SYSVIEW TECHNOLOGY, INC.
Form 10QSB
August 07, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

# FORM 10-QSB

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

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 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: 000-25839

SYSVIEW TECHNOLOGY, INC.
(Exact name of registrant as specified in its charter)

| | |
|---|---|
| DELAWARE | 59-3134518 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S.Employer Identification Number) |

1772 TECHNOLOGY DRIVE
SAN JOSE, CALIFORNIA 95110
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES, ZIP CODE)

408-436-9888 EXT. 207
(REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE)

Check whether the issuer (1) 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 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 a shell company (as defined in Rule 12b-2 of the Act). Yes |_| No |X|

The number of shares of Common Stock outstanding as of July 31, 2007 was 21,873,019.

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Transitional Small Business Disclosure Format (check one): Yes |_| No |X|

SPECIAL NOTE ON FORWARD LOOKING STATEMENTS

This Quarterly Report on Form 10-QSB, including "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 2 of Part I of this report include forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance, or achievements expressed or implied by forward-looking statements.

In some cases, you can identify forward-looking statements by terminology such as "may," "should," "expects," "plans," "anticipates," "believes," "estimates," "predicts," "potential," "proposed," "intended," or "continue" or the negative of these terms or other comparable terminology. You should read statements that contain these words carefully, because they discuss our expectations about our future operating results or our future financial condition or state other "forward-looking" information. There may be events in the future that we are not able to accurately predict or control. Before you invest in our securities, you should be aware that the occurrence of any of the events described in this Quarterly Report could substantially harm our business, results of operations and financial condition, and that upon the occurrence of any of these events, the trading price of our securities could decline and you could lose all or part of your investment. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, growth rates, levels of activity, performance or achievements. We are under no duty to update any of the forward-looking statements after the date of this Quarterly Report to conform these statements to actual results.



PART I. FINANCIAL INFORMATION

ITEM 1 - FINANCIAL STATEMENTS

SYSVIEW TECHNOLOGY, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS)

| | JUNE 30, 2007 | DECEMB 200 |
|---|---|---|
| ASSETS | (Unaudited) | (Audi |
| Current assets: | | |
| Cash and cash equivalents | $ 772 | $ 1, |
| Trade receivables | 2,912 | 1, |
| Inventories | 1,477 | 1, |
| Prepaid expenses and other current assets | 117 | |
| TOTAL CURRENT ASSETS | 5,278 | 4, |
| Fixed assets, net | 154 | |
| Long-term investment | 160 | |
| TOTAL ASSETS | $ 5,592 | $ 5, |

| | | |
|---|---|---|
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Bank line of credit | $ 1,513 | $ 1, |
| Trade payables to related parties | 364 | |
| Trade payables | 452 | |
| Other payables and accruals | 323 | |
| Accrued dividends on Series A 5% cumulative convertible preferred stock | 191 | |
| TOTAL CURRENT LIABILITIES | 2,843 | 2, |
| Other liabilities: | | |
| Liability under derivative contracts | 266 | |
| TOTAL LIABILITIES | 3,109 | 3, |
| Commitments and contingencies (Note 9) | | |
| Convertible preferred stock, $.001 par value, 2,000 authorized: | | |
| Series A 5% cumulative convertible preferred stock, 15 and 16 shares issued and outstanding at June 30, 2007 and December 31, 2006, respectively; liquidation value of $1,539 and $1,565 at June 30, 2007 and December 31, 2006, respectively | 1,187 | |
| Series B convertible preferred stock, 11.5 shares issued and outstanding at June 30, 2007 and December 31, 2006; liquidation value of $1,150 at June 30, 2007 and December 31, 2006 | 342 | |
| Stockholders' equity: | | |
| Common stock $.001par value, 50,000 authorized, 22,373 shares issued and 21,873 outstanding at June 30, 2007 and 24,642 shares issued and 24,142 outstanding at December 31, 2006 (500 shares held in escrow) | 22 | |
| Additional paid-in capital | 30,767 | 29, |
| Accumulated deficit | (29,835) | (28, |
| TOTAL STOCKHOLDERS' EQUITY | 954 | |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | $ 5,592 | $ 5, |

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



SYSVIEW TECHNOLOGY, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

| | THREE MONTHS ENDED JUNE 30, | | SIX MONTHS END |
|---|---|---|---|
| | 2007 | 2006 | 2007 |

| | | | |
|---|---|---|---|
| NET SALES | $ 3,696 | $ 2,539 | $ 7,823 |
| COST OF SALES | 2,150 | 1,660 | 4,634 |
| GROSS PROFIT | 1,546 | 879 | 3,189 |
| Operating expenses: | | | |
| Selling and marketing | 362 | 300 | 762 |
| General and administrative | 613 | 679 | 1,528 |
| Research and development | 749 | 469 | 1,526 |
| TOTAL OPERATING EXPENSES | 1,724 | 1,448 | 3,816 |
| OPERATING LOSS | (178) | (569) | (627) |
| OTHER INCOME (EXPENSE) | | | |
| Change in fair value of derivative instruments | 331 | (518) | (37) |
| Other | 11 | (25) | 20 |
| TOTAL OTHER INCOME (EXPENSE) | 342 | (543) | (17) |
| Net income (loss) before income taxes | 164 | (1,112) | (644) |
| Provision for income taxes | 2 | -- | 2 |
| Net income (loss) | 162 | (1,112) | (646) |
| Dividend on Series A and accretion of Series A and Series B preferred stock redemption value | (243) | (147) | (484) |
| NET LOSS AVAILABLE TO COMMON STOCKHOLDERS | $ (81) | $ (1,259) | $ (1,130) |
| NET LOSS PER COMMON SHARE - BASIC AND DILUTED | $ (0.00) | $ (0.05) | $ (0.05) |
| WEIGHTED AVERAGE COMMON SHARES OUTSTANDING - BASIC AND DILUTED | 21,805 | 24,092 | 22,815 |

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



SYSVIEW TECHNOLOGY, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
(IN THOUSANDS)

SIX MONTHS ENDED

| | JUNE 30, 2007 | JUNE 30, 2006 |
|---|---|---|
| OPERATING ACTIVITIES | | |
| Net loss available to common stockholders | $(1,130) | $(1,679) |
| Adjustments to reconcile net loss to net cash used by operating activities: | | |
| Depreciation expense | 21 | 22 |
| Stock-based compensation cost - options | 1,080 | 642 |
| Fair value of warrants issued for services rendered | 8 | -- |
| Change in fair value of derivative instruments | 38 | 310 |
| Accretion of Series A and Series B preferred stock redemption value | 440 | 258 |
| Changes in operating assets and liabilities: | | |
| Trade receivables | (1,099) | 400 |
| Inventories | 165 | (127) |
| Prepaid expenses and other current assets | (44) | (30) |
| Accrued dividends on Series A 5% cumulative convertible stock | 44 | 37 |
| Trade payables to related parties | (588) | 34 |
| Trade payables and other current liabilities | 71 | (10) |
| CASH USED BY OPERATING ACTIVITIES | (994) | (143) |
| INVESTING ACTIVITIES | | |
| Capital expenditures | (67) | (215) |
| CASH USED BY INVESTING ACTIVITIES | (67) | (215) |
| FINANCING ACTIVITIES | | |
| Advances on bank line of credit | 500 | -- |
| CASH PROVIDED BY FINANCING ACTIVITIES | 500 | -- |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | (561) | (358) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD | 1,333 | 1,426 |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | $ 772 | $ 1,068 |
| NON-CASH INVESTING AND FINANCING ACTIVITIES: | | |
| Common stock acquired from related party | $ 2 | $ -- |
| Conversion of series A 5% cumulative convertible preferred stock to common stock | $ 26 | $ -- |

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

SYSVIEW TECHNOLOGY, INC
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (UNAUDITED)

NOTE 1 - BACKGROUND AND BASIS OF PRESENTATION

ORGANIZATION

Sysview Technology, Inc. ("Sysview" or "Company") develops, designs and delivers various imaging technology solutions to all types and sizes of enterprises including governmental agencies, large corporations, small corporations, small office-home offices ("SOHO"), professional practices as well as consumers (referred to herein collectively as "Enterprises"). Sysview is a market-leader in providing USB-powered scanning solutions to a wide variety of industries and market applications. The Company's patented and proprietary page-imaging devices facilitate the way information is stored, shared and managed in both business and personal use. In addition, Sysview is involved in the research and development of certain technologies related to the field of high definition ("HD") display.

Syscan, Inc., the Company's wholly-owned subsidiary, was incorporated in California in 1995 to develop and manufacture a new generation of contact image sensors ("CIS") that are complementary metal-oxide-silicon ("CMOS") imaging sensor devices. During the late 1990s, the Company established many technical milestones and was granted numerous patents for its linear imaging technology. The Company's patented CIS and mobile imaging scanner technology provides high quality images at extremely low power consumption levels allowing delivery of compact scanners in a form ideally suited for laptop or desktop computer users who need a small light weight device to scan or fax documents.

The Company's business model was developed around intellectual property ("IP") driven products sold primarily to original equipment manufacturers ("OEM"), private label brands and value added resellers ("VAR") and can be found in a variety of applications, including but not limited, to the following:

- Document and information management;
- Identification card scanners;
- Passport security scanners;
- Bank note and check verification;
- Business card readers;
- Barcode scanning; and
- Optical mark readers used in lottery terminals.

BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements of Sysview have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and the instructions to Form 10-QSB and Article 10 of Regulation S-X. Accordingly, they do not include all information and disclosures necessary for a presentation of the Company's financial position, results of operations, and cash flows in conformity with accounting principles generally accepted in the United States ("GAAP").

In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position, results of operations and cash flows for all periods presented have been made. Preparing financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses. Actual results may differ from these estimates. The results of operations for the period ended June 30, 2007 are not necessarily indicative of the operating results that may be expected for the entire year ending December 31, 2007. The interim financial statements should be read in conjunction with the financial statements in the Company's Annual Report on Form 10-KSB for the year ended December 31, 2006, filed with the Securities and Exchange Commission ("SEC") on April 3, 2007.

The consolidated financial statements include the accounts of Sysview and its subsidiaries. All significant intercompany transactions and balances have been eliminated.





Certain accounts have been reclassified to conform to the current period presentation. Such reclassifications did not affect total net sales, operating loss or net loss available to common stockholders.

NOTE 2 - RECENT ACCOUNTING PRONOUNCEMENTS

In February 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standard ("SFAS") 155, ACCOUNTING FOR CERTAIN HYBRID FINANCIAL INSTRUMENTS - AN AMENDMENT OF FASB STATEMENTS 133 AND 140, ("SFAS 155"). SFAS 155 permits interests in hybrid financial instruments that contain an embedded derivative that would otherwise require bifurcation to be accounted for as a single financial instrument at fair value, with changes in fair value recognized in earnings. This election is permitted on an instrument-by-instrument basis for all hybrid financial instruments held, obtained, or issued as of the adoption date. Sysview adopted SFAS 155 on January 1, 2007 and will apply the standard to any new hybrid financial instruments issued subsequent to January 1, 2007. However, as allowed by paragraph 4(c) of SFAS 155, Sysview did not elect to apply SFAS 155 to previously existing hybrid financial instruments including the Company's Series A 5% cumulative convertible preferred stock ("Series A Stock") and Series B Convertible Preferred Stock ("Series B Stock"). As such, the adoption of SFAS 155 had no impact to the Company's consolidated financial position, results of operations or cash flows.

In June 2006, the FASB issued Interpretation 48, ACCOUNTING FOR UNCERTAINTY IN INCOME TAXES -- AN INTERPRETATION OF FASB STATEMENT NO. 109 ("FIN 48"), which clarifies the accounting for uncertainty in tax positions. This Interpretation requires that the Company recognize in its financial statements the impact of a tax position if that position will more likely than not be sustained on audit, based on the technical merits of the position. Sysview adopted FIN 48 on January 1, 2007. The adoption had no impact to the Company's consolidated financial position, results of operations or cash flows.

In September 2006, the FASB issued SFAS 157, FAIR VALUE MEASUREMENTS ("SFAS 157"), which provides guidance about how to measure assets and liabilities that use fair value. SFAS 157 will apply whenever another US Generally Accepted Accounting Principle ("GAAP") standard requires (or permits) assets or liabilities to be measured at fair value but does not expand the use of fair value to any new circumstances. This standard also will require additional disclosures in both annual and quarterly reports. SFAS 157 will be effective for financial statements issued for fiscal years beginning after November 15, 2007, and will be adopted by the Company January 1, 2008. The Company is currently evaluating the potential impact this standard may have on its consolidated financial position, cash flows and results of operations, but does not believe the impact of the adoption will be material.

In February 2007, the FASB issued SFAS 159, THE FAIR VALUE OPTION FOR FINANCIAL ASSETS AND FINANCIAL LIABILITIES-INCLUDING AN AMENDMENT OF FASB STATEMENT NO. 115 ("SFAS 159"). SFAS 159 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, with unrealized gains and losses related to these financial instruments reported in earnings at each subsequent reporting date. SFAS 159 will be effective for financial statements issued for fiscal years beginning after November 15, 2007, and will be adopted by the Company January 1, 2008. The Company does not expect the adoption of SFAS 159 to result in a significant impact on its consolidated financial position, cash flows and results of operations.

Other recent accounting pronouncements issued by the FASB (including its Emerging Issues Task Force ("EITF")), the American Institute of Certified Public Accountants ("AICPA"), and the SEC did not or are not believed by management to have a material impact on the Company's present or future financial statements.





NOTE 3 - RELATED-PARTY TRANSACTIONS

RELATED-PARTY PURCHASES

The Company purchases the majority of its finished scanner imaging products from Syscan Lab Limited ("SLL"), a wholly-owned subsidiary of Syscan Technology Holdings Limited ("STH"), the parent company of Sysview's majority stockholder. The Company's Chairman and CEO, Darwin Hu, was formerly the CEO of STH. He resigned from STH effective December 2004.

Purchases from SLL totaled $2,143,000 and $4,321,000 for the three and six months ended June 30, 2007, respectively and $1,845,000 and $3,254,000 for the three and six months ended June 30, 2006, respectively. All purchases from SLL were carried out in the normal course of business. As a result of these purchases, the Company was liable to SLL for $364,000 and $952,000 at June 30, 2007 and December 31, 2006, respectively.

COMMON STOCK ACQUIRED FROM RELATED PARTY

On March 21, 2007, the Company entered into an agreement with STH whereby the Company agreed to forego any further collection efforts, including legal action, related to loans that were previously made by the Company to STH, which were never repaid by STH. In exchange, STH agreed to the cancellation of 2,600,000 shares of the Company's common stock beneficially owned by STH. In addition, both parties mutually agreed to release and discharge any and all claims that each may have against the other party. The stock certificates were subsequently cancelled by the Company's transfer agent. The Company recorded the stock acquisition as a decrease to common stock with the corresponding offset to additional paid in capital during the first quarter of fiscal 2007.

NOTE 4 - CONCENTRATION OF CREDIT RISK AND MAJOR CUSTOMERS

Financial instruments that subject the Company to credit risk are cash balances maintained in excess of federal depository insurance limits and trade receivables.

CASH AND CASH EQUIVALENTS

The Company maintains cash balances at several banks. Accounts at each institution are insured by the Federal Deposit Insurance Corporation ("FDIC") up to $100,000. As of June 30, 2007, the Company had consolidated balances of approximately $469,000, which were not guaranteed by the FDIC. The Company has not experienced any losses in such accounts and believes the exposure is minimal.

MAJOR CUSTOMERS AND TRADE RECEIVABLES

A relatively small number of customers account for a significant percentage of the Company's sales. The percentage of sales derived from significant customers is as follows:

| | THREE MONTHS ENDED JUNE 30, | | SIX MONTHS ENDED JUNE 30, | |
|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 |
| Customer A | 24% | 37% | 28% | 37% |
| Customer B | 13 | 29 | 18 | 15 |
| Customer C | 12 | 4 | 14 | 19 |
| Customer D | 13 | - | 11 | - |
| Customer E | 12 | - | 6 | - |
| Customer F | 11 | 12 | 8 | 10 |

Trade receivables from these customers totaled $2,602,000 at June 30, 2007. As of June 30, 2007 all the Company's trade receivables were unsecured.

NOTE 5 - CONCENTRATION OF SUPPLIER RISK

The Company purchases substantially all finished scanner imaging products from one vendor that is also a wholly-owned subsidiary of the parent company of its majority stockholder. See Note 3. If this vendor became unable to provide materials in a timely manner and the Company was unable to find alternative vendors, the Company's business, operating results and financial condition would be materially adversely affected.





NOTE 6 - EMPLOYEE EQUITY INCENTIVE PLANS

STOCK-BASED COMPENSATION

Sysview has several stock-based employee compensation plans, which are more fully described in the Company's 2006 Annual Report on Form 10-KSB.

Effective January 1, 2006 Sysview adopted the fair value recognition provisions of SFAS 123R, SHARE-BASED Payments ("SFAS 123R"), using the modified prospective application method. Under this transition method, compensation cost recognized for the three and six months ended June 30, 2007 and 2006, includes the applicable amounts of: (a) compensation expense of all stock-based payments granted prior to, but not yet vested as of January 1, 2006 (based on the grant-date fair value estimated in accordance with the original provisions of SFAS 123 and the Accounting Principles Board ("APB") 25, ACCOUNTING FOR STOCK ISSUED TO EMPLOYEES ("APB 25")), and (b) compensation expense for all stock-based payments granted subsequent to January 1, 2006 (based on the grant-date fair value estimated in accordance with the new provisions of SFAS 123R).

The following table sets forth the total stock-based compensation expense included in the Condensed Consolidated Statements of Operations (IN THOUSANDS):

| | THREE MONTHS ENDED JUNE 30, | | SIX MONTHS ENDED JUNE 30, | |
|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 |
| Selling and marketing | $ 19 | $ 14 | $ 92 | $ 25 |
| General and administrative | 130 | 290 | 638 | 561 |
| Research and development | 117 | 43 | 350 | 56 |
| Total | $266 | $347 | $ 1,080 | $642 |

At June 30, 2007, the Company had approximately $1,210,000 of total unrecognized compensation cost related to stock options. This cost is expected to be recognized over a weighted-average period of approximately 20 months.

STOCK OPTIONS

The following table summarizes stock option activity and related information for the six months ended June 30, 2007:

| | OPTIONS | WEIGHTED-AVERAGE EXERCISE PRICE |
|---|---|---|
| Outstanding at December 31, 2006 | 4,890,000 | $0.18 |
| Granted | 3,036,000 | 0.70 |
| Exercised | (300,000) | (0.01) |
| Cancelled | (83,450) | (0.67) |
| Outstanding at June 30, 2007 | 7,542,550 | $0.39 |

The following table summarizes all options outstanding and exercisable by price range as of June 30, 2007:

| | OPTIONS OUTSTANDING | | | OPTIONS |
|---|---|---|---|---|
| RANGE OF EXERCISE PRICES | NUMBER OUTSTANDING | WEIGHTED-AVERAGE REMAINING CONTRACTUAL LIFE (YEARS) | WEIGHTED-AVERAGE EXERCISE PRICE | NUMBER EXERCISABLE |
| $0.01 | 3,696,550 | 4.82 | $0.01 | 3,696,550 |
| $0.65 - $0.70 | 3,186,000 | 9.68 | $0.70 | 1,042,833 |
| $1.01 | 660,000 | 8.89 | $1.01 | 303,333 |

NOTE 7 - BASIC AND DILUTED NET INCOME (LOSS) PER COMMON SHARE

Basic net income (loss) per common share is computed by dividing net income (loss) by the weighted average number of shares of common stock outstanding during the period. Diluted net income (loss) per common share is computed by dividing net loss by the weighted average number of shares of common stock and common stock equivalents outstanding during the period. Common stock equivalents were not considered in calculating the Company's diluted net loss per common share for the three and six months ended June 30, 2007 and 2006 as their effect would be anti-dilutive. As a result, for all periods presented, the Company's basic and diluted net loss per common share is the same.

NOTE 8 - EQUITY

COMMON STOCK ACTIVITY

As previously discussed in Note 3, the Company acquired 2,600,000 shares of the Company's common stock during the first quarter of fiscal 2007. The Company's transfer agent subsequently cancelled the shares.

On April 12, 2007, the Company issued 300,000 shares of common stock upon the exercise of employee stock options by the Company's principal officers in a cashless exercise.
..

On June 22, 2007, the Company issued 30,927 shares of common stock resulting from the conversion of $26,500 (265 shares) of Series A 5% cumulative convertible preferred stock ("Series A Stock") and the related accrued dividend shares of 4,427 as discussed below.

PREFERRED STOCK ACTIVITY

SERIES A 5% CUMULATIVE CONVERTIBLE PREFERRED STOCK

On June 22, 2007, 265 shares of Series A Stock ($26,500) and the related accrued dividend shares of 4,427 were converted into 30,927 shares of common stock.

SERIES B CONVERTIBLE PREFERRED STOCK

The Company had no Series B Convertible Preferred Stock ("Series B Stock") activity during the six months ended June 30, 2007.



SYSVIEW TECHNOLOGY, INC
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (UNAUDITED)

SERIES A STOCK DIVIDENDS

The Company's Series A Stock accrues cumulative dividends at a rate of five percent per annum, payable semiannually on July 1 and January 1. Dividends are payable in cash, by accretion of the stated value or in shares of common stock. Subject to certain terms and conditions, the decision whether to accrete dividends to the stated value of the Series A Stock or to pay for dividends in cash or in shares of common stock, is at the Company's discretion. To date, the Company has not paid any cash dividends. During the three and six months ended June 30, 2007, Series A Stock dividends were approximately $23,000 and $44,000, respectively. During the three and six months ended June 30, 2006, Series A Stock dividends were approximately $17,000 and $37,000, respectively. Series A Stock dividends are included as a non-operating expense on the Company's consolidated statement of operations.

PREFERRED STOCK ACCOUNTING TREATMENT

Pursuant to SFAS 133, ACCOUNTING FOR DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES ("SFAS 133"), and EITF Abstract No. 00-19, ACCOUNTING FOR DERIVATIVE FINANCIAL INSTRUMENTS ("EITF 00-19"), the Company's Series A Stock and related warrants and the Series B Stock and related warrants, are deemed derivative instruments as a result of the embedded conversion feature. Accordingly, the fair value of these derivative instruments has been recorded in the Company's consolidated balance sheet as a liability with the corresponding amount as a discount to the Series A Stock and Series B Stock, respectively. The discounts are being accreted, on a straight-line basis, from the respective issuance date through the respective redemption date adjusted for conversions and are disclosed as a non-operating expense on the Company's consolidated statement of operations. Accretion of the preferred stock redemption value, for both Series A and Series B, for the three and six months ended June 30, 2007 was approximately $220,000 and $440,000, respectively. Accretion of the Series A preferred stock redemption value for the three and six months ended June 30, 2006 was approximately $130,000 and $258,000, respectively. There was no Series B accretion during the three and six months ended June 30, 2006 as the stock was not issued until August 2006.

The increase (decrease) in the fair value of the liability for derivative contracts, for both Series A and Series B, totaled approximately ($331,000) and $37,000 for the three and six months ended June 30, 2007, respectively. The increase in the fair value of the liability for the Series A derivative contract totaled approximately $518,000 and $310,000 for the three and six months ended June 30, 2006, respectively. The offsetting adjustment to the change in the fair value of the liability for derivative contracts is disclosed with other income (expense) in the consolidated statements of operations.

The Company computes fair value of these derivatives using the Black-Scholes valuation model. The Black-Scholes model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions, including the expected stock price volatility. The Company's derivative instruments have characteristics significantly different from traded options, and the input assumptions used in the model can materially affect the fair value estimate.

The assumptions used in the Black-Scholes valuation model to estimate fair value of each derivative instrument and the resulting weighted average estimated value of the Series A Stock derivative liability and the Series B Stock derivative liability as of June 30, 2007 and 2006 are as follows:

| | JUNE 30, 2007 | JUNE 30, 2006 |
|---|---|---|
| Weighted average estimated values per share | $0.06 | $0.74 |
| Expected life in years | 3.0 | 3.0 |
| Expected volatility | 31% | 64% |
| Expected dividend yield | 0% | 0% |
| Risk free interest rate | 5.3% | 5% |





NOTE 9 - COMMITMENTS AND CONTINGENCIES

OPERATING LEASES

The Company is committed under various non-cancelable operating leases which extend through November 2011. Future minimum rental commitments as of June 30, 2007 are as follows (IN THOUSANDS):

| YEAR ENDING JUNE 30, | FUTURE MINIMUM LEASE PAYMENTS |
|---|---|
| 2008 | $ 285 |
| 2009 | 123 |
| 2010 | 1 |
| 2011 | 1 |
| Total | $ 410 |

BANK LINE OF CREDIT

The Company has a line of credit agreement ("LOC Agreement") to borrow up to

$2,500,000, bearing interest at the rate of prime (8.25% at June 30, 2007) plus 0.5% and secured by all of the assets of the Company. Interest payments are due monthly and all unpaid interest and principal is due in full on October 30, 2007. Upon certain events of default, the default variable interest rate increases to prime plus 5.5%. The Company had $987,000 available for use at June 30, 2007.

At June 30, 2007, Sysview was not in compliance with all of the LOC Agreement debt covenants. Pursuant to a waiver letter from the lender dated July 26, 2007, the lender agreed to forbear from exercising its rights and remedies with respect to existing defaults under the LOC Agreement from the date of the LOC Agreement through June 30, 2007. Although the lender redefined certain debt covenants defined by the LOC Agreement during the second quarter of fiscal 2007, the Company is working to further redefine additional debt covenants to more accurately assess the Company's financial position and results of operations.

EMPLOYMENT AGREEMENTS

The Company maintains employment agreements with its executive officers which extend through 2008. The agreements provide for a base salary, annual bonus to be determined by the Board of Directors, termination payments, stock options, non-competition provisions, and other terms and conditions of employment. In addition, the Company maintains employment agreements with other key employees with similar terms and conditions. As of June 30, 2007 termination payments totaling $484,000 are in effect.

CONSULTING AGREEMENT

The Company entered into an Investor Relations Consulting Agreement dated December 5, 2006, for a term of one year beginning January 1, 2007, payable monthly as follows: (i) $5,000 for January, February and March; (ii) $7,500 for April, May and June; (iii) $8,500 for July, August and September; and (iv) $9,000 for October, November, and December. Additionally, the Company agreed to pay the consultant 90,000 warrants with an exercise price of $0.65 per share, expiring in three years, with immediate vesting on January 1, 2007, and exercisable at the rate of 7,500 options the first day of each month during calendar 2007. In April 2007, the Company entered a separate warrant agreement that amended terms of the warrants awarded in the December 5, 2006 agreement.





Under the April 2007 agreement, the warrants shall vest 7,500 per month on the first day of each month commencing on January 1, 2007 and are immediately exercisable upon vesting. In the event the consulting agreement is terminated prior to December 1, 2007, all unvested warrants shall be immediately cancelled. The warrants will not be registered under federal or state securities laws. The fair value of these warrants, as determined by the Black-Scholes valuation model, totaled approximately $18,000 and is amortized ratably over the vesting period. As such, $4,000 and $8,000 was charged to general and administrative expense and credited to additional paid-in capital during the three and six months ended June 30, 2007, respectively.

SERIES B PREFERRED STOCK REGISTRATION RIGHTS AGREEMENT

Pursuant to the terms of a registration rights agreement ("Agreement") between the investors and the Company, the Company was obligated to file a registration statement on Form SB-2 (which was filed on October 11, 2006) registering the resale of shares of the Company's common stock issuable upon conversion of the Series B Stock and exercise of the related warrants. The Company was required to file the registration statement within 60 days following August 8, 2006 and to have the registration statement declared effective by December 6, 2006, which is 120 days following August 8, 2006. If the registration statement was not timely filed, or declared effective within the timeframe described, or if the registration was suspended other than as permitted in the Registration Rights Agreement, the Company was obligated to pay each Investor a fee equal to one percent of such investor's purchase price of the Series B Stock for each 30 day period thereafter (pro rated for partial periods), that such registration conditions are not satisfied, up to a maximum of 12 months. Because the SEC did not declare the SB-2 effective until January 18, 2007, the Company accrued approximately $7,000, included in general and administrative expense, for damages during the first quarter of fiscal 2007.

LITIGATION, CLAIMS AND ASSESSMENTS

The Company experiences routine litigation in the normal course of its business and does not believe that any pending litigation will have a material adverse effect on the Company's financial condition, results of operations or cash flows.

NOTE 10 - SEGMENT AND GEOGRAPHIC INFORMATION

SEGMENT INFORMATION

Sysview currently operates in one segment, the design, development and delivery of various imaging technology solutions, most notably scanners, as defined by SFAS 131, DISCLOSURES ABOUT SEGMENTS OF AN ENTERPRISE AND RELATED INFORMATION ("SFAS 131").

GEOGRAPHIC INFORMATION

During the three and six months ended June 30, 2007 and 2006, Sysview recorded net sales throughout the U.S., Asia and Europe as determined by the final destination of the product. The following table summarizes total net sales attributable to significant countries (IN THOUSANDS):

| | THREE MONTHS ENDED JUNE 30, | | SIX MONTHS ENDED JUNE 30, | |
|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 20 |
| U.S. | $ 3,538 | $ 2,366 | $ 7,539 | $ 4, |
| Asia | - | 88 | - | |
| Europe and other | 158 | 85 | 284 | |
| | $ 3,696 | $ 2,539 | $ 7,823 | $ 4, |

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SYSVIEW TECHNOLOGY, INC
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (UNAUDITED)

Presented below is information regarding identifiable assets, classified by operations located in the U.S., Europe and Asia (IN THOUSANDS):

| | JUNE 30, 2007 | DECEMBER 31, 2006 |
|---|---|---|
| U.S. | $ 5,328 | $ 4,986 |
| Asia | 128 | 84 |
| Europe | 136 | 59 |
| | $ 5,592 | $ 5,129 |

Assets located in Asia relate to tooling equipment required to manufacture Sysview's product. Assets located in Europe relate to the Company's field service, sales, distribution and inventory management in the Netherlands.



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

The following discussion should be read in conjunction with Sysview Technology, Inc.'s ("Sysview" or "Company") unaudited condensed consolidated financial statements and notes included herein. The results described below are not necessarily indicative of the results to be expected in any future period. Certain statements in this discussion and analysis, including statements regarding our strategy, financial performance and revenue sources, are forward-looking statements based on current expectations and entail various risks and uncertainties that could cause actual results to differ materially from those expressed in the forward-looking statements. Readers are referred to Sysview's Annual Report on Form 10-KSB for the year ended December 31, 2006 as filed with the Securities and Exchange Commission on April 3, 2007.

Management's discussion and analysis of financial condition and results of operations ("MD&A") is provided as a supplement to the accompanying unaudited condensed consolidated financial statements and notes to help provide an understanding of our financial condition, changes in financial condition and results of operations. The MD&A section is organized as follows:

o OVERVIEW. This section provides a general description of the Company's business, as well as recent developments that we believe are important in understanding the results of operations and to anticipate future trends in those operations.

- CRITICAL ACCOUNTING POLICIES. This section provides an analysis of the significant estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities.

- RESULTS OF OPERATIONS. This section provides an analysis of our results of operations for the three and six months ended June 30, 2007 compared to the three and six months ended June 30, 2006. A brief description of certain aspects, transactions and events is provided, including related-party transactions that impact the comparability of the results being analyzed.

- LIQUIDITY AND CAPITAL RESOURCES. This section provides an analysis of our financial condition and cash flows as of and for the six months ended June 30, 2007 as compared to the six months ended June 30, 2006.

OVERVIEW

Our MD&A contains statements that are forward-looking. These statements are based on current expectations and assumptions that are subject to risks and uncertainties. Actual results could differ materially because of factors discussed in this report, as well as factors not within our control. We undertake no duty to update any forward-looking statement to conform the statement to actual results or changes in our expectations.

We are in the business of designing, developing and delivering imaging technology solutions. We currently have fourteen patents issued in the United States and five patents issued in Taiwan. Additionally, we have five patents currently pending with the United States Patent and Trademark Office, four relate to our high definition ("HD") display technology and one relates to our document/image-capture technology. We focus our research and development toward new deliverable and marketable technologies. We sell our products to customers throughout the world, including the United States, Canada, Europe, South America, Australia and Asia.

Our strategy includes a plan to expand our document/image-capture product line and technology while leveraging our assets in other areas of the imaging industry. We are actively shipping six groups of image-capture products. We have expanded our document/image-capture product offerings, and will continue to expand our product offerings in the future in response to the increased market demand for faster and easier-to-use products as well as increased security to meet the growing need for information protection, including identity and financial transaction protection.



CRITICAL ACCOUNTING POLICIES

Our MD&A is based upon our condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates, including those related to revenue recognition, trade receivables and allowance for doubtful accounts, inventories, intangible and long-lived assets, and income taxes. We base our estimates on historical experience and on various other assumptions that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

An accounting policy is deemed to be critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time the estimate is made, and if different estimates that reasonably could have been used or changes in the accounting estimate that are reasonably likely to occur could materially change the financial statements. We believe the following critical accounting policies reflect our more significant estimates and assumptions used in the preparation of our consolidated financial statements:

REVENUE RECOGNITION

Revenues consist of sales of merchandise, including optical image capturing devices, modules of optical image capturing devices, optical image chips and other optoelectronic products. Revenue is recognized when the product is shipped or delivered and the risks, rewards and title of ownership have transferred to the customer. We recognize some shipping and handling fees as revenue, and the related expenses as a component of cost of sales. All internal handling charges are included with selling and marketing expense. Historically, sales returns have not been significant. As such, we do not record a reduction to revenue for estimated product returns in the same period that the related revenue is recorded.

INVENTORY AND WARRANTY RESERVES

We establish inventory reserves for estimated obsolescence or unmarketable inventory in an amount equal to the difference between the cost of inventory and its estimated realizable value based upon assumptions about future demand and market conditions. If actual demand and market conditions are less favorable than those projected by management, additional inventory reserves could be required. As of June 30, 2007, we had no inventory reserve. Currently, we purchase the majority of our finished scanner imaging products from Syscan Lab Limited ("SLL"), a wholly-owned subsidiary of Syscan Technology Holdings Limited ("STH"), the parent company of our majority stockholder. SLL warrants the products it manufactures for us against defects in material and workmanship for a period of 18 months after the completion of manufacture. After such 18 month period, SLL provides product repair services for us at its customary hourly repair rate plus the cost of any parts, components, or items necessary to repair the products. As a result of the product warranty provided by SLL, Sysview does not record a product warranty reserve.

RELATED-PARTY TRANSACTIONS

We have significant related-party transactions and agreements, which we believe have been accounted for at fair value. We utilized our best estimate of the value of these transactions and agreements. Had alternative assumptions been used, the values obtained may have been different.

RELATED-PARTY PURCHASES

The Company purchases the majority of its finished scanner imaging products from SLL as discussed above. Our Chairman and CEO, Darwin Hu, was formerly the CEO of STH. He resigned from STH effective December 2004.

Purchases from SLL totaled $2,143,000 and $4,321,000 for the three and six months ended June 30, 2007, respectively and $1,845,000 and $3,254,000 for the three and six months ended June 30, 2006, respectively. All purchases from SLL were carried out in the normal course of business. As a result of these purchases, the Company was liable to SLL for $364,000 and $952,000 at June 30, 2007 and December 31, 2006, respectively.



COMMON STOCK ACQUIRED FROM RELATED PARTY

On March 21, 2007, we entered into an agreement with STH whereby we agreed to forego any further collection efforts, including legal action, related to loans that we previously made to STH, which were never repaid by STH. In exchange, STH agreed to the cancellation of 2,600,000 shares of our common stock beneficially owned by STH. In addition, both parties mutually agreed to release and discharge any and all claims that each may have against the other party. The stock certificates were subsequently cancelled by the Company's transfer agent.

INTANGIBLE AND LONG-LIVED ASSETS

We evaluate our intangible assets and long-lived assets, which represent goodwill, long-term investments, and fixed assets, for impairment annually or more frequently if we believe indicators of impairment exist. Significant management judgment is required during the evaluation, including the forecasts of future operating results. The estimates we have used are consistent with the plans and estimates that we use to manage our business. It is possible, however, that the plans and estimates used may be incorrect. If our actual results, or the plans and estimates used in future impairment analyses, are lower than the original estimates used to assess the recoverability of these assets, we could incur additional impairment charges. We had no such asset impairments during the three or six months ended June 30, 2007.

INCOME TAXES

We utilize the liability method of accounting for income taxes. Deferred income tax assets and liabilities are calculated as the difference between the financial statements and tax basis of assets and liabilities that will result in taxable or deductible amounts in the future, based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. We record a valuation allowance to reduce our deferred tax assets to the amount that we believe is more likely than not to be realized. In assessing the need for a valuation allowance, we consider all positive and negative evidence, including scheduled reversals of deferred tax liabilities, projected future taxable income, tax planning strategies, and recent financial performance.

The application of tax laws and regulations is subject to legal and factual interpretation, judgment and uncertainty. Tax laws themselves are subject to change as a result of changes in fiscal policy, changes in legislation, evolution of regulations and court rulings. Therefore, the actual income taxes may be materially different from our estimates. As a result of our analysis, we concluded that a full valuation allowance against our net deferred tax assets is appropriate at June 30, 2007.

CONTINGENCIES

From time to time, we are involved in disputes, litigation and other legal proceedings. We record a charge equal to at least the minimum estimated liability for a loss contingency when both of the following conditions are met: (i) information available prior to issuance of the financial statements indicates that it is probable that an asset had been impaired or a liability had been incurred at the date of the financial statements and (ii) the range of loss can be reasonably estimated. However, the actual liability in any such litigation may be materially different from our estimates, which could result in the need to record additional costs. Currently, we have no outstanding legal proceedings or claims, which require a loss contingency.



ACCOUNTING FOR CERTAIN FINANCIAL INSTRUMENTS WITH CHARACTERISTICS OF BOTH LIABILITIES AND EQUITY

We account for our Series A 5% cumulative convertible preferred stock ("Series A Stock") and our Series B convertible preferred stock ("Series B Stock") pursuant to SFAS 133, ACCOUNTING FOR DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES ("SFAS 133") and the Emerging Issues Task Force ("EITF") Abstract 00-19, ACCOUNTING FOR DERIVATIVE FINANCIAL INSTRUMENTS ("EITF 00-19"). Accordingly, the embedded conversion feature associated with our Series A Stock and related warrants and our Series B Stock and related warrants have been determined to be derivative instruments. The fair value of these derivative instruments, as determined by applying the Black-Scholes valuation model, is adjusted quarterly. The Black-Scholes valuation model requires the input of highly subjective assumptions, including the expected stock price volatility. Additionally, although the Black-Scholes model meets the requirements of SFAS 133, the fair values generated by the model may not be indicative of the actual fair values of our Series A Stock and Series B Stock as our derivative instruments have characteristics significantly different from traded options.

STOCK-BASED COMPENSATION EXPENSE

Effective January 1, 2006, we adopted SFAS 123R, SHARE-BASED PAYMENTS ("SFAS 123R"). SFAS 123R requires all share-based payments, including grants of employee stock options and warrants, to be recognized in our financial statements based on their respective grant date fair values. Under this standard, the fair value of each share-based payment award is estimated on the date of grant using an option pricing model that meets certain requirements. We currently use the Black-Scholes option pricing model to estimate the fair value of our share-based payment awards. The Black-Scholes model meets the requirements of SFAS 123R; however, the fair values generated by the model may not be indicative of the actual fair values of our awards as it does not consider certain factors important to our awards, such as continued employment, periodic vesting requirements and limited transferability.

The determination of the fair value of share-based payment awards utilizing the Black-Scholes model is affected by our stock price and a number of assumptions, including expected volatility, expected life, risk-free interest rate and expected dividends. We use the historical volatility for our common stock as the expected volatility assumption required in the Black-Scholes model, which could be significantly different than actual volatility. The expected life of the awards is based on historical and other economic data trended into the future. The risk-free interest rate assumption is based on observed interest rates appropriate for the terms of our awards. The dividend yield assumption is based on our history and expectation of dividend payouts. Forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

Stock-based compensation expense recognized in our financial statements beginning January 1, 2006 and thereafter is based on awards that are ultimately expected to vest. We evaluate the assumptions used to value our awards on a quarterly basis. If factors change and we employ different assumptions, stock-based compensation expense may differ significantly from what we have recorded in the past. If there are any modifications or cancellations of the underlying unvested securities, we may be required to accelerate, increase or cancel any remaining unearned stock-based compensation expense. Future stock-based compensation expense and unearned stock-based compensation will increase to the extent that we grant additional equity awards to employees.



RESULTS OF OPERATIONS

The following table summarizes certain aspects of our results of operations for the three and six months ended June 30, 2007 compared to the three and six months ended June 30, 2006 (IN THOUSANDS):

| | THREE MONTHS ENDED JUNE 30, | | | | SIX M | |
|---|---|---|---|---|---|---|
| | 2007 | 2006 | $ | % | 2007 | 2 |
| Net sales | $3,696 | $ 2,539 | $1,157 | 46% | $7,823 | $ |
| Cost of sales | 2,150 | 1,660 | 490 | 30 | 4,634 | |
| As a percentage of sales | 58% | 65% | | | 59% | |
| Selling and marketing expense | 362 | 300 | 62 | 21 | 762 | |
| General and administrative expense | 613 | 679 | (66) | (10) | 1,528 | |
| Research and development expense | 749 | 469 | 280 | 60 | 1,526 | |
| Total other income (expense) | 342 | (543) | NM | NM | (17) | |
| Dividend on 5% convertible preferred stock and accretion of preferred stock redemption value | (243) | (147 | NM | NM | (484) | |

NM = Not Meaningful

NET SALES

The significant increase in net sales during both the three and the six months ended June 30, 2007 as compared to the three and six months ended June 30, 2006 was attributable to the following:

- The overall growth of the document/image-capture market resulting from an increased market demand for products that manage how information is retrieved, stored, shared and disseminated;
- The increased end-user market penetration, including distribution channel expansion, by both us and our largest customers;
- The expansion of our customer base;
- The increased market acceptance of our more recently introduced products, which bear higher margins;
- Our sales during the first two quarters of fiscal 2007 experienced substantially less of a cyclical downturn as compared to the first two quarters of fiscal 2006. We attribute this more consistent market delivery of our product to (i) the growth of our smaller customers and less dependence on our larger customers, (ii) our management of

customer demand and product delivery and (iii) our movement toward a just-in-time inventory management product delivery system;

- Our increased use of Value Added Reseller ("VAR") channel distributions; and
- The growth in the small office home office ("SOHO") markets, and the result of our efforts to appeal to customers in the SOHO market.

During the three months ended June 30, 2007, we successfully expanded our significant customer base, which decreases our risk of dependency on a small number of significant customers. During the three months ended June 30, 2007, 85% of sales were generated from six customers as compared to 78% of sales generated from three customers during the same period in fiscal 2006. During the six months ended June 30, 2007, 85% of our sales were generated from six customers as compared to 81% of sales generated from three customers during the same period in fiscal 2006. Although we will continue to focus on expanding our significant customers, we expect that our largest customers will continue to account for a substantial portion of our net sales in the remainder of fiscal 2007 and for the foreseeable future. The identities of our largest customer and their respective contributions to our net sales have varied in the past and will likely continue to vary from period to period.



Although we expect net sales to increase as we continue to expand our business and offer additional products in the document/image-capture market, there can be no assurance that our net sales will increase.

COST OF SALES, INCLUDING GROSS PROFIT

Cost of sales includes all direct costs related to the transfer of scanners, imaging modules and services related to the delivery of those items manufactured in China, and to a lesser extent engineering services and software royalties. Cost of sales increased in absolute dollars as a result of the increased net sales during both the three and six months ended June 30, 2007 as compared to the three and six months ended June 30, 2006. Cost of sales as a percentage of net sales decreased as a result of a higher proportion of overall net sales being generated from our most recently introduced and more feature rich products, including our duplex scanners (scanners that have the ability to scan both sides of a document at once). Our duplex scanners, which bear a higher gross margin than our simplex scanners (scanners that scan only one side of a document) have recently experienced broader market acceptance.

We expect our cost of sales as a percentage of net sales to fluctuate somewhat as our product mix fluctuates. Our average selling price and related material cost used to manufacture our product has been stable and we expect this trend to continue for the foreseeable future.

SELLING AND MARKETING EXPENSE

Selling and marketing expenses consist primarily of salaries and related costs of employees, including stock-based compensation costs, engaged in our sales, marketing and customer account management functions and to a lesser extent, market development and promotional funds for our retail distribution channels, tradeshows, website support, warehousing, logistics and certain sales representative fees. The increase during the three months ended June 30, 2007 as compared to the three months ended June 30, 2006 was primarily attributable to our presence at various trade shows, which are key to the promotion of our product.

The increase during the six months ended June 30, 2007 as compared to the six months ended June 30, 2006 was primarily attributable to the stock-based compensation cost (a non-cash charge) as a result of granting stock options to key employees during the first quarter of fiscal 2007 and accounting for such option grants under SFAS 123R. See "Note 6: Employee Equity Incentive Plans" in Part I, Item 1 of this Form 10-QSB. Stock-based compensation cost was $92,000 for the six months ended June 30, 2007 as compared to $25,000 for the six months ended June 30, 2006.

To a lesser extent, the increase during both the three and six months ended June 30, 2007 as compared to the same periods in fiscal 2006 was attributable to our increased staff and related marketing activities to support our expanding product offerings and the addition of direct sales personnel in Europe and Asia. Although we expect sales and marketing expenses to fluctuate as a result of the timing of advertising and promotions of our various new products and stock option grants, overall we expect selling and marketing expenses to increase as we continue to expand our marketing efforts and the number of products we offer.

GENERAL AND ADMINISTRATIVE EXPENSE

General and administrative expense consists primarily of costs associated with our executive, financial, human resources and information services functions, including stock-based compensation costs, facilities-related expenses and outside professional services such as legal and accounting. General and administrative expenses increased during the three and six months ended June 30, 2007 as compared to the same periods in fiscal 2006 as a result of the following:

- The hiring of an outside investor relations firm to manage and enhance our investor relations function;
- Increased personnel costs to support our expanding business and related infrastructure; and
- Increased expenses associated with maintaining our public company status.



Further increasing our costs during the six months ended June 30, 2007 as compared to the six months ended June 30, 2006 was our stock-based compensation cost (a non-cash charge). We granted stock options to key employees and directors during the first quarter of fiscal 2007 and accounted for such option grants under SFAS 123R. See "Note 6: Employee Equity Incentive Plans" in Part I, Item 1 of this Form 10-QSB. Stock-based compensation cost was $638,000 and $561,000 for the six months ended June 30, 2007 and 2006, respectively.

During the three months ended June 30, 2007 as compared to the same period in fiscal 2006, we experienced a temporary decrease in general and administrative expense as a result of our decreased stock-based compensation cost. Stock-based compensation cost was $130,000 for the three months ended June 30, 2007 as compared to $290,000 for the same period in fiscal 2006.

We anticipate that general and administrative expenses will continue to increase as our business continues to grow and the costs associated with being a public company continue to increase as a result of our required reporting requirements including, but not limited to, expenses incurred to comply with the Sarbanes-Oxley Act of 2002.

RESEARCH AND DEVELOPMENT EXPENSE

Research and development expense consists primarily of salaries and related costs, including stock-based compensation costs, of employees engaged in product research, design and development activities, compliance testing, documentation, prototypes and expenses associated with transitioning the product to production. The increase during both the three and six months ended June 30, 2007 as compared to the three and six months ended June 30, 2006 is primarily attributable to (i) the increased amount of expensed equipment required to support our future HD display product development; and (ii) stock-based compensation cost (a non-cash charge) as a result of granting stock options to key employees during the first quarter of fiscal 2007 and accounting for such option grants under SFAS 123R. See "Note 6: Employee Equity Incentive Plans" in Part I, Item 1 of this Form 10-QSB. Stock-based compensation cost was $117,000 and $350,000 for the three and six months ended June 30, 2007, respectively, as compared to $43,000 and $56,000 for the three and six months ended June 30, 2006, respectively.

The remaining increase is a result of increased number of employees engaged in research and development activities, resulting from both direct hiring and acquisitions. The majority of our research and development expense during all periods presented was directly attributable to our future products including our HD display products. Although we plan to continue investing in the future and strengthening our intellectual property position within our highly competitive market by continuing to fund research and development activities related to our HD display products. We expect our refocusing efforts to yield a reduction in research and development expenses.

TOTAL OTHER INCOME (EXPENSE)

Other income (expense) for the three and six months ended June 30, 2007 was primarily comprised of the $331,000 decrease and the $37,000 increase, respectively, in the fair value of the liability for derivative contracts (associated with our Series A Stock and related warrants and Series B Stock and related warrants). Other income (expense) for the three and six months ended June 30, 2006 was primarily comprised of the $518,000 and $310,000 increase, respectively, in the fair value of the liability for derivative contracts (associated with our Series A Stock and related warrants).

Pursuant to SFAS 133, ACCOUNTING FOR DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES ("SFAS 133"), and EITF Abstract 00-19, ACCOUNTING FOR DERIVATIVE FINANCIAL INSTRUMENTS ("EITF 00-19"), the increase in the fair value of the liability for derivative contracts is included as other expense in our consolidated statements of operations and the decrease in the fair value of the liability for derivative contracts is included as other income in our consolidated statements of operations.



DIVIDEND ON SERIES A STOCK AND ACCRETION OF PREFERRED STOCK REDEMPTION VALUE

During the three and six months ended June 30, 2007, the total accretion on our preferred stock was $220,000 and $440,000, respectively. During the three and six months ended June 30, 2006 the total accretion on our preferred stock was $130,000 and $258,000, respectively. The increases are attributable to our Series B Stock, which was outstanding during the three and six months ended June 30, 2007 but not outstanding during the three and six months ended June 30, 2006.

During the three and six months ended June 30, 2007, Series A Stock dividends were approximately $23,000 and $44,000, respectively. During the three and six months ended June 30, 2006, Series A Stock dividends were approximately $17,000 and $37,000, respectively. Preferred dividends are slightly higher in fiscal

2007 as compared to the same periods in fiscal 2006 as the dividends are cumulative. We do not pay dividends on our Series B Stock.

LIQUIDITY AND CAPITAL RESOURCES

At June 30, 2007, our principal sources of liquidity included cash and cash equivalents of $772,000 and unused borrowing capacity of $987,000 under our bank line of credit. We had no significant cash outlays, except as part of our normal operations, during the three months ended June 30, 2007.

Operating activities: During the six months ended June 30, 2007, our operating activities used $994,000 of cash. This was primarily a result of our $1,130,000 net loss, $1,587,000 of net non-cash expenses and $1,451,000 net cash used by changes in operating assets and liabilities. During the six months ended June 30, 2007, our operating activities used $143,000 of cash. This was primarily a result of our $1,679,000 net loss, $1,232,000 of net non-cash expenses and $304,000 net cash provided by changes in operating assets and liabilities. Non-cash items included in net loss for both the six months ended June 30, 2007 and 2006 include depreciation expense, stock-based compensation cost of options, fair value of warrants issued for services rendered, change in fair value of derivative instruments and the accretion of our Series A and Series B preferred stock redemption value.

Changes in our operating assets and liabilities are a result of the significant increase in the sales of our product during the six months ended June 30, 2007 compared to the six months ended June 30, 2006 and the timing of purchasing our product to support the increase of sales.

A significant use of cash during the six months ended June 30, 2007 was attributable to paying our contract manufacturer according to normal and customary payment terms. We expect future cash provided (used) by operating activities to fluctuate, primarily as a result of fluctuations in our operating results, timing of product shipments, trade receivables collections, inventory management and timing of vendor payments.

Investing activities: Our investing activities for both the six months ended June 30, 2007 and 2006 were minimal and consisted of purchasing computer and general equipment during the normal course of business.

Financing activities: During the six months ended June 30, 2007, our financing activities consisted solely of a $500,000 draw against our bank line of credit to meet short-term obligations, including payment on the purchase of our product. We had no financing activities during the three months ended June 30, 2006.

CASH AND WORKING CAPITAL REQUIREMENTS

As previously discussed, we plan to continue increasing our presence in the document/image-capture market, which may require additional capital. Additionally, we may seek to expand our operations through acquisitions of companies in either the document/image-capture market that we believe could complement our business model, improve our competitive positioning and expand our product offerings.

Management believes if we continue to fund research and development efforts at the current level, including our expansion into the HD display market, that additional capital through either the incurrence of debt or the issuance of equity securities, or a combination thereof, may be necessary. There is no assurance that such additional funds will be available for us to continue to finance our expansion plans. Furthermore, there is no assurance the net proceeds from any successful financing arrangement will be sufficient to cover cash requirements as we expand our business operations.

CONTRACTUAL OBLIGATIONS

The following table summarizes our contractual obligations at June 30, 2007, and the effect such obligations are expected to have on our liquidity and cash flows in future periods (IN THOUSANDS):

| | TOTAL | LESS THAN ONE YEAR | ONE - THREE YEARS | THREE - FIV YEARS |
|---|---|---|---|---|
| Line of credit (1) | $ 1,513 | $ 1,513 | $ - | $ |
| Operating lease obligations | 410 | 285 | 124 | 1 |
| Consulting agreement | 53 | 53 | - | - |
| Total contractual cash obligations | $ 1,976 | $ 1,851 | $ 124 | $ 1 |

(1) The Company has a line of credit agreement ("LOC Agreement") to borrow up to $2,500,000, bearing interest at the rate of prime (8.25% at June 30, 2007) plus 0.5% and secured by all of the assets of the Company. Interest payments are due monthly and all unpaid interest and principal is due in full on October 30, 2007. Upon certain events of default, the default variable interest rate increases to prime plus 5.5%. The Company had $987,000 available for use at June 30, 2007.

At June 30, 2007, Sysview was not in compliance with all of the LOC Agreement debt covenants. Pursuant to a waiver letter from the lender dated July 26, 2007, the lender agreed to forbear from exercising its rights and remedies with respect to existing defaults under the LOC Agreement from the date of the LOC Agreement through June 30, 2007. Although the lender redefined certain debt covenants defined by the LOC Agreement during the second quarter of fiscal 2007, the Company is working to further redefine additional debt covenants to more accurately assess the Company's financial position and results of operations.

OFF-BALANCE SHEET ARRANGEMENTS

At June 30, 2007, we did not have any relationship with unconsolidated entities or financial partnerships, which other companies have established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes as defined in Item 303(c)(2) of SEC Regulation S-B. Therefore, we are not materially exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in such relationships.

TRENDS

As of June 30, 2007, to the best of our knowledge, no known trends or demands, commitments, events or uncertainties existed, which are likely to have a material effect on our liquidity, except as described in "Note 9: Commitments and Contingencies" in Part I, Item 1 of this Form 10-QSB.

ITEM 3 - CONTROLS AND PROCEDURES

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 as of the end of the period covered by this report (the "Evaluation Date"). Based upon the evaluation, our principal executive officer and principal financial officer concluded as of the Evaluation Date that our disclosure controls and procedures were effective. Disclosure controls are controls and procedures designed to reasonably ensure that information required to be disclosed in our reports filed under the Exchange Act, such as this report, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls include controls and procedures designed to reasonably ensure that such information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure.

CHANGES IN INTERNAL CONTROLS OVER FINANCIAL REPORTING

There were no changes in our internal controls over financial reporting that occurred during the quarterly period covered by this report 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

We are subject to various legal proceedings from time to time in the ordinary course of business, none of which is required to be disclosed under this Item 1.

ITEM 6 - EXHIBITS

| EXHIBIT NUMBER | DESCRIPTION OF EXHIBIT | METHOD OF FILING |
|---|---|---|
| 31.1 | Certification Pursuant to Section 302 of the Sarbanes-Oxley Act - Darwin Hu | Filed herewith |
| 31.2 | Certification Pursuant to Section 302 of the Sarbanes-Oxley Act - William Hawkins | Filed herewith |
| 32.1 | Certifications Pursuant to Section 906 of the Sarbanes-Oxley Act - Darwin Hu | Filed herewith |
| 32.2 | Certifications Pursuant to Section 906 of the Sarbanes-Oxley Act - William Hawkins | Filed herewith |

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, Sysview Technology, Inc. has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SYSVIEW TECHNOLOGY, INC.

Date: August 7, 2007
/S/ DARWIN HU
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Darwin Hu, Chairman and Chief Executive Officer

Date: August 7, 2007
/S/ WILLIAM HAWKINS
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William Hawkins, Acting Chief Financial Officer
Chief Operating Officer and Secretary

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