was $139,888 for the nine months ended September 30, 2007. The difference is due to less income earned on foreign currency exchange as a result of transactions done in Canadian dollars.

Interest Income. Interest income was $12,490 for the nine months ended September 30, 2008, as compared to $66,831 for the nine months ended September 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 $1,615,076 for the nine months ended September 30, 2008. Interest expense was $822,158 for the nine months ended September 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 $748,000 in 2008, as compared to $271,239. The provision is now necessary as net operating loss carry forwards will no longer offset the Company's tax liabilities.

Deferred Income Tax Benefit/ (Expense): The deferred income tax benefit (expense) was $184,000 for the nine months ended September 30, 2008. This is a result of timing differences between GAAP income and taxable income. The deferred income tax benefit was $1,471,449 for the nine months ended September 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 $527,138 for the nine months ended September 30, 2008, as compared to $3,382,981 for the nine months ended September 30, 2007.

Financial Condition - September 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-erm 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 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.

Operating Activities. The Company utilized cash of $2,326,376 from operating activities during the nine months ended September 30, 2008, as compared to utilizing cash of $17,444,944 in operating activities during the nine months ended September 30, 2007.

At September 30, 2008, the Company had cash and cash equivalents of $44,186, as compared to $1,848,249 at December 31, 2007.

The Company had working capital of $14,350,587 at September 30, 2008, as compared to working capital of $6,894,614 at December 31, 2007, resulting in current ratios of 1.35:1 and 1.16:1 at September 30, 2008 and December 31, 2007, respectively.

Accounts receivable increased to $43,309,525 at September 30, 2008, as compared to $27,123,985 at December 31, 2007, an increase of $16,185,540. The Company's provision for doubtful accounts was $933,040 as of September 30, 2008.

Inventories decreased to $8,358,053 at September 30, 2008, as compared to $12,221,265 at December 31, 2007, a decrease of $3,683,213. Inventory in transit was $668,168 at September 30, 2008.

Accounts payable decreased to $10,770,431 at September 30, 2008, as compared to $14,336,196 at December 31, 2007, a decrease of $3,565,765. During the year, 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 $217,707 at September 30, 2008, as compared to $789,526 at December 31, 2007, a decrease of $571,819.

Commercial loans due to UCB increased to $25,495,237 at September 30, 2008 from $27,824,490 at December 31, 2007. See footnote 6 for more information.

Due to Gateway Trade Finance was $2,049,064 at September 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 September 30, 2008, is as follows:

Contractual Cash Obligations	Less than 1 year	2-3 years	4-5 years	Over 5 years
Operating Leases	$ 236,119	$ 909,632	$1,047,916	$ 122,322
Advances from Directors	N/A	N/A	N/A	N/A
Notes Payable/ Short Term Loan	$ 557,082	N/A	N/A	N/A
Purchase Commitments	$ 668,168	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	$ 122,322

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 $469,000 in 2008. Although the Company signed the agreement in 2007 and no sales of Honeywell branded products were made in 2007, $353,000 in royalties were paid to Honeywell International Inc. in 2007, and $330,000 has been paid so far 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:

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 the Company added a footnote to the financial statements regarding the investment in 247MGI to comply with 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 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.

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

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 September 30, 2008 were primarily short-term in nature. As of September 30, 2008, The Company does not have any long-term debt. However, the Company does have $25,495,237 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

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 September 30, 2008 properly reflect the Company's financial position.

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 September 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 September 30, 2008 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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 tortuous 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, tortuous 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.

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.

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: November 11, 2008	By: /s/ Ming Tung Chok Ming Tung Chok President and Chief Executive Officer
DATE: November 11, 2008	By: /s/ Nancy Chu Nancy Chu Chief Financial Officer
DATE: November 11, 2008	By /s/ Jay Schrankler Name: Jay Schrankler Title: Director
DATE: November 11, 2008	By /s/ Chung Chin Keung Name: Chung Chin Keung Title: Director
DATE: November 11, 2008	By /s/ Henry Song Name: Henry Song Title: Director

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 August 10, 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