
U. S. SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2008, or

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 1-11860

Focus Enhancements, Inc.

(Name of Issuer in its Charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

04-3144936
(I.R.S. Employer
Identification No.)

1370 Dell Ave
Campbell, CA 95008
(Address of Principal Executive Offices)

(408) 866-8300
(Issuer's Telephone Number, Including Area Code)

Check whether the Issuer (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such other shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes: No:

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b02 of the Exchange Act).
Yes: No:

As of August 8, 2008, there were 86,954,588 shares of common stock outstanding.

FOCUS ENHANCEMENTS, INC.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

Focus Enhancements, Inc.
Condensed Consolidated Balance Sheets
(In thousands, except share and per share amounts)
(Unaudited)

	June 30, 2008	December 31, 2007
Assets		
Current assets:		
Cash and cash equivalents	\$ 2,119	\$ 1,841
Restricted cash	96	90
Accounts receivable, net of allowances of \$155 and \$253, respectively	2,640	4,318
Inventories	4,134	3,957
Prepaid expenses and other current assets	2,049	1,130
Total current assets	11,038	11,336
Property and equipment, net	1,444	1,240
Other assets	465	153
Goodwill	13,191	13,191
	\$ 26,138	\$ 25,920
Liabilities and Stockholders' Equity (Deficit)		
Current liabilities:		
Accounts payable	\$ 2,782	\$ 3,554
Borrowings under line of credit	6,500	3,600
Current portion of capital lease obligations	63	122
Term loan	-	2,500
Accrued compensation	820	872
Accrued liabilities	4,466	2,722
Total current liabilities	14,631	13,370
Convertible notes	-	11,493
Notes payable, net of debt discount	18,524	-
Total liabilities	33,155	24,863
Commitments and contingencies (note 8)		
Stockholders' equity (deficit):		
Preferred stock, \$0.01 par value; authorized 3,000,000 shares; 3,161 shares issued and outstanding at June 30, 2008 and December 31, 2007 (liquidation preference \$3,917)	-	-
Common stock, \$0.01 par value; 150,000,000 shares authorized 85,895,075 and 85,248,194, shares issued at June 30, 2008 and December 31, 2007, respectively	843	841
Treasury stock at cost, 802,465 and 516,667 shares at June 30, 2008 and December 31, 2007, respectively	(902)	(775)
Additional paid-in capital	128,028	123,392
Accumulated other comprehensive income	385	257
Accumulated deficit	(135,371)	(122,658)
Total stockholders' equity (deficit)	(7,017)	1,057
	\$ 26,138	\$ 25,920

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

Focus Enhancements, Inc.
Condensed Consolidated Statements of Operations
(In thousands, except per share amounts)
(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30, 2008	June 30, 2007	June 30, 2008	June 30, 2007
Net revenue	\$ 3,988	\$ 8,354	\$ 7,860	\$ 15,441
Cost of revenue	2,362	4,444	4,736	8,365
Gross margin	1,626	3,910	3,124	7,076
Operating expenses:				
Sales, marketing and support	2,066	2,479	4,226	4,604
General and administrative	1,071	1,048	2,108	2,145
Research and development	4,218	3,979	7,802	7,917
Amortization of intangible assets	-	51	-	156
	7,355	7,557	14,136	14,822
Loss from operations	(5,729)	(3,647)	(11,012)	(7,746)
Interest expense, net	(978)	(299)	(1,665)	(589)
Other income (expense), net	1	(2)	(9)	1
Loss before income tax expense	(6,706)	(3,948)	(12,686)	(8,334)
Income tax expense	3	19	27	23
Net loss	\$ (6,709)	\$ (3,967)	\$ (12,713)	\$ (8,357)
Net loss per share				
Basic and diluted	\$ (0.08)	\$ (0.05)	\$ (0.15)	\$ (0.11)
Weighted average number of shares used in per share calculations:				
Basic and diluted	84,142	77,277	83,914	75,738

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

Focus Enhancements, Inc.
Condensed Consolidated Statements of Cash Flows
(In thousands)
(Unaudited)

	Six Months Ended	
	June 30, 2008	June 30, 2007
Cash flows from operating activities:		
Net loss	\$ (12,713)	\$ (8,357)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	374	580
Stock-based compensation	770	470
Amortization of discount on notes payable	467	-
Accrued interest	1,098	550
Amortization of debt issuance costs	26	9
Changes in assets and liabilities:		
Accounts receivable	1,741	(630)
Inventories	(95)	(197)
Prepaid expenses and other assets	(283)	(234)
Other assets	10	14
Accounts payable	(786)	109
Accrued liabilities	707	(195)
Net cash used in operating activities	<u>(8,684)</u>	<u>(7,881)</u>
Cash flows from investing activities:		
Purchases of property and equipment	(567)	(490)
Net cash used in investing activities	<u>(567)</u>	<u>(490)</u>
Cash flows from financing activities:		
Proceeds from issuance of notes payable	9,307	-
Borrowings under lines of credit	12,500	2,500
Repayment of lines of credit	(9,600)	(3,390)
Borrowings under term loan	-	3,450
Repayment of term loan	(2,500)	(2,500)
Repurchase of common stock	(127)	(25)
Payments under capital lease obligations	(59)	(64)
Net proceeds from private offerings of common stock	-	6,205
Proceeds from exercise of common stock options and warrants, net issuance costs	-	207
Net cash provided by financing activities	<u>9,521</u>	<u>6,383</u>
Effect of exchange rate changes on cash and cash equivalents	8	5
Increase (decrease) in cash and cash equivalents	278	(1,983)
Cash and cash equivalents at beginning of period	1,841	5,969
Cash and cash equivalents at end of period	<u>\$ 2,119</u>	<u>\$ 3,986</u>

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Description of Business

Incorporated in 1992, Focus Enhancements, Inc. and its subsidiaries (the "Company" or "Focus") develop and market proprietary video technology in two areas: semiconductor and systems. Focus markets its products globally to original equipment manufacturers ("OEMs"), and dealers and distributors in the consumer and professional channels. Semiconductor products include several series of Application Specific Standard Products ("ASSPs"), which address the wireless video and data market using Ultra Wideband ("UWB") technology and the video convergence market. The UWB chipsets are targeted for the wireless USB market while the video convergence chips are deployed into portable media players, video conferencing systems, Internet TV, media center and interactive TV applications. Focus' systems products are designed to provide solutions for the professional video production market particularly for the video acquisition, media asset management and digital signage markets. Focus markets its systems products primarily through the professional channel. Focus production products include video scan converters, standard and high definition digital video disk recorders, MPEG (Moving Picture Experts Group) recorders and file format conversion tools. Focus media asset management systems products include network-based video servers, long-duration program monitors and capture/payout components. Focus digital signage and retail media solutions products include standard and high definition MPEG players, servers

2. Basis of Presentation – Interim Financial Information

The accompanying unaudited condensed consolidated financial statements of Focus have been prepared in conformity with accounting principles generally accepted in the United States of America and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not contain all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. The year-end condensed consolidated balance sheet data was derived from audited consolidated financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America.

In the opinion of management, the condensed consolidated financial statements include all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation of Focus' financial position, operating results and cash flows for the periods presented. The results of operations and cash flows for the six months ended June 30, 2008 are not necessarily indicative of the results that may be expected for any future period.

The condensed consolidated financial statements of Focus as of June 30, 2008 and for the three and six months periods ended June 30, 2008 and 2007 are unaudited and should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2007 included in Focus' Annual Report on Form 10-K for the year ended December 31, 2007.

3. Equity-Based Compensation

Focus accounts for equity-based compensation in accordance with Statement of Financial Accounting Standards No. 123 (revised 2004), "Share-Based Payment" ("SFAS No. 123R"), which the Company adopted as of January 1, 2006 using the modified prospective method.

The stock-based compensation recognized for the three and six months ended June 30, 2008 and 2007, respectively, was:

(In thousands, except per share data)	Three Months Ended		Six Months Ended	
	June 30, 2008	June 30, 2007	June 30, 2008	June 30, 2007
Stock-based compensation expense by type of award:				
Employee stock options	\$ 123	\$ 162	\$ 248	\$ 294
Restricted stock awards	335	81	436	150
Non - employee warrants	31	6	86	26
Total stock-based compensation	489	249	770	470
Tax effect on stock-based compensation	-	-	-	-
Effect on net loss	\$ 489	\$ 249	\$ 770	\$ 470
Effect on net loss per share - basic and diluted	\$ 0.01	\$ 0.00	\$ 0.01	\$ 0.01

Stock Options

The exercise price of each stock option equals the market price of Focus' common stock on the date of grant. Option grants generally vest over four years and expire 10 years from the grant date. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model. The weighted average assumptions used in the model are outlined in the following table:

	Three Months Ended		Six Months Ended	
	June 30, 2008	June 30, 2007	June 30, 2008	June 30, 2007
Average expected term of options	5 years	4 years	5 years	4 years
Risk-free rate of interest	2.95% - 3.57%	4.57% - 5.03%	2.36% - 3.57%	4.56% - 5.03%
Volatility of common stock	84%	77%	82%	81%
Dividend yield	0%	0%	0%	0%

The zero dividend yield is based on the fact that the Company has never paid cash dividends and has no present intention to pay cash dividends. Expected volatility is based on the combination of historical volatility of the Company's common stock and the expected moderation in future volatility over the period commensurate with the expected life of the options and other factors. The risk-free interest rates are taken from the Daily Federal Yield Curve Rates as of the grant dates as published by the Federal Reserve and represent the yields on actively traded Treasury securities for terms equal to the expected term of the options. The expected term calculation is based on the Company's observed historical option exercise behavior and post-vesting forfeitures of options by employees.

A summary of activity related to Focus' stock option incentive plans for the six months ended June 30, 2008 is presented below:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Yrs)	Aggregate Intrinsic Value (000s)
Options outstanding at January 1, 2008	5,594,021	\$ 1.16		
Options granted	460,933	\$ 0.37		
Options exercised	-	\$ -		
Options canceled	(523,671)	\$ 1.22		
Options outstanding at June 30, 2008	<u>5,531,283</u>	\$ 1.09	5.8	\$ -
Options exercisable and expected to be exercisable at June 30, 2008	<u>5,246,511</u>	\$ 1.10	5.7	\$ -
Options exercisable at June 30, 2008	<u>3,806,419</u>	\$ 1.17	5.0	\$ -

The weighted average grant date fair value of options granted during the three and six months ended June 30, 2008 was \$0.24 and \$0.25 per share, respectively. No options were exercised in the three and six month periods ended June 30, 2008. At June 30, 2008, Focus had \$778,000 of unrecognized compensation expense, net of estimated forfeitures, related to unvested stock options, which will be recognized over the weighted average period of 2.2 years.

The weighted average grant date fair value of options granted during the three and six months ended June 30, 2007 was \$0.75 and \$0.80 per share, respectively. The intrinsic value of options exercised during the three and six months ended June 30, 2007 was \$10,000 and \$17,000, respectively. Cash received from stock option exercises was \$55,000 and \$80,000 for the three and six months ended June 30, 2007, respectively.

The options outstanding and exercisable at June 30, 2008 were in the following exercise price ranges:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Outstanding	Weighted Average Remaining Life (Yrs)	Weighted Average Exercise Price	Exercisable	Weighted Average Exercise Price
\$0.31-\$0.97	1,582,530	6.6	\$0.63	806,737	\$0.71
\$0.97-\$1.43	3,255,867	5.8	\$1.19	2,338,761	\$1.20
\$1.43-\$1.97	624,386	3.9	\$1.60	592,421	\$1.60
\$1.97-\$2.22	<u>68,500</u>	5.1	\$2.08	<u>68,500</u>	\$2.08
Outstanding at June 30, 2008	<u>5,531,283</u>	5.8	\$1.09	<u>3,806,419</u>	\$1.17

At June 30, 2008, Focus had 2,319,641 shares of common stock available for grant under its current stock option and incentive plans, which include restricted stock.

Restricted Stock Awards

A summary of activity related to Focus' restricted stock awards for the six months ended June 30, 2008 is presented below:

	<u>Shares</u>	<u>Weighted Average Grant Date Fair Value</u>
Non-vested restricted stock shares outstanding at January 1, 2008	1,167,067	\$1.07
Restricted stock shares granted	747,744	\$0.42
Restricted stock shares vested	(888,700)	\$0.66
Restricted stock shares forfeited	(79,171)	\$1.02
	<u>946,940</u>	<u>\$0.95</u>

At June 30, 2008, Focus had \$668,000 of unrecognized compensation expense, net of forfeitures, related to restricted stock awards, which will be recognized over the weighted average period of 2.5 years. During the three and six months ended June 30, 2008, 576,494 and 888,700 shares of restricted stock vested with a fair market value of \$254,000 and \$402,000, respectively. During the three and six months ended June 30, 2007, 8,750 and 197,266 shares of restricted stock vested with a fair market value of \$12,000 and \$258,000 respectively.

4. Net Loss per Share

Basic net loss per share was computed by dividing the net loss by the weighted average number of shares of common stock outstanding during the period. Diluted net loss per share is computed by dividing the net loss by the weighted average number of shares of common stock and potential common stock equivalents outstanding during the period, if dilutive. Options to purchase 5,531,283 and 6,154,780 shares of common stock, unvested shares of restricted stock of 946,940 and 1,084,259, warrants to purchase 32,703,748 and 4,218,355 shares of common stock and 3,161 shares of preferred stock convertible into 3,161,000 shares of common stock were outstanding at June 30, 2008 and 2007, respectively, but were not included in the computation of diluted net loss per share as the effect would have been anti-dilutive. In addition, promissory notes that were convertible into 11,943,000 shares of common stock were outstanding at June 30, 2007, but were not included in the computation of diluted net loss per share as the effect would have been anti-dilutive.

5. Significant Customers

Sales to one customer accounted for 12% of Focus' revenue in the three months ended June 30, 2008. No one customer accounted for more than 10% of Focus' revenue in the six months ended June 30, 2008. Sales to two customers accounted for 29% of Focus' revenue in the three months ended June 30, 2007. Sales to one customer accounted for 15% of Focus' revenue in the six months ended June 30, 2007.

One customer had an accounts receivable balance of 14% of Focus' total accounts receivable at June 30, 2008. Two customers accounted for 32% of Focus' total accounts receivable at June 30, 2007.

6. Inventories

Inventories are stated at lower of cost (first-in, first-out) or market:

(In thousands)	<u>June 30, 2008</u>	<u>December 31, 2007</u>
Raw materials	\$ 1,043	\$ 732
Work in process	1,089	783
Finished goods	<u>2,002</u>	<u>2,442</u>
	<u>\$ 4,134</u>	<u>\$ 3,957</u>

7. Borrowings

(In thousands)	June 30, 2008	December 31, 2007
Short-term debt:		
Line of credit	\$ 6,500	\$ 3,600
Term loan	-	2,500
	<u>6,500</u>	<u>6,100</u>
Long-term debt:		
Convertible notes	-	11,493
Notes payable	21,898	-
Discount on notes payable	(3,374)	-
	<u>18,524</u>	<u>11,493</u>
	<u>\$ 25,024</u>	<u>\$ 17,593</u>

Line of Credit – Heritage Bank of Commerce

On March 4, 2008, the Company finalized a Loan and Security Agreement dated February 22, 2008 (“Loan Agreement”) with Heritage Bank of Commerce (“Heritage Bank”). Under the Loan Agreement, the Company may borrow up to \$6.5 million through one or more advances through February 21, 2009, which is the maturity date (the “Maturity Date”). On the Maturity Date, all advances must be repaid. Carl Berg, a director of the Company, has personally guaranteed the Loan Agreement. At June 30, 2008, there was an outstanding balance under this line of credit of \$6.5 million, which is the maximum amount allowed to borrow.

Payment terms under the Loan Agreement are interest only until maturity. Interest is payable under the Loan Agreement at prime plus 1%. Obligations under the Loan Agreement are secured by the Company’s accounts receivable. In addition, the Company issued a warrant to Heritage Bank to purchase 75,000 shares of the Company’s common stock at \$0.80 per share. The line of credit was subject to ongoing covenants including a covenant based on operating results.

The warrant is immediately exercisable through February 22, 2013. The warrant was valued at \$25,000 using the Black-Scholes option pricing model and will be amortized to interest expense over the term of the line of credit.

In connection with Mr. Berg’s extension of his personal guarantee, the Company has agreed to continue Mr. Berg’s first priority security interest in all of the Company’s assets, which he shares on a pro-rata basis with the Senior Secured Note Holders (see below, “Notes Payable”), except for the security interest in the Company’s accounts receivable, which have been subordinated to Heritage Bank’s security interest in the accounts receivable. However the Senior Secured Note Holders will not be bound by the intercreditor arrangement in respect of any indebtedness of the Company owing Heritage Bank in excess of \$6.5 million. In partial consideration of this extension of the personal guarantee, the Company issued to Mr. Berg a warrant to purchase 200,000 shares of common stock at an exercise price of \$0.40 per share. The warrant is immediately exercisable through March 4, 2013. The warrant was valued at \$50,000 using the Black-Scholes option pricing model and was charged to general and administrative expense at the time of issuance.

Line of Credit and Term Loan – Greater Bay Bank

From November 2004 through February 23, 2008, Focus had access to a \$4.0 million line of credit from Greater Bay Bank (“GBB Bank”) under which it could borrow up to 90% of its eligible outstanding accounts receivable. In addition, from June 2005 through February 23, 2008, Focus could also borrow an additional \$2.5 million from GBB Bank under a term loan agreement. Both the line of credit and term loan were collateralized by a personal guarantee from Mr. Berg. In connection with this credit line, GBB Bank obtained a first priority security interest in Focus’ accounts receivable through an agreement with Mr. Berg, which enabled Mr. Berg to retain his existing security interest in all of Focus’ assets while subordinating his pre-existing security interest in Focus’ accounts receivable to GBB.

The credit line was subject to ongoing covenants including a covenant based on operating results. Borrowings under the GBB Bank line of credit and term loan were charged interest at a rate of prime plus 1%. At December 31, 2007, there was \$3.6 million outstanding on the credit line and \$2.5 million outstanding under the term loan. The GBB Bank line of credit and term loan expired on February 23, 2008 and were repaid.

Notes Payable

On February 11, 2008, Focus obtained new investments in the amount of approximately \$9.3 million through the sale of additional indebtedness under revised terms of its existing January 24, 2006 Senior Secured Convertible Note Purchase Agreement (the "Original Agreement"). Prior investors under the Original Agreement and new investors amended the Original Agreement through an "Amended and Restated Senior Secured Note Purchase Agreement" (the "Amended Agreement"). The Amended Agreement increases the amounts outstanding under the Original Agreement from \$11.5 million (after amendments to date) to \$20.8 million in new senior secured notes ("Notes"), amends the terms of the Notes so they are no longer convertible into Company common stock, and issues to the holders of the Notes a total of 26 million warrants under which the holders have the right to purchase one share of the Company's common stock for \$0.80 per warrant share ("Warrant"). The Warrant was valued at \$3.8 million using the Black-Scholes option pricing model and was recorded as a discount on notes payable and will be amortized to interest expense through the maturity date of the Notes. The Notes mature on January 1, 2011 and initially bear interest at a 12% annual rate, increasing to 15% on October 1, 2008, with payment dates on June 30 and December 30 of each year the Notes remain outstanding. The Notes are collateralized by all of the assets of the Company. The transaction closed on February 11, 2008. No placement agent fee or commissions were paid in connection with the Amended Agreement.

Under the Amended Agreement, the Company may, in its discretion, elect to pay interest due on December 30, 2008 in cash or by issuing additional Notes in the full amount of such interest payment, if there has been no event of default. If the Company elects to make the interest payments by issuance of additional Notes, this would result in the additional issuance of up to approximately \$1,500,000 of Note principal and approximately 1.9 million Warrants (at the same exercise price of \$0.80 per share).

On June 30, 2008, the Company chose to issue additional Notes in the amount of \$1,098,371 and 1,372,963 Warrants in lieu of the cash interest payment due on June 30, 2008. These Notes retain the same terms and conditions as the \$20.8 million Notes issued on February 11, 2008. The Warrants were valued at \$69,000 using the Black-Scholes option pricing model and was recorded as a discount on notes payable and will be amortized to interest expense through the maturity date of the Notes.

Under the Amended Agreement, an event of default includes, but is not limited to, (i) default in payment of interest or principal on the Notes; (ii) default in the payment of other Company indebtedness in excess of \$1,000,000, (iii) commencement of any proceeding under federal bankruptcy law or any similar federal or state proceeding or an assignment for the benefit of creditors, (iv) breach by the Company of any obligation under the Amended Agreement or other agreements entered into between the Company and the Note purchasers pursuant to the Amended Agreement which breach is not cured within 30 days after receipt of a notice of default, and (v) termination of the Company's business or the liquidation or dissolution of the Company. Generally, upon the occurrence of an event of default, the Notes will become immediately due and payable in full, and the holders of the Notes will be entitled to enforce their security interest in all of the assets of the Company.

The Amended Agreement includes various negative covenants. Among these are that the Company has agreed that it will not (i) transfer a substantial amount of its properties or assets outside the ordinary course of business, (ii) agree to be acquired in a merger or other acquisition transaction involving the transfer of a substantial amount of properties or assets of the Company, or (iii) incur additional debt for borrowed money, in each case without the consent of Purchase Agent (Ingalls & Snyder LLC) or the holders of a majority of the principal amount of the outstanding Notes.

The Warrants are exercisable at the option of the holder at any time at the initial exercise price of \$0.80 per Warrant share for one share of the Company's common stock subject to standard adjustment for reverse and forward stock splits, stock dividends, stock combinations and other similar transactions. Additionally, with some exceptions, if the Company subsequently issues equity in a transaction, the primary purpose of which is raising capital, and the equity is issued on a common stock equivalent per share basis at less than \$0.80/share, then the Warrant exercise price shall be adjusted to the greater of (i) the same price at which such equity was issued or (ii) \$0.35 per share.

The Warrants are redeemable, at the Company's discretion, as follows. Beginning January 1, 2009, if the average closing price of the Company's common stock is above \$1.30 for 30 calendar days, the Company may repurchase the Warrants for one cent (\$0.01) in tranches of 2.6 million Warrants every 30 days, subject to certain other conditions, including the exercise of such Warrants by the holders thereof prior to the repurchase date.

The Notes are redeemable, in whole or in part, at any time at the Company's option upon 30 days' prior written notice to the Note holders, at a redemption price equal to 100% of the principal amount of the Notes then outstanding plus accrued and unpaid interest.

8. Commitments and Contingencies

Research and Development Agreements

In September 2007, Focus entered into a design services contract under which Focus agreed to pay approximately \$1.3 million to a third party for the design and development of new UWB integrated circuits. Payments will be made upon the completion of specific milestones by the third party.

For the three and six months ended June 30, 2008, \$105,000 and \$396,000 was charged respectively to research and development expense based on the level of effort incurred by the third party. At June 30, 2008, obligations related to this contract included in accrued liabilities on the condensed consolidated balance sheet were \$778,000. At December 31, 2007, obligations related to this contract included in accrued liabilities on the condensed consolidated balance sheet were \$515,000.

Leases

Focus leases office facilities and certain equipment under operating and capital leases. Under the lease agreements, Focus is obligated to pay for utilities, taxes, insurance and maintenance.

Minimum lease commitments at June 30, 2008 were as follows:

(In thousands)	<u>Operating Lease Commitments</u>	<u>Capital Lease Commitments</u>
2008	\$ 363	\$ 65
2009	719	-
2010	500	-
2011	-	-
	<u>\$ 1,582</u>	65
Less: amount representing interest		<u>(2)</u>
Present value of future minimum future lease payments		<u>\$ 63</u>

Inventory Purchase Commitments

Under contract manufacturing arrangements, contract manufacturers procure inventory to manufacture products based upon a forecast of customer demand provided by Focus. Focus is responsible for the financial impact on the contract manufacturer of any reduction or product mix shift in the forecast relative to materials that the contract manufacturer had already purchased, and is unable to return, under a prior forecast. Such a variance in forecasted demand could require a cash payment for finished goods in excess of current customer demand or for costs of excess or obsolete inventory.

At June 30, 2008, Focus had issued non-cancelable purchase orders for approximately \$640,000 for finished goods from its contract manufacturers, and had not incurred any significant liability for finished goods in excess of current customer demand or for the costs of excess or obsolete inventory.

Product Warranty Costs

Focus' warranty period for its products is generally 90 days to one year. Focus accrues for warranty costs, based on estimated warranty return rates and costs to repair, at the time revenue is recognized. At June 30, 2008 and December 31, 2007, Focus' reserves for warranty costs, which are included in accrued liabilities on the condensed consolidated balance sheets, were \$95,000 and \$118,000, respectively.

Changes in Focus' product warranty liability during the six months ended June 30, 2008 and 2007 were as follows:

(In thousands)	<u>Six Months Ended</u>	
	<u>June 30, 2008</u>	<u>June 30, 2007</u>
Balance at January 1	\$ 118	\$ 191
Charged to operations	57	71
Reductions	<u>(80)</u>	<u>(100)</u>
Ending balance	<u>\$ 95</u>	<u>\$ 162</u>

General

From time-to-time, Focus is party to certain claims and legal proceedings that arise in the ordinary course of business which, in the opinion of management, will not have a material adverse effect on Focus' financial position or results of operation.

9. Stockholders' Equity

As of June 30, 2008, Focus was obligated under certain circumstances, to issue the following additional shares of common stock pursuant to derivative securities, instruments or agreements:

(In thousands)	<u>Shares of Common Stock</u>
Options to purchase common stock	5,531
Warrants to purchase common stock	32,704
Preferred stock convertible into common stock	<u>3,161</u>
	<u><u>41,396</u></u>

During the six months ended June 30, 2008 and 2007, Focus repurchased 285,798 and 19,612 shares of common stock for \$127,000 and \$25,000 and included the repurchased shares in treasury stock at June 30, 2008 and 2007, respectively. Such shares had originally been issued in connection with the Company's stock compensation plans as restricted stock.

A summary of activity related to Focus' warrants for the six months ended June 30, 2008 is presented below:

	2008	
	Shares	Weighted Average Exercise Price
Warrants outstanding at January 1, 2008	5,732,447	\$ 1.29
Warrants granted	27,891,715	\$ 0.79
Warrants exercised	-	\$ -
Warrants canceled	(920,414)	\$ 2.00
Warrants outstanding at June 30, 2008	32,703,748	\$ 0.85
Weighted average fair value of warrants granted during the period		\$ 0.17

Information pertaining to warrants outstanding and exercisable at June 30, 2008 is as follows:

Range of Exercise Prices	Warrants Outstanding			Warrants Exercisable	
	Outstanding	Weighted Average Remaining Life (Yrs)	Weighted Average Exercise Price	Exercisable	Weighted Average Exercise Price
\$0.05-\$0.79	709,464	2.83	\$0.49	608,214	\$0.53
\$0.80-\$0.80	27,447,965	2.51	\$0.80	27,447,965	\$0.80
\$0.85-\$1.35	4,046,319	2.46	\$1.08	4,046,319	\$1.08
\$2.00-\$2.00	500,000	3.64	\$2.00	500,000	\$2.00
	32,703,748	2.53	\$0.85	32,602,498	\$0.85

During the six months ended June 30, 2008, Focus issued 243,750 warrants in connection with services. The warrants vest either immediately or over 10 months from the date of grant and are exercisable at prices between \$0.05 and \$0.50. These warrants have a three to five year life and were valued using the Black-Scholes option pricing model. During the six months ended June 30, 2008 the Company recognized \$36,000 as expense related to warrants. The warrants with a 10 month vesting schedule will be valued monthly, with the computed expense charged to operating expense until such warrants are fully vested.

10. Related Party Transactions

Carl Berg

In December 2002, Mr. Berg provided Samsung Semiconductor Inc., one of Focus' contracted ASIC manufacturers, with a personal guarantee to secure Focus' working capital requirements for ASIC purchase order fulfillment. Mr. Berg provided the personal guarantee without additional cost or collateral, as Mr. Berg maintains a secured priority interest in substantially all of Focus' assets. At June 30, 2008, Focus owed Samsung \$87,000 under net 30 terms.

In February 2008, replacing his prior guarantee with respect to the Company's indebtedness to Greater Bay Bank, Mr. Berg agreed to personally guarantee the Company's line of credit with Heritage Bank. In connection with Mr. Berg's extension of his personal guarantee to Heritage Bank, the Company has agreed to continue Mr. Berg's first priority security interest in all of the Company's assets, which he shares on a pro-rata basis with the Senior Secured Note Holders, except for the security interest in the Company's accounts receivable, which have been subordinated to Heritage Bank's security interest in the Company's accounts receivable. However the Senior Secured Note Holders will not be bound by the intercreditor arrangement in respect of any indebtedness of the Company owing Heritage Bank in excess of \$6.5 million. In partial consideration of this extension of the personal guarantee, the Company issued to Mr. Berg a warrant to purchase 200,000 shares of common stock at an exercise price of \$0.40 per share. The warrant is immediately exercisable through March 4, 2013.

Dolby Laboratories Inc.

N. William Jasper Jr., the Chairman of Focus' Board of Directors, is also the President and Chief Executive Officer of Dolby Laboratories, Inc. ("Dolby"), a signal processing technology company located in San Francisco, California. Focus is required to submit quarterly royalty payments to Dolby based on Dolby technology incorporated into certain products. For the three months ended June 30, 2008 and 2007, Focus paid Dolby \$10,000 and \$9,000, respectively, in royalties, which were recorded in cost of revenue. For the six months ended June 30, 2008 and 2007, Focus paid Dolby \$16,000 and \$21,000, respectively, in royalties, which were recorded in cost of revenue. Focus' arrangements with Dolby are on standard commercial terms.

Norman Schlomka

Norman Schlomka, General Manager of COMO and an executive officer of Focus since February 2006, owns one third of the building, located in Raisdorf, Germany, that COMO occupies. For the three month periods ended June 30, 2008 and 2007, Focus paid rent related to this building of approximately \$26,000 and \$24,000, respectively. For the six month periods ended June 30, 2008 and 2007, Focus paid rent related to this building of approximately \$51,000 and \$46,000, respectively. The rent is on commercial terms deemed to be fair market value and comparable to other rents in the area.

11. Business Segment Information

Focus' reportable segments are Systems and Semiconductor. These reportable segments have distinct products – Systems consists of products designed to provide solutions in video acquisition, media asset management and digital signage and Semiconductor consists of ASICs. Focus' chief operating decision maker is the CEO.

Focus evaluates segment performance based on operating income (loss) and does not allocate net interest, other income or taxes to operating segments. Additionally, Focus does not allocate assets by operating segment.

	Three Months Ended June 30, 2008		
	Systems	Semiconductor	Total
Net revenue	\$ 3,243	\$ 745	\$ 3,988
Cost of revenue	2,051	311	2,362
Gross margin	1,192	434	1,626
Operating expenses:			
Sales, marketing and support	1,421	645	2,066
General and administrative	663	408	1,071
Research and development	1,105	3,113	4,218
	3,189	4,166	7,355
Loss from operations	\$ (1,997)	\$ (3,732)	\$ (5,729)

	Six Months Ended June 30, 2008		
	Systems	Semiconductor	Total
Net revenue	\$ 6,489	\$ 1,371	\$ 7,860
Cost of revenue	4,176	560	4,736
Gross margin	2,313	811	3,124
Operating expenses:			
Sales, marketing and support	2,771	1,455	4,226
General and administrative	1,314	794	2,108
Research and development	2,250	5,552	7,802
	6,335	7,801	14,136
Loss from operations	\$ (4,022)	\$ (6,990)	\$ (11,012)

Three Months Ended June 30, 2007

	Systems	Semiconductor	Total
Net revenue	\$ 7,020	\$ 1,334	\$ 8,354
Cost of revenue	3,891	553	4,444
Gross margin	3,129	781	3,910
Operating expenses:			
Sales, marketing and support	1,732	747	2,479
General and administrative	662	386	1,048
Research and development	1,037	2,942	3,979
Amortization of intangible assets	30	21	51
	3,461	4,096	7,557
Loss from operations	\$ (332)	\$ (3,315)	\$ (3,647)

Six Months Ended June 30, 2007

	Systems	Semiconductor	Total
Net revenue	\$ 12,873	\$ 2,568	\$ 15,441
Cost of revenue	7,252	1,113	8,365
Gross margin	5,621	1,455	7,076
Operating expenses:			
Sales, marketing and support	3,045	1,559	4,604
General and administrative	1,369	776	2,145
Research and development	2,137	5,780	7,917
Amortization of intangible assets	94	62	156
	6,645	8,177	14,822
Loss from operations	\$ (1,024)	\$ (6,722)	\$ (7,746)

12. Comprehensive Loss

Comprehensive loss includes net loss and foreign currency translation adjustments. The components of comprehensive loss are as follows:

	Three Months Ended		Six Months Ended	
	June 30, 2008	June 30, 2007	June 30, 2008	June 30, 2007
(In thousands)				
Net loss	\$ (6,709)	\$ (3,967)	\$ (12,713)	\$ (8,357)
Other comprehensive income (loss):				
Foreign currency translation adjustments	(19)	(60)	128	(39)
Comprehensive loss	<u>\$ (6,728)</u>	<u>\$ (4,027)</u>	<u>\$ (12,585)</u>	<u>\$ (8,396)</u>

13. Recent Accounting Pronouncements

In February 2008, the Financial Accounting Standards Board ("FASB") issued FASB Staff Position No. FAS 157-2, "Effective Date of FASB Statement No. 157" ("FSP 157-2"), to partially defer Statement of Financial Accounting Standards ("SFAS") No. 157, "Fair Value Measurements" ("SFAS 157"). FSP 157-2 defers the effective date of SFAS 157 for nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), to fiscal years, and interim periods within those fiscal years, beginning after November 15, 2008. The Company is currently evaluating the impact that the adoption of FSP 157-2 will have on its consolidated financial position and results of operations.

14. Subsequent Event

Acquisition of Intellectual Property

On July 15, 2008, Focus completed the purchase of certain intellectual property rights for a prototype audio product chipset developed by AudioMojo, Inc. ("the Chipset"), and owned by Hallo Development Co., LLC ("Hallo"). As consideration, Focus agreed to issue to Hallo (a) 1,800,000 shares of Focus' common stock, including 300,000 shares that will be held in escrow, and (b) a revenue share relating to the future sales of the Chipset extending over a period of three years from the date of first commercial shipment ("FCS"). The revenue share is equal to (a) 10% of net sales in the first year after FCS, (b) 7.5% of net sales in the second year after FCS and (c) 5% of net sales in the third year after FCS.

Notwithstanding the Securities and Exchange Commissions Rule 144, the shares of the Focus' common stock issued in connection with this transaction shall be subject to restrictions against sale by Hallo to any third party until the earlier of (a) the date at which the Focus has sold and received \$1,000,000 in net revenues from the Chipset or (b) December 31, 2009.

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

The information set forth herein should be read in conjunction with the condensed consolidated financial statements and notes thereto in Part I, Item 1 of this Quarterly Report and with the consolidated financial statements and Management's Discussion and Analysis of Financial Condition and Results of Operations contained in Focus' Annual Report on Form 10-K for the year ended December 31, 2007 and Item 1A--"Risk Factors"--contained therein.

Certain Factors That May Affect Future Results

Discussions of certain matters in this Quarterly Report on Form 10-Q may constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities and Exchange Act of 1934, as amended (the "Exchange Act"), and as such, may involve risks and uncertainties. Forward-looking statements, which are based on certain assumptions and describe future plans, strategies, and expectations, are generally identifiable by the use of words or phrases such as "believe", "plan", "expect", "intend", "anticipate", "estimate", "project", "forecast", "may increase", "may fluctuate", "may improve" and similar expressions or future or conditional verbs such as "will", "should", "would", and "could".

In particular, statements contained in this document that are not historical facts (including, but not limited to, statements concerning anticipated revenues, anticipated operating expense levels, capital resources and needs and liquidity outlook, potential new products and orders, and such expense levels relative to our total revenues) constitute forward-looking statements and are made under the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Our actual results of operations and financial condition have varied and may in the future vary significantly and materially from those stated in any forward-looking statements. Factors that may cause such differences include, without limitation, the availability of capital to fund our future cash needs, reliance on major customers, history of operating losses, market acceptance of our products, technological obsolescence, competition, successful integration of acquisitions, component supply problems and protection of proprietary information, the unpredictability of costs to develop new technologies, as well as the accuracy of our internal estimates of revenue and operating expense levels. For a discussion of these factors and some of the factors that might cause such a difference see also Item 1A of this Form 10-Q and Item 1A of our Form 10-K under the heading "Risk Factors" and those described from time to time in our other reports filed with the Securities and Exchange Commission. These factors should be considered in evaluating the forward-looking statements, and undue reliance should not be placed on such statements. We do not undertake, and specifically disclaim any obligation, to update any forward-looking statements to reflect occurrences or unanticipated events or circumstances after the date of such statements except, as required by law.

RESULTS OF OPERATIONS

Net revenue

(Dollars in thousands)	Three Months Ended			
	June 30, 2008	June, 2007	Decrease	% decrease
Systems products	\$ 3,243	\$ 7,020	\$ (3,777)	(53.8%)
Semiconductor products	745	1,334	(589)	(44.2%)
	<u>\$ 3,988</u>	<u>\$ 8,354</u>	<u>\$ (4,366)</u>	<u>(52.3%)</u>

(Dollars in thousands)	Six Months Ended			
	June 30, 2008	June, 2007	Decrease	% decrease
Systems products	\$ 6,489	\$ 12,873	\$ (6,384)	(49.6%)
Semiconductor products	1,371	2,568	(1,197)	(46.6%)
	<u>\$ 7,860</u>	<u>\$ 15,441</u>	<u>\$ (7,581)</u>	<u>(49.1%)</u>

Revenue for the three months ended June 30, 2008 was \$4.0 million, a decrease of \$4.4 million, or 52.3%, compared with the three months ended June 30, 2007. Revenue for the six months ended June 30, 2008 was \$7.9 million, a decrease of \$7.6 million, or 49.1%, compared with the six months ended June 30, 2007.

For the three months ended June 30, 2008, net sales of systems products to distributors, retailers and value added resellers, were approximately \$3.2 million compared to \$7.0 million for the same period in 2007, a decrease of \$3.8 million. For the six months ended June 30, 2008, net sales of systems products to distributors, retailers and value added resellers, were approximately \$6.5 million compared to \$12.9 million for the same period in 2007, a decrease of \$6.4 million. This decrease in sales of systems products is mainly due to reduced sales of our direct to edit ("DTE") disk recorders driven by competitive pressures on our camera partners.

Sales of semiconductor products to distributors and OEM customers were approximately \$745,000 in the three months ended June 30, 2008, compared to \$1.3 million for the same period in 2007, a decrease of \$589,000. Sales of semiconductor products to distributors and OEM customers were approximately \$1.4 million in the six months ended June 30, 2008, compared to \$2.6 million for the same period in 2007, a decrease of \$1.2 million. This decrease is mainly due to reduced sales of our TV-Out chips for the portable media player market due to a slow down in the economy and saturation of portable media players in the consumer market.

As of June 30, 2008, we had a sales order backlog of approximately \$841,000, a nominal increase of \$12,000 compared to December 31, 2007.

Sales to one customer accounted for 12% of our revenue in the three months ended June 30, 2008. Sales to two customers accounted for 29% of our revenue in the three months ended June 30, 2007. No one customer accounted for more than 10% of our revenue in the six months ended June 30, 2008, whereas one customer accounted for 15% of our revenue for the six months ended in June 30, 2007.

Gross margin

(Dollars in thousands)	Three Months Ended		
	June 30, 2008	June 30, 2007	Decrease
Gross margin	\$ 1,626	\$ 3,910	\$ (2,284)
Gross margin rate	40.8%	46.8%	(6.0) percentage points

(Dollars in thousands)	Six Months Ended		
	June 30, 2008	June 30, 2007	Decrease
Gross margin	\$ 3,124	\$ 7,076	\$ (3,952)
Gross margin rate	39.7%	45.8%	(6.1) percentage points

Our gross margin rate for the three months ended June 30, 2008 decreased to 40.8% from 46.8% when compared to the three months ended June 30, 2007, a decrease of 6.0 percentage points. Our gross margin rate for the six months ended June 30, 2008 decreased to 39.7% from 45.8% when compared to the six months ended June 30, 2007, a decrease of 6.1 percentage points. The decrease is attributable to lower sales when measured as a percentage of our fixed costs.

Operating expenses

(Dollars in thousands)	Three Months Ended					
	June 30, 2008		June 30, 2007		Increase / (Decrease)	
		% of revenue		% of revenue		% of revenue
Sales, marketing and support	\$ 2,066	51.8%	\$ 2,479	29.7%	\$ (413)	22.1%
General and administrative	1,071	26.9%	1,048	12.5%	23	14.4%
Research and development	4,218	105.8%	3,979	47.6%	239	58.2%
Amortization of intangible assets	-	-	51	0.6%	(51)	(0.6%)
	<u>\$ 7,355</u>	<u>184.5%</u>	<u>\$ 7,557</u>	<u>90.4%</u>	<u>\$ (202)</u>	<u>94.1%</u>

(Dollars in thousands)	Six Months Ended					
	June 30, 2008		June 30, 2007		Increase / (Decrease)	
		% of revenue		% of revenue		% of revenue
Sales, marketing and support	\$ 4,226	53.8%	\$ 4,604	29.8%	\$ (378)	24.0%
General and administrative	2,108	26.8%	2,145	13.9%	(37)	12.9%
Research and development	7,802	99.3%	7,917	51.3%	(115)	48.0%
Amortization of intangible assets	-	-	156	1.0%	(156)	(1.0%)
	<u>\$ 14,136</u>	<u>179.9%</u>	<u>\$ 14,822</u>	<u>96.0%</u>	<u>\$ (686)</u>	<u>83.9%</u>

Sales, marketing and support

Sales, marketing and support expenses for the three months ended June 30, 2008 were \$2.1 million, compared to \$2.5 million for the three months ended June 30, 2007. The \$413,000 decrease between comparison periods was driven by reduced payroll, trade show and advertising expenses, partly offset by an increase in expenses for stock based compensation as a result of certain of the Company's employees participating in a salary stock swap program (the "Stock Swap Program") to which each participating employee, including each of the Company's executive officers, will be granted fully vested stock under the Company's 2004 Stock Incentive Plan in exchange for a fifteen percent (15%) reduction in their gross pay for twenty (20) consecutive pay periods, concluding on December 12, 2008. Each dollar of gross pay that a participating employee foregoes pursuant to the Stock Swap Program will be converted into Focus' common stock at a predefined exchange rate on a predefined date. For the first five exchange dates, the exchange rates are \$0.40, \$0.45, \$0.50, \$0.55 and \$0.60, respectively. For the remaining exchange dates, the exchange rate will be the greater of \$0.60 or 80% of the trailing 15 day average price immediately preceding the exchange date.

Sales, marketing and support expenses for the six months ended June 30, 2008 were \$4.2 million, compared to \$4.6 million for the six months ended June 30, 2007. This \$378,000 decrease for comparison periods was driven by decreased payroll and trade show expenses, partly offset by an increase in expenses as a result of the Stock Swap Program.

General and administrative

General and administrative expenses for the three months ended June 30, 2008 were \$1.1 million compared to \$1.0 million for the three months ended June 30, 2007, an increase of \$23,000.

General and administrative expenses for the six months ended June 30, 2008 were \$2.1 million, consistent with the six months ended June 30, 2007.

Research and development

Research and development expenses for the three months ended June 30, 2008 were \$4.2 million, an increase of \$239,000, from \$4.0 million for the three months ended June 30, 2007. The increase mainly reflects an increase in payroll due to a higher average headcount during the three months ended June 30, 2008 compared to the three months ended June 30, 2007 as well as additional expenses as a result of the Stock Swap Program

Research and development expenses for the six months ended June 30, 2008 were \$7.8 million, a decrease of \$115,000, from \$7.9 million for the six months ended June 30, 2007. The majority of the decrease is due to a reduction in tooling and prototype expense of \$552,000 related to our UWB imitative partially offset by increased payroll of \$346,000 due to a higher average headcount during the six months ended June 30, 2008 compared to the six months ended June 30, 2007.

Interest expense, net and Other income, net

(Dollars in thousands)	Three Months Ended		Increase
	June 30, 2008	June 30, 2007	
Interest expense, net	\$ (978)	\$ (299)	\$ 679
Other income/(expense), net	\$ 1	\$ (2)	\$ 3

(Dollars in thousands)	Six Months Ended		Increase / (Decrease)
	June 30, 2008	June 30, 2007	
Interest expense, net	\$ (1,665)	\$ (589)	\$ 1,076
Other income/(expense), net	\$ (9)	\$ 1	\$ (10)

Net interest expense for the three months ended June 30, 2008 was \$978,000, compared to \$299,000 in the three months ended June 30, 2007. The additional interest expense is directly related to increased borrowings, including \$9.3 million borrowed on February 11, 2008, an increase of the interest rate on the notes outstanding from 10% to 12% effective February 11, 2008 and interest expense derived from the amortization of note discount of \$301,000.

Net interest expense for the six months ended June 30, 2008 was \$1.7 million, compared to \$589,000 in the six months ended June 30, 2007. The additional interest expense is related to increased borrowings, including \$9.3 million borrowed on February 11, 2008, an increase of the interest rate on the notes outstanding from 10% to 12% effective February 11, 2008 and interest expense derived from the amortization of a note discount of \$467,000.

Other income (expense) for the three and six months ended June 30, 2008 consists mainly of fluctuations associated with exchange rate differences related to transactions denominated in Euros.

LIQUIDITY AND CAPITAL RESOURCES

The accompanying condensed consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. For the six months ended June 30, 2008 and the year ended December 31, 2007, we incurred net losses of \$12.7 million and \$17.4 million, respectively, and used cash in operating activities of \$8.7 million, and \$14.6 million, respectively. Absent continued access to capital from the sale of securities or other sources, we will be unable to continue as a going concern.

The condensed consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might be necessary should we be unable to continue as a going concern. Continuing as a going concern depends upon our ability to generate sufficient positive cash flows to meet our obligations on a timely basis, to obtain additional financing as may be required, and ultimately to return to profitability.

Since inception, we have financed our operations primarily through the public and private sale of common stock and other convertible debt securities, lines of credit and debt borrowings from financial institutions, proceeds from the exercise of options and warrants, short-term borrowings or guarantees from private lenders (including individuals) and credit arrangements with vendors and suppliers.

(Dollars in thousands)	June 30, 2008	December 31, 2007
	Cash and cash equivalents	\$ 2,119
Working capital	\$ (3,593)	\$ (2,034)

	Six Months Ended	
	June 30, 2008	June 30, 2007
Net cash used in operating activities	\$ (8,684)	\$ (7,881)
Net cash used in investing activities	\$ (567)	\$ (490)
Net cash provided by financing activities	\$ 9,521	\$ 6,383

Net cash used in operating activities

(In thousands)

	Six Months Ended,		
	June 30, 2008	June 30, 2007	Change in
	cash (used) provided	cash (used) provided	cash (used) provided
Net loss	\$ (12,713)	\$ (8,357)	\$ (4,356)
Non-cash income statement items	2,735	1,609	1,126
Adjusted net loss	(9,978)	(6,748)	(3,230)
Changes in working capital	1,294	(1,133)	2,427
Net cash used in operating activities	<u>\$ (8,684)</u>	<u>\$ (7,881)</u>	<u>\$ (803)</u>

Net cash used in operating activities for the six months ended June 30, 2008 and 2007 was \$8.7 million and \$7.9 million, respectively. The increase in net cash used in operating activities mainly reflects an increase in the net loss adjusted for non-cash items, an increase in cash used by prepaid expenses and accounts payable, partially offset by an increase in cash provided by accounts receivable and accrued liabilities. The increase in cash provided by accounts receivable reflects our lower sales run rate compared to prior year. The increase in cash used by accounts payable mainly reflects the timing of payments related to our UWB investment and reduced inventory purchases.

One customer had an accounts receivable balance of 14% of our total accounts receivable at June 30, 2008.

We expect that our operating cash flows may fluctuate in future periods as a result of fluctuations in our operating results, shipment timetable, accounts receivable collections, inventory management, and the timing of payments among other factors.

Net cash used in investing activities

Net cash used in investing activities was \$567,000 for the six months ended June 30, 2008, compared to \$490,000 used in the six months ended June 30, 2007. The increase in cash used in investing activities mainly reflects the timing of purchases of equipment and design tools related to our investment in UWB technology.

Net cash provided by financing activities

Net cash provided by financing activities was \$9.5 million for the six months ended June 30, 2008, compared to \$6.4 million for the six months ended June 30, 2007. The net cash provided by financing activities in the six months ended June 30, 2008 mainly consists of net proceeds of \$9.3 million from the issuance of additional notes payable and an increase in net borrowings of \$400,000 associated with our line of credit compared to cash provided from private financing of \$6.2 million and \$207,000 from the exercise of stock options and warrants.

Capital Resources and Liquidity Outlook

We have incurred losses and used net cash in operating activities for the six months ended June 30, 2008 and each of the two years in the period ended December 31, 2007, as such, we have been dependent upon raising money for short- and long-term cash needs through the issuance of debt, proceeds from the exercise of options and warrants, and the sale of our common stock in private placements.

We received gross proceeds of \$9.3 million from the issuance of secured notes and warrants to a group of private investors in February 2008. These notes, along with an additional \$11.5 million in previously outstanding notes, initially bear interest at a 12% annual rate, increasing to 15% on October 1, 2008, with interest due on June 30 and December 30 of each year the notes remain outstanding. We may elect to pay interest due on December 30, 2008 in cash or by issuing additional notes in the full amount of such interest payment, if there has been no event of default. We received net proceeds of \$6.2 million and \$4.9 million from the issuances of common stock and warrants to groups of private investors in February 2007 and September 2007, respectively.

On June 30, 2008, the Company chose to issue additional notes in the amounts of \$1,098,371 in lieu of the cash interest payment due on that date. These notes have the same terms and conditions as the \$9.3 million secured notes issued on February 11, 2008.

In March 2008, we finalized a line of credit agreement with Heritage Bank of Commerce. Under the line of credit, we may borrow up to \$6.5 million in one or more advances through February 21, 2009. At June 30, 2008, we had an outstanding balance of \$6.5 million, which is the maximum amount available under this line of credit.

In early 2008, we focused on reducing our expense base. In February 2008, we eliminated eight positions or approximately five percent of our total workforce from our operations, sales and marketing departments. Additionally, in February 2008 we initiated a cash salary reduction plan for certain employees in consideration of such employees receiving compensation through payments of our common stock under our various stock plans. We estimate that this could save approximately \$700,000 in cash in 2008.

Our expense reduction efforts are only part of our overall efforts to reduce our financial risks. We will need to raise additional amounts before September 30, 2008, to continue development and launch commercialization of our next generation products. The amount necessary will depend upon the results and timing of ongoing development efforts and the anticipated growth of our Semiconductor and Systems businesses. Our future capital requirements will remain dependent upon these and other factors, including cash flow from operations, the ability to increase sales from their recent reduced levels over those of prior years, increasing our gross margins from current levels, continued progress in research and development programs, and our ability to market our new products successfully.

Summary of Certain Contractual Obligations as of June 30, 2008

(In thousands)

	<u>< 1 year</u>	<u>1-3 years</u>	<u>3-5 years</u>	<u>Total</u>
Capital and operating leases (including interest)	\$ 790	\$ 857	\$ -	\$ 1,647
Inventory purchase commitments	640	-	-	640
Line of credit	6,500	-	-	6,500
Notes payable	-	21,898	-	21,898
Interest on notes payable	3,231	4,810	-	8,041
	<u>\$ 11,161</u>	<u>\$ 27,565</u>	<u>\$ -</u>	<u>\$ 38,726</u>

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Interest Rate Risk

At June 30, 2008, we did not hold any short-term investments that would be exposed to market risk from adverse movements in interest rates.

At June 30, 2008, our outstanding debt obligations consisted of secured notes payable of \$21.9 million – see Note 7, “Borrowings”. A fixed interest rate is applicable to these debt obligations of 12.0% per annum through September 30, 2008 after which the rate increases to 15.0% per annum until maturity (January 1, 2011).

Foreign Currency Risk

Gains or losses related to foreign exchange currency transactions were not material for the periods ended June 30, 2008 and 2007.

Item 4T. Controls and Procedures

Management of the Company, with the participation of the President and Chief Executive Officer and the Chief Financial Officer (its principal executive officer and principal financial officer, respectively), evaluated our disclosure controls and procedures as of the end of the period covered by this Report. Based on that evaluation, the President and Chief Executive Officer and the Chief Financial Officer have concluded that, as of the end of the period covered by this Report, our disclosure controls and procedures are effective.

There was no change in our internal control over financial reporting that occurred during the three months ended June 30, 2008 of 2008 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, Focus is a party to certain claims and legal proceedings that arise in the ordinary course of business of which, in the opinion of management, will not have a material adverse effect on Focus' financial position or results of operations.

Item 1A. Risk Factors

Except as described below, there have been no material changes to our risk factors disclosed in our Annual Report on Form 10-K for the year ended December 31, 2007. You should carefully consider the risks identified therein any of which could materially affect our business, financial condition or future results.

We have a long history of operating losses.

As of June 30, 2008, we had an accumulated deficit of \$135.4 million. We incurred net losses of \$17.4 million, \$15.9 million and \$15.4 million for the years ended December 31, 2007, 2006 and 2005, respectively, and we expect to continue to incur net losses for the remainder of 2008. There can be no assurance that we will ever become profitable. Additionally, our independent registered public accounting firm has included an explanatory paragraph in its report on our consolidated financial statements for the year ended December 31, 2007 with respect to substantial doubt about our ability to continue as a going concern. The consolidated financial statements do not include any adjustments that might result from the outcome of that uncertainty.

We will need to raise additional capital, which may not be available when we need it.

Historically, we have met our short- and long-term cash needs through debt issuances, the sale of common stock or other convertible securities in private placements, because cash flow from operations has been insufficient to fund our operations. Recent financial market turmoil has exacerbated the capital raising efforts of small technology companies. The Company has sold debt securities on a secured basis when it has been unable to sell its equity securities on acceptable terms, and the inability to provide security to different future lenders may preclude the availability of such capital sources. If the Company cannot access either the debt or capital markets, it would have no choice but to reorganize its operations, either in bankruptcy or other insolvency proceedings.

We received net proceeds of \$9.3 million from the issuance of secured notes and warrants to a group of private investors in February 2008. We received net proceeds of \$6.2 million and \$4.9 million from the issuances of common stock to groups of private investors in February 2007 and September 2007. We believe that we will need to raise additional amounts before September 30, 2008 to continue development and launch commercialization of our next generation UWB products. The amount necessary will depend upon the results of ongoing UWB and other product development efforts and our Semiconductor and Systems businesses. Our future capital requirements will remain dependent upon these and other factors, including cash flow from operations, increasing our gross margins from current levels, continued progress in research and development programs, competing technological and market developments, and our ability to market our new products successfully. There can be no assurance that additional equity or debt financing, if required, will be available on acceptable terms or at all. If we are unable to access equity or debt financings when we need it, our business will be substantially harmed.

Our future capital raising activities may dilute the ownership of our existing stockholders.

We will sell securities in the public and private equity markets if and when conditions are favorable. Raising funds through the issuance of common stock will dilute the ownership of our existing stockholders. Furthermore, we may issue common stock, or securities convertible into or exercisable for our common stock, at prices that represent a substantial discount to the market price of our common stock, which could result in a decline in the trading price of our common stock.

Currently we do not meet the requirements to remain listed on the Nasdaq Capital Market. As described below, we have sought a hearing to reverse the delisting notice that we have received, but there can be no assurance that we will meet the criteria required for reversal. If we are delisted, it could, among other things, decrease the liquidity of our common stock, limit our ability to raise additional capital and potentially accelerate the amounts due under our \$21.9 million outstanding principal amount of senior secured notes at the option of the holders of such notes.

We may be delisted from the Nasdaq Capital Market.

Our common stock is traded on the Nasdaq Capital Market. There are various quantitative listing requirements for a company to remain listed on the Nasdaq Capital Market, including maintaining a minimum bid price of \$1.00 per share of common stock and stockholders' equity of \$2.5 million or market capitalization of at least \$35 million.

On June 16, 2008, the Company received a letter from The Nasdaq Stock Market ("Nasdaq") notifying the Company that it fails to comply with the market value of public listed securities requirement for continued listing set forth in Marketplace Rule 4310(c)(3)(B). Such rule requires that the Company's market value not be below \$35,000,000 for ten consecutive trading days. According to Nasdaq, as of June 13, 2008, the Company's listed securities market value was \$30,214,960. The Company had until July 16, 2008, to regain compliance with the rule.

On July 21, 2008, the Company received a letter from Nasdaq notifying the Company that it has not regained compliance in accordance with Marketplace Rule 4310(c)(8)(C). Accordingly, the Company's securities will be delisted from the Nasdaq Capital Market on July 30, 2008, unless the Company appealed its delisting to the Nasdaq Listing Qualifications Panel.

On July 28, 2008, the Company was notified that its request to appear before the Nasdaq Hearings Panel has been approved and that a hearing has been scheduled for September 4, 2008. Accordingly, the delisting of the Company's securities has been stayed pending the Nasdaq Hearings Panel's decision. The Company intends to submit materials and attend the hearing in support of its appeal. There can be no assurance, however, that the Nasdaq Hearings Panel will grant a request for continued listing.

In addition to receiving notices that the Company has not been in compliance with Nasdaq's market capitalization rule for continued listing, the Company also has received notices that it has not been in compliance with Nasdaq's \$1.00 minimum bid price rule for continued listing on the Nasdaq Capital Market. On August 15, 2007, we were notified that for the previous 30 consecutive business days, the bid price of our common stock had closed below the minimum \$1.00 per share price requirement and we were initially given until February 11, 2008 to regain compliance. But, on February 12, 2008, we were advised that we had an additional six months extension or until August 11, 2008 to attain compliance with this \$1.00 minimum bid price rule.

On August 12, 2008, the Company was notified by Nasdaq that the Company has not regained compliance with Nasdaq's \$1.00 minimum bid price rule and that this matter serves as an additional basis for delisting of the Company's securities from the Nasdaq Capital Market. Additionally, Nasdaq notified the Company that the Nasdaq Listing Qualifications Panel will consider this matter in rendering its determination regarding the Company's continued listing on the Nasdaq Capital Market. Accordingly, the Company also intends to address the minimum bid price rule at the hearing on September 4, 2008.

We may take certain actions in order to regain compliance with Nasdaq's continued listing requirements. These actions include, without limitation, a reverse stock split of our shares of common stock. There can be no assurance, however, that such actions will allow us to regain compliance with any of the Nasdaq's continued listing requirements. If we do not regain compliance with the continued listing requirements within the allotted compliance period (including the minimum bid price per share and the market capitalization requirement), including any extensions that may be granted by Nasdaq, Nasdaq would notify us that our common stock will be delisted from the Nasdaq Capital Market.

If we are delisted from the Nasdaq Capital Market, our shares may be quoted on the OTC Electronic Bulletin Board or some other quotation medium, such as the pink sheets, depending on our ability to meet the specific listing requirements of the specific quotation system and market makers' willingness to quote our shares on either of these mediums. As a result, an investor might find it more difficult to trade, or to obtain accurate price quotations for, such shares. Delisting might also reduce our ability to raise capital as well as the visibility, liquidity, and price of our voting common stock. If our common stock were not listed on the Nasdaq Capital Market or another established automated over-the-counter trading market in the United States, all amounts outstanding under our \$21.9 million senior secured notes would become due and payable at the option of the holders. We do not now have such capital, and we may not have sufficient resources or access to additional capital at the time such demand is made, to satisfy those note obligations at the time they would become due, which would have a material adverse impact on our financial condition and results of operations.

The exercise price of a significant number of our outstanding warrants will adjust downward in the event we issue equity securities or equity linked securities at an effective price less than \$0.80 per share.

The exercise price of the warrants held by our senior secured note holders will be adjusted without any change in the number of securities purchasable under the warrants if the Company issues any equity or equity linked securities in connection with a financing, the primary purpose of which is to raise equity capital, at a net effective price to the Company of less than \$0.80 per share of common stock. If the Company makes such an issuance, then the exercise price of the warrants issued and then outstanding held by our senior secured note holders will be adjusted so that the exercise price to purchase one share of common stock pursuant to the warrant will be the net effective price received by the Company in the financing; provided, however, that such adjustment to the exercise price may not result in the exercise price of the warrant to be less than \$0.35 per share.

We have a significant number of outstanding securities that will dilute existing stockholders upon conversion or exercise.

At July 31, 2008, we had 3,161 shares of preferred stock issued and outstanding 32,703,748 warrants and 5,512,529 options outstanding which are all exercisable for or convertible into shares of common stock. The 3,161 shares of preferred stock are convertible into 3,161,000 shares of our voting common stock. Furthermore, at July 31, 2008, 2,235,034 additional shares of common stock were available for grant to our employees, officers, directors and consultants under our current stock option and incentive plans. We also may issue additional shares in acquisitions. Any additional grant of options under existing or future plans or issuance of shares in connection with an acquisition will further dilute existing stockholders.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

On June 20, 2008, we issued a warrant to Darren S. Bankston of Piedmont Consulting, to purchase 37,500 shares of our common stock at a purchase price of \$0.50 per share for investor relation services. The warrant was issued pursuant to section 4(2) of the Securities Act based on the nature of the investor and certain representations made to us. The warrant was immediately exercisable and expires five years from the date of grant.

On June 20, 2008, we issued a warrant to Keith Fetter of Piedmont Consulting, to purchase 37,500 shares of our common stock at a purchase price of \$0.50 per share for investor relation services. The warrant was issued pursuant to section 4(2) of the Securities Act based on the nature of the investor and certain representations made to us. The warrant was immediately exercisable and expires five years from the date of grant.

Although we do not have any publicly announced programs or plans to repurchase our securities, during the six months ended June 30, 2008, we repurchased an aggregate of 285,798 shares of our common stock which were originally issued as restricted stock under our stock compensation plans for an aggregate purchase price of \$127,000.

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

- 4.1 Common Stock Purchase Warrant issued to R. Keith Fetter, dated June 20, 2008
- 4.2 Common Stock Purchase Warrant issued to Darren S. Bankston, dated June 20, 2008
- 4.3 Piggyback Registration Rights Agreement between Focus and R. Keith Fetter., dated June 20, 2008
- 4.4 Piggyback Registration Rights Agreement between Focus and Darren S. Bankston, dated June 20, 2008
- 10.1 Hallo Asset Purchase agreement, dated April 23, 2008
- 31.1 Rule 13a-14(a) Certification of CEO
- 31.2 Rule 13a-14(a) Certification of CFO
- 32.1 CEO 906 Certification
- 32.2 CFO 906 Certification

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.

August 14, 2008
Date

Focus Enhancements, Inc.
Registrant

By:/s/ Brett A. Moyer
Brett A. Moyer
Chief Executive Officer and President
(Principal Executive Officer)

By:/s/ Gary L. Williams
Gary L. Williams
Executive Vice President of Finance,
Chief Financial Officer
(Principal Accounting Officer)

THESE SECURITIES HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR THE SECURITIES LAWS OF ANY STATE AND MAY NOT BE SOLD OR OFFERED FOR SALE IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT FOR THE SECURITIES OR AN OPINION OF COUNSEL OR OTHER EVIDENCE ACCEPTABLE TO THE COMPANY THAT SUCH REGISTRATION IS NOT REQUIRED.

FOCUS ENHANCEMENTS, INC.

COMMON STOCK PURCHASE WARRANT

1. Issuance; Certain Definitions. For good and valuable consideration, the receipt of which is hereby acknowledged by FOCUS ENHANCEMENTS, INC., a Delaware corporation (the "Company"), R. Keith Fetter, or registered assigns (the "Holder") is hereby granted the right to purchase at any time until 5:00 P.M., New York City time, on **June 20, 2013** (the "Expiration Date"), **37,500 (thirty-seven thousand five hundred)** fully paid and non-assessable shares of the Company's Common Stock, \$0.01 par value per share (the "Common Stock"), at an initial exercise price (the "Exercise Price") of **\$0.50 (fifty cents)** per share, subject to further adjustment as set forth herein. These shares are exercisable immediately.

2. Exercise of Warrants.

(a) This Warrant is exercisable in whole or in part at any time and from time to time. Such exercise shall be effectuated by submitting to the Company (either by delivery to the Company or by facsimile transmission as provided in Section 8 hereof) a completed and duly executed Notice of Exercise (substantially in the form attached to this Warrant) as provided in this paragraph. The date such Notice of Exercise is faxed to the Company shall be the "Exercise Date," provided that the Holder of this Warrant tenders this Warrant Certificate to the Company within five (5) business days thereafter and at the time of such Notice of Exercise the Company has received payment for the shares being purchased. The Notice of Exercise shall be executed by the Holder of this Warrant and shall indicate the number of shares then being purchased pursuant to such exercise. Upon surrender of this Warrant Certificate, together with appropriate payment of the Exercise Price for the shares of Common Stock purchased, the Holder shall be entitled to receive a certificate or certificates for the shares of Common Stock so purchased.

The Exercise Price per share of Common Stock for the shares then being exercised shall be payable in cash by wire, certified or official bank check.) Alternatively, at any time after issuance of the Warrant, the Warrant may also be exercised by means of a "cashless exercise" in which the Holder shall be entitled to receive a certificate for the number of shares of Common Stock equal to the quotient obtained by dividing [(A-B) multiplied by (X)] by (A), where:

(A) = the Market Price (as defined below) of one share of Common Stock on the date that the Holder delivers a complete Notice of Exercise Form to the Company as provided herein

(B) = the Exercise Price of this Warrant, as adjusted; and

(X) = the number of Common Stock issuable upon exercise of this Warrant in accordance with the terms of this Warrant by means of a cash exercise rather than a cashless exercise.

(b) The term "Market Price" as of a particular date (the "Valuation Date") shall mean the following: (a) if the Common Stock is then listed or quoted on a national securities exchange or Nasdaq (each, a "trading market"), the closing sale price of one share of Common Stock on such exchange on the last trading day prior to the Valuation Date or, if no such closing sale price is available, the average of the high bid and the low asked price quoted thereon on the last trading day prior to the Valuation Date; (b) if the Common Stock is not then listed or quoted on a trading market and if prices for the Common Stock are then quoted on the OTC Bulletin Board or such similar exchange or association, the closing sale price of one share of Common Stock on the OTC Bulletin Board or such other exchange or association on the last trading day prior to the Valuation Date or, if no such closing sale price is available, the average of the high bid and the low asked price quoted thereon on the last trading day prior to the Valuation Date; or (c) if the Common Stock is not then listed or quoted on a trading market or quoted on the OTC Bulletin Board or such other exchange or association, the fair market value of one share of Common Stock as of the Valuation Date shall be determined in good faith by the Board of Directors of the Company and the Holder. If the Common Stock is not then listed or quoted on a trading market or quoted on the OTC Bulletin Board or such other exchange or association, the Board of Directors of the Company shall respond promptly, in writing, to an inquiry by the Holder prior to the exercise hereunder as to the fair market value of a share of Common Stock as determined by the Board of Directors of the Company. In the event that the Board of Directors of the Company and the Holder are unable to agree upon the fair market value in respect of subpart (c) hereof, the Company and the Holder shall jointly select an appraiser, who is experienced in such matters. The decision of such appraiser shall be final and conclusive, and the cost of such appraiser shall be borne equally by the Company and the Holder. Such adjustment shall be made successively whenever such a payment date is fixed.

(c) In no event shall Holder exercise this Warrant for less than one thousand (1,000) Warrant Shares unless the Holder has a Warrant for less than one thousand (1,000) Warrant Shares, in which case Holder shall be required to exercise the Warrant for all remaining Warrant Shares on the Exercise Date.

(d) The Holder shall be deemed to be the holder of the shares issuable to it in accordance with the provisions of this Section 2 only on and after the Exercise Date.

3. Reservation of Shares. At all times during the term of this Warrant the Company shall reserve for issuance upon exercise of this Warrant such number of shares of its Common Stock as shall be required for issuance upon exercise of this Warrant (the "Warrant Shares").

4. Mutilation or Loss of Warrant. Upon receipt by the Company of evidence satisfactory to it of the loss, theft, destruction or mutilation of this Warrant, and (in the case of loss, theft or destruction) receipt of reasonably satisfactory indemnification, and (in the case of mutilation) upon surrender and cancellation of this Warrant, the Company will execute and deliver a new Warrant of like tenor and date and any such lost, stolen, destroyed or mutilated Warrant shall thereupon become void.

5. Rights of the Holder. Until the Warrant is exercised in whole or in part, the Holder shall not, by virtue hereof, be entitled to any rights of a stockholder in the Company, either at law or equity, and the rights of the Holder shall be limited to those expressed in this Warrant and are not enforceable against the Company except to the extent set forth herein.

6. Adjustments.

6.1 Adjustment Mechanism. If an adjustment of the Exercise Price is required pursuant to this Section 6, the Holder shall be entitled to purchase such number of shares of Common Stock as will cause (i) the total number of shares of Common Stock Holder is entitled to purchase pursuant to this Warrant, multiplied by (ii) the adjusted Exercise Price per share, to equal (iii) the dollar amount of the total number of shares of Common Stock Holder is entitled to purchase before adjustment multiplied by the total Exercise Price immediately before adjustment.

6.2 Capital Adjustments. In case of any stock split or reverse stock split, stock dividend, reclassification of the Common Stock, recapitalization, merger or consolidation, or like capital adjustment affecting the Common Stock of the Company prior to the exercise of this Warrant or its applicable portion, the provisions of this Section 6 shall be applied as if such capital adjustment event had occurred immediately prior to the exercise date of this Warrant and the original Exercise Price had been fairly allocated to the stock resulting from such capital adjustment; and in other respects the provisions of this Section shall be applied in a fair, equitable and reasonable manner, as determined by the Company's Board of Directors in its absolute discretion, so as to give effect, as nearly as may be practicable, to the purposes hereof.

6.3 Spin Off. If, for any reason, prior to the exercise of this Warrant in full, the Company spins off or otherwise divests itself of a part of its business or operations or disposes all or of a part of its assets in a transaction (the "Spin Off") in which the Company does not receive compensation for such business, operations or assets, but causes securities of another entity to be issued to Common Stock security holders of the Company, then the Company shall notify the Holder at least twenty (20) days prior to the record date with respect to such Spin-Off.

7. Transfer to Comply with the Securities Act; Restriction on Sales; Registration Rights.

7.1 Transfer. This Warrant has not been registered under the Securities Act of 1933, as amended, (the "Act") and has been issued to the Holder for investment and not with a view to the distribution of either the Warrant or the Warrant Shares. Neither this Warrant nor any of the Warrant Shares or any other security issued or issuable upon exercise of this Warrant may be sold, transferred, pledged or hypothecated in the absence of an effective registration statement under the Act relating to such security or an opinion of counsel satisfactory to the Company that registration is not required under the Act. Each certificate for the Warrant, the Warrant Shares and any other security issued or issuable upon exercise of this Warrant shall contain a legend on the face thereof, in form and substance satisfactory to counsel for the Company, setting forth the restrictions on transfer contained in this Section.

7.2 Registration Rights. As set forth in Exhibit 1, Holder shall have piggy-back registration rights with respect to the Warrant Shares then held by the Holder or then subject to issuance upon exercise of this Warrant (collectively, the "Remaining Warrant Shares").

8. Notices. Any notice or other communication required or permitted hereunder shall be in writing and shall be delivered personally (including by recognized courier), sent by facsimile transmission, or sent by certified, registered or express mail, postage pre-paid. Any such notice shall be deemed given when so delivered personally, or sent by facsimile transmission, or, if mailed, four (4) days after the date of prepaid deposit in the United States mail, certified, registered or overnight delivery as follows:

if to the Company, to:

FOCUS ENHANCEMENTS, INC.
1370 Dell Avenue
Campbell, California 95008
ATTN: Gary Williams, Chief Financial Officer
Telephone No.: (408) 866-8300
Facsimile No.: (408) 866-4795

with a copy to:

Manatt, Phelps & Phillips, LLP
1001 Page Mill Road, Bldg. 2
Palo Alto, California 94304
Attn: Jerrold F. Petruzzelli, Esq.
Telephone No.: (650) 812-1335
Telecopier No.: (650) 213-0260

(ii) if to the Holder, to:

Fax No.:

Any party may give notice to the other parties designated in accordance with this Section to change its respective address or addressee for notices.

9. Supplements and Amendments: Whole Agreement. This Warrant may be amended or supplemented only by an instrument in writing signed by the parties hereto. This Warrant contains the full understanding of the parties with respect to its subject matter, and there are no representations, warranties, agreements or understandings other than expressly contained herein and therein.

10. Governing Law. This Warrant shall be deemed to be a contract made under the laws of the State of Delaware for contracts to be wholly performed in such state and without giving effect to the principles thereof regarding the conflict of laws. Each of the parties consents to the jurisdiction of the federal courts whose districts encompass any part of the State of California, Santa Clara County in connection with any dispute arising under this Warrant and hereby waives, to the maximum extent permitted by law, any objection, including any objection based on *forum non conveniens*, to the bringing of any such proceeding in such jurisdictions.

11. Jury Trial Waiver. The Company and the Holder hereby waive a trial by jury in any action, proceeding or counterclaim brought by either of the parties hereto against the other in respect of any matter arising out or in connection with this Warrant.

12. Counterparts. This Warrant may be executed in any number of counterparts and each of such counterparts shall for all purposes be deemed to be an original, and all such counterparts shall together constitute but one and the same instrument.

13. Descriptive Headings. Descriptive headings of the several Sections of this Warrant are inserted for convenience only and shall not control or affect the meaning or construction of any of the provisions hereof.

IN WITNESS WHEREOF, the parties hereto have executed this Warrant as of the 20th day of June, 2008.

FOCUS ENHANCEMENTS, INC.

By: /s/ Gary Williams

Name: Gary Williams
Title: EVP of Finance & CFO

NOTICE OF EXERCISE OF WARRANT

The undersigned hereby irrevocably elects to exercise the right, represented by the Warrant Certificate dated as of __, __, to purchase __ shares of the Common Stock, \$0.01 par value, of **FOCUS ENHANCEMENTS, INC.**, and tenders herewith payment in accordance with Section 1 of said Common Stock Purchase Warrant.

CASH:\$ _____ = (Exercise Price x Exercise Shares)

Payment is being made by:

_____ enclosed check

_____ wire transfer

_____ other

Please deliver the stock certificate to:

Dated:

[Name of Holder]

By:

THESE SECURITIES HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR THE SECURITIES LAWS OF ANY STATE AND MAY NOT BE SOLD OR OFFERED FOR SALE IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT FOR THE SECURITIES OR AN OPINION OF COUNSEL OR OTHER EVIDENCE ACCEPTABLE TO THE COMPANY THAT SUCH REGISTRATION IS NOT REQUIRED.

FOCUS ENHANCEMENTS, INC.

COMMON STOCK PURCHASE WARRANT

1. Issuance; Certain Definitions. For good and valuable consideration, the receipt of which is hereby acknowledged by FOCUS ENHANCEMENTS, INC., a Delaware corporation (the "Company"), **Darren S. Bankston**, or registered assigns (the "Holder") is hereby granted the right to purchase at any time until 5:00 P.M., New York City time, on **June 20, 2013** (the "Expiration Date"), **37,500 (thirty-seven thousand five hundred)** fully paid and non-assessable shares of the Company's Common Stock, \$0.01 par value per share (the "Common Stock"), at an initial exercise price (the "Exercise Price") of **\$0.50 (fifty cents)** per share, subject to further adjustment as set forth herein. These shares are exercisable immediately.

2. Exercise of Warrants.

(a) This Warrant is exercisable in whole or in part at any time and from time to time. Such exercise shall be effectuated by submitting to the Company (either by delivery to the Company or by facsimile transmission as provided in Section 8 hereof) a completed and duly executed Notice of Exercise (substantially in the form attached to this Warrant) as provided in this paragraph. The date such Notice of Exercise is faxed to the Company shall be the "Exercise Date," provided that the Holder of this Warrant tenders this Warrant Certificate to the Company within five (5) business days thereafter and at the time of such Notice of Exercise the Company has received payment for the shares being purchased. The Notice of Exercise shall be executed by the Holder of this Warrant and shall indicate the number of shares then being purchased pursuant to such exercise. Upon surrender of this Warrant Certificate, together with appropriate payment of the Exercise Price for the shares of Common Stock purchased, the Holder shall be entitled to receive a certificate or certificates for the shares of Common Stock so purchased.

The Exercise Price per share of Common Stock for the shares then being exercised shall be payable in cash by wire, certified or official bank check.) Alternatively, at any time after issuance of the Warrant, the Warrant may also be exercised by means of a "cashless exercise" in which the Holder shall be entitled to receive a certificate for the number of shares of Common Stock equal to the quotient obtained by dividing [(A-B) multiplied by (X)] by (A), where:

(A) = the Market Price (as defined below) of one share of Common Stock on the date that the Holder delivers a complete Notice of Exercise Form to the Company as provided herein

(B) = the Exercise Price of this Warrant, as adjusted; and

(X) = the number of Common Stock issuable upon exercise of this Warrant in accordance with the terms of this Warrant by means of a cash exercise rather than a cashless exercise.

(b) The term "Market Price" as of a particular date (the "Valuation Date") shall mean the following: (a) if the Common Stock is then listed or quoted on a national securities exchange or Nasdaq (each, a "trading market"), the closing sale price of one share of Common Stock on such exchange on the last trading day prior to the Valuation Date or, if no such closing sale price is available, the average of the high bid and the low asked price quoted thereon on the last trading day prior to the Valuation Date; (b) if the Common Stock is not then listed or quoted on a trading market and if prices for the Common Stock are then quoted on the OTC Bulletin Board or such similar exchange or association, the closing sale price of one share of Common Stock on the OTC Bulletin Board or such other exchange or association on the last trading day prior to the Valuation Date or, if no such closing sale price is available, the average of the high bid and the low asked price quoted thereon on the last trading day prior to the Valuation Date; or (c) if the Common Stock is not then listed or quoted on a trading market or quoted on the OTC Bulletin Board or such other exchange or association, the fair market value of one share of Common Stock as of the Valuation Date shall be determined in good faith by the Board of Directors of the Company and the Holder. If the Common Stock is not then listed or quoted on a trading market or quoted on the OTC Bulletin Board or such other exchange or association, the Board of Directors of the Company shall respond promptly, in writing, to an inquiry by the Holder prior to the exercise hereunder as to the fair market value of a share of Common Stock as determined by the Board of Directors of the Company. In the event that the Board of Directors of the Company and the Holder are unable to agree upon the fair market value in respect of subpart (c) hereof, the Company and the Holder shall jointly select an appraiser, who is experienced in such matters. The decision of such appraiser shall be final and conclusive, and the cost of such appraiser shall be borne equally by the Company and the Holder. Such adjustment shall be made successively whenever such a payment date is fixed.

(c) In no event shall Holder exercise this Warrant for less than one thousand (1,000) Warrant Shares unless the Holder has a Warrant for less than one thousand (1,000) Warrant Shares, in which case Holder shall be required to exercise the Warrant for all remaining Warrant Shares on the Exercise Date.

(d) The Holder shall be deemed to be the holder of the shares issuable to it in accordance with the provisions of this Section 2 only on and after the Exercise Date.

3. Reservation of Shares. At all times during the term of this Warrant the Company shall reserve for issuance upon exercise of this Warrant such number of shares of its Common Stock as shall be required for issuance upon exercise of this Warrant (the "Warrant Shares").

4. Mutilation or Loss of Warrant. Upon receipt by the Company of evidence satisfactory to it of the loss, theft, destruction or mutilation of this Warrant, and (in the case of loss, theft or destruction) receipt of reasonably satisfactory indemnification, and (in the case of mutilation) upon surrender and cancellation of this Warrant, the Company will execute and deliver a new Warrant of like tenor and date and any such lost, stolen, destroyed or mutilated Warrant shall thereupon become void.

5. Rights of the Holder. Until the Warrant is exercised in whole or in part, the Holder shall not, by virtue hereof, be entitled to any rights of a stockholder in the Company, either at law or equity, and the rights of the Holder shall be limited to those expressed in this Warrant and are not enforceable against the Company except to the extent set forth herein.

6. Adjustments.

6.1 Adjustment Mechanism. If an adjustment of the Exercise Price is required pursuant to this Section 6, the Holder shall be entitled to purchase such number of shares of Common Stock as will cause (i) the total number of shares of Common Stock Holder is entitled to purchase pursuant to this Warrant, multiplied by (ii) the adjusted Exercise Price per share, to equal (iii) the dollar amount of the total number of shares of Common Stock Holder is entitled to purchase before adjustment multiplied by the total Exercise Price immediately before adjustment.

6.2 Capital Adjustments. In case of any stock split or reverse stock split, stock dividend, reclassification of the Common Stock, recapitalization, merger or consolidation, or like capital adjustment affecting the Common Stock of the Company prior to the exercise of this Warrant or its applicable portion, the provisions of this Section 6 shall be applied as if such capital adjustment event had occurred immediately prior to the exercise date of this Warrant and the original Exercise Price had been fairly allocated to the stock resulting from such capital adjustment; and in other respects the provisions of this Section shall be applied in a fair, equitable and reasonable manner, as determined by the Company's Board of Directors in its absolute discretion, so as to give effect, as nearly as may be practicable, to the purposes hereof.

6.3 Spin Off. If, for any reason, prior to the exercise of this Warrant in full, the Company spins off or otherwise divests itself of a part of its business or operations or disposes all or of a part of its assets in a transaction (the "Spin Off") in which the Company does not receive compensation for such business, operations or assets, but causes securities of another entity to be issued to Common Stock security holders of the Company, then the Company shall notify the Holder at least twenty (20) days prior to the record date with respect to such Spin-Off.

7. Transfer to Comply with the Securities Act; Restriction on Sales; Registration Rights.

7.1 Transfer. This Warrant has not been registered under the Securities Act of 1933, as amended, (the "Act") and has been issued to the Holder for investment and not with a view to the distribution of either the Warrant or the Warrant Shares. Neither this Warrant nor any of the Warrant Shares or any other security issued or issuable upon exercise of this Warrant may be sold, transferred, pledged or hypothecated in the absence of an effective registration statement under the Act relating to such security or an opinion of counsel satisfactory to the Company that registration is not required under the Act. Each certificate for the Warrant, the Warrant Shares and any other security issued or issuable upon exercise of this Warrant shall contain a legend on the face thereof, in form and substance satisfactory to counsel for the Company, setting forth the restrictions on transfer contained in this Section.

7.2 Registration Rights. As set forth in Exhibit 1, Holder shall have piggy-back registration rights with respect to the Warrant Shares then held by the Holder or then subject to issuance upon exercise of this Warrant (collectively, the "Remaining Warrant Shares").

8. Notices. Any notice or other communication required or permitted hereunder shall be in writing and shall be delivered personally (including by recognized courier), sent by facsimile transmission, or sent by certified, registered or express mail, postage pre-paid. Any such notice shall be deemed given when so delivered personally, or sent by facsimile transmission, or, if mailed, four (4) days after the date of prepaid deposit in the United States mail, certified, registered or overnight delivery as follows:

if to the Company, to:

FOCUS ENHANCEMENTS, INC.
1370 Dell Avenue
Campbell, California 95008
ATTN: Gary Williams, Chief Financial Officer
Telephone No.: (408) 866-8300
Facsimile No.: (408) 866-4795

with a copy to:

Manatt, Phelps & Phillips, LLP
1001 Page Mill Road, Bldg. 2
Palo Alto, California 94304
Attn: Jerrold F. Petruzzelli, Esq.
Telephone No.: (650) 812-1335
Telecopier No.: (650) 213-0260

(ii) if to the Holder, to:

Fax No.:

Any party may give notice to the other parties designated in accordance with this Section to change its respective address or addressee for notices.

9. Supplements and Amendments: Whole Agreement. This Warrant may be amended or supplemented only by an instrument in writing signed by the parties hereto. This Warrant contains the full understanding of the parties with respect to its subject matter, and there are no representations, warranties, agreements or understandings other than expressly contained herein and therein.

10. Governing Law. This Warrant shall be deemed to be a contract made under the laws of the State of Delaware for contracts to be wholly performed in such state and without giving effect to the principles thereof regarding the conflict of laws. Each of the parties consents to the jurisdiction of the federal courts whose districts encompass any part of the State of California, Santa Clara County in connection with any dispute arising under this Warrant and hereby waives, to the maximum extent permitted by law, any objection, including any objection based on *forum non conveniens*, to the bringing of any such proceeding in such jurisdictions.

11. Jury Trial Waiver. The Company and the Holder hereby waive a trial by jury in any action, proceeding or counterclaim brought by either of the parties hereto against the other in respect of any matter arising out or in connection with this Warrant.

12. Counterparts. This Warrant may be executed in any number of counterparts and each of such counterparts shall for all purposes be deemed to be an original, and all such counterparts shall together constitute but one and the same instrument.

13. Descriptive Headings. Descriptive headings of the several Sections of this Warrant are inserted for convenience only and shall not control or affect the meaning or construction of any of the provisions hereof.

IN WITNESS WHEREOF, the parties hereto have executed this Warrant as of the 20th day of June, 2008.

FOCUS ENHANCEMENTS, INC.

By: /s/ Gary Williams

Name: Gary Williams
Title: EVP of Finance & CFO

NOTICE OF EXERCISE OF WARRANT

The undersigned hereby irrevocably elects to exercise the right, represented by the Warrant Certificate dated as of __, __, to purchase __ shares of the Common Stock, \$0.01 par value, of **FOCUS ENHANCEMENTS, INC.**, and tenders herewith payment in accordance with Section 1 of said Common Stock Purchase Warrant.

CASH:\$ _____ = (Exercise Price x Exercise Shares)

Payment is being made by:

_____ enclosed check

_____ wire transfer

_____ other

Please deliver the stock certificate to:

Dated:

[Name of Holder]

By:

PIGGYBACK REGISTRATION RIGHTS AGREEMENT

THIS PIGGYBACK REGISTRATION RIGHTS AGREEMENT (this "Agreement"), dated as of the same date as the Warrant to which it is attached as Exhibit L, is made by and between **FOCUS ENHANCEMENTS, INC.**, a Delaware corporation, with headquarters located at 1370 Dell Avenue, Campbell, California 95008 (the "Company"), and Darren Bankston of Piedmont Consulting, Inc. ("Consultant").

WITNESSETH:

WHEREAS, the Company has agreed to issue the Warrant to the Consultant in connection with the performance of certain services, and the Warrant may be exercised for the purchase of shares of Common Stock (the "Warrant Shares") upon certain terms and conditions; and

WHEREAS, the Company has agreed to provide certain registration rights under the Securities Act of 1933, as amended, (the "1933 Act") with respect to the Warrant.

NOW, THEREFORE, in consideration of the premises and the mutual covenants contained herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Company and the Holder hereby agree as follows:

1. Definitions.

As used in this Agreement, the following terms shall have the following meanings:

(a) "Effective Date" means any date after the date hereof that the Securities and Exchange Commission ("SEC") declares effective a Registration Statement covering Registrable Securities and otherwise meeting the conditions contemplated hereby to be effective.

(b) "Holder" means Consultant and any permitted transferee or assignee who agrees to become bound by the provisions of this Agreement in accordance with Section 3 hereof and who holds Registrable Securities, as the context may require.

(c) "Register," "Registered," and "Registration" refer to a registration effected by preparing and filing a Registration Statement or Statements in compliance with the Securities Act and pursuant to Rule 415 under the Securities Act or any successor rule providing for offering securities on a continuous basis ("Rule 415"), and the SEC's declaration or ordering of effectiveness of such Registration Statement.

(d) "Registrable Securities" means the Warrant and the Warrant Shares purchased upon exercise of the Warrant as set forth in the document to which this Agreement is Exhibit L.

(e) "Registration Statement" means a registration statement of the Company under the 1933 Act covering Registrable Securities on Form S-3, if the Company is then eligible to file using such form, and if not eligible, then on Form SB-2 or other appropriate form.

2. **Piggy-back Registration Rights.** If, after the date hereof (but without any obligation to do so), the Company proposes to register (including for this purpose a registration effected by the Company for persons other than the Holders) any of its securities under the 1933 Act in connection with the public offering of such securities (other than a registration (i) with respect to an employee benefit plan, or (ii) in connection with a Rule 145 transaction under the 1933 Act), the Company shall, each such time, promptly give each Holder written notice of such registration together with a list of the jurisdictions in which the Company intends to attempt to qualify such securities under applicable state securities laws. Upon the written request of each Holder given within twenty (20) business days after delivery of such written notice by the Company to Holder, the Company shall, subject to the provisions hereof, use its reasonable efforts to cause to be registered under the 1933 Act all of the Registrable Securities that each such Holder has requested to be registered. If a Holder decides not to include all of its Registrable Securities in any registration statement thereafter filed by the Company, such Holder shall nevertheless continue to have the right to include any Registrable Securities in any subsequent registration statement or registration statements as may be filed by the Company with respect to offerings of its securities, all upon the terms and conditions set forth herein.

2.1 **Obligations of the Company.** Whenever required to effect the registration of any Registrable Securities, the Company shall, as expeditiously as reasonably possible:

(a) Prepare and file with the SEC a registration statement with respect to such Registrable Securities and use its reasonable efforts to cause such registration statement to become effective, and, upon the request of the holders of a majority of the securities registered thereunder, keep such registration statement effective for up to one hundred twenty (120) days.

(b) Prepare and file with the SEC such amendments and supplements to such registration statement and the prospectus used in connection with such registration statement as may be necessary to comply with the provisions of the 1933 Act with respect to the disposition of all securities covered by such registration statement for a period set forth in Section 2.1 (a) above.

(c) Furnish to the Holders such numbers of copies of a prospectus, including a preliminary prospectus, in conformity with the requirements of the 1933 Act, and such other documents as they may reasonably request in order to facilitate the disposition of Registrable Securities owned by them.

(d) In the event of any underwritten public offering, enter into and perform its obligations under an underwriting agreement with terms generally satisfactory to the managing underwriter of such offering. Each Holder participating in such underwriting shall also enter into and perform its obligations under such an agreement.

(e) Notify each Holder of Registrable Securities covered by such registration statement, at any time when a prospectus relating thereto is required to be delivered under the 1933 Act, of the happening of any event as a result of which the prospectus included in such registration statement, as then in effect, includes an untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein not misleading in light of the circumstances then existing. In such instance, Company shall use its best efforts to amend or supplement such prospectus to cure any such statement or omission so as to render such statement or omission not misleading.

(f) Use its best efforts to furnish, on the date that such Registrable Securities are delivered to the underwriters for sale, if such securities are being sold through underwriters, (i) an opinion, dated as of such date, of the counsel representing the Company for the purposes of such registration, in form and substance as is customarily given to underwriters in an underwritten public offering, addressed to the underwriters, if any, and (ii) a letter, dated as of such date, from the independent certified public accountants of the Company, in form and substance as is customarily given by independent certified public accountants to underwriters in an underwritten public offering addressed to the underwriters.

2.2 Furnish Information. In connection with any action pursuant to this Section 2, the selling Holders shall furnish to the Company such information regarding themselves, the Registrable Securities held by them, and the intended method of disposition of such securities as shall be required to effect the registration of their Registrable Securities. In that connection, each selling Holder shall be required to represent to the Company that all such information which is given is both complete and accurate in all material respects when made.

2.3 Definition of Expenses.

(a) “Registration Expenses” shall mean all expenses incurred by the Company, except for “Selling Expenses,” in complying herewith including, without limitation, all registration, filing and qualification fees, underwriters’ expense allowances, printing expenses, fees and disbursements of counsel for the Company, blue sky fees and disbursements, and the expense of any special audits incident to or required by any registration.

(b) “Selling Expenses” shall mean all underwriting discounts and selling commissions applicable to the sale of the Registrable Securities in the registration, all stock transfer taxes and all fees and disbursements of any additional special counsel in connection with each such registration attributable to the Registrable Securities being registered.

2.4 Expenses of Registration. The Company shall bear all Registration Expenses incurred in connection with any registration, qualification or compliance, All Selling Expenses shall be borne by the Holders of the securities so registered, pro rata on the basis of the number of Registrable Securities so registered.

2.5 Underwriting Requirements in Piggy-back Registration. The right of any Holder to registration pursuant to an underwriting shall be conditioned upon such Holder's participation in such underwriting and the inclusion of such Holder's Registrable Securities in the underwriting to the extent provided herein. All Holders proposing to distribute their securities through such underwriting shall (together with the Company and any other persons distributing their securities through such underwriting) enter into an underwriting agreement in customary form with the underwriter or underwriters selected by the Company. Notwithstanding any other provision of this Agreement, if the underwriter determines that market factors require a limitation of the number of shares to be underwritten, the underwriter may exclude some or all Registrable Securities from such registration and underwriting. Notwithstanding anything to the contrary herein, no reduction shall be made with respect to securities offered by the Company for its own account in connection with any Company offering. If any Holder disapproves of the terms of any such underwriting, he may elect to withdraw therefrom by written notice to the Company and the underwriter. Any Registrable Securities excluded or withdrawn from such underwriting shall be withdrawn from such registration.

2.6 Delay of Registration. No Holder shall have any right to obtain or seek an injunction restraining or otherwise delaying any such registration as a result of any controversy that might arise with respect to the interpretation or implementation of this Section 2.

2.7 Indemnification. In the event any Registrable Securities are included in a registration statement under this Section 2:

(a) To the extent permitted by law, the Company will indemnify and hold harmless each Holder, the officers, directors and partners of each Holder, any underwriter (as defined in the 1933 Act) for such Holder and each person, if any, who controls such Holder or underwriter within the meaning of the 1933 Act or the Securities Exchange Act of 1934, as amended (the "1934 Act") against any losses, claims, damages, or liabilities (joint or several) to which they may become subject under the 1933 Act, the 1934 Act or other federal or state law, insofar as such losses, claims, damages, or liabilities (or actions in respect thereof) arise out of or are based upon any of the following statements, omissions or violations (collectively a "Violation"): (i) any untrue statement or alleged untrue statement of a material fact contained in such registration statement, including any preliminary prospectus or final prospectus contained therein or any amendments or supplements thereto; (ii) the omission or alleged omission to state therein a material fact required to be stated therein, or necessary to make the statements therein not misleading; or (iii) any violation or alleged violation by the Company of the 1933 Act, the 1934 Act, any state securities law or any rule or regulation promulgated under the 1933 Act, the 1934 Act or any state securities law; and the Company will reimburse each such Holder, officer, director or partner, underwriter or controlling person for any reasonable legal or other expenses reasonably incurred by them in connection with investigating or defending any such loss, claim, damage, liability, or action; provided, however, that the Company's indemnity contained in this

Section 2.7 (a) shall not apply to amounts paid in settlement of any such loss, claim, damage, liability or action if such settlement is effected without the consent of the Company (which consent shall not be unreasonably withheld), nor shall the Company be liable in any such case for any such loss, claim, damage, liability, or action to the extent that it arises out of or is based upon a Violation which occurs in reliance upon and in conformity with information furnished in writing and expressly stated for use in connection with such registration by any such Holder, or such Holder's officers, directors or partners, underwriter, or controlling person. The Company shall not be required to indemnify any person against any liability arising out of the failure of any Holder or person acting on behalf of a Holder to deliver a prospectus as required by the 1993 Act. The indemnity provided for in this Section 2.7(a) shall remain in full force and effect regardless of any investigation made by or on behalf of such seller, underwriter, participating person or controlling person and shall survive transfer of such securities by such seller.

(b) To the extent permitted by law, each selling Holder will indemnify and hold harmless the Company, each of its directors, each of its officers who have signed the registration statement, each person, if any, who controls the Company within the meaning of the 1933 Act, any underwriter (within the meaning of the 1933 Act) for the Company, any person who controls such underwriter, and any other Holder selling securities in such registration statement or any of its partners, directors or officers or any person who controls such Holder, against any losses, claims, damages or liabilities (joint or several) to which any of the foregoing persons may become subject, under the 1933 Act, the 1934 Act or other federal or state law, insofar as such losses, claims, damages, or liabilities (or actions in respect thereto) arise out of or are based upon any Violation, in each case to the extent (and only to the extent) that such Violation occurs in reliance upon and in conformity with written information furnished by such Holder expressly stated in a writing for use in connection with such registration; and each such Holder will reimburse any legal or other expenses, as incurred, where same are reasonably incurred by any person intended to be indemnified pursuant to this Section 2.7(b), in connection with investigating or defending any such loss, claim, damage, liability, or action; provided, however, that the indemnity agreement contained in this Section 2.7(b) shall not apply to amounts paid in settlement of any such loss, claim, damage, liability or action if such settlement is effected without the consent of the Holder, which consent shall not be unreasonably withheld. Notwithstanding the foregoing, the liability of each Holder under this Section 2.7(b) shall be limited to an amount equal to the net proceeds from the offering price of the shares sold by such Holder.

(c) Promptly after receipt by an indemnified party under this Section 2.7 of notice of the commencement of any action (including any governmental action), such indemnified party will, if a claim in respect thereof is to be made against any indemnifying party under this Section 2.7, notify the indemnifying party in writing of the commencement thereof, and the indemnifying party shall have the right to participate in and, to the extent the indemnifying party so desires, jointly with any other indemnifying party similarly notified, to assume the defense thereof with counsel mutually satisfactory to the parties; provided, however, that an indemnified party shall have the right to retain its own counsel, with the reasonable fees and expenses to be paid by the indemnifying party if the indemnified party reasonably

determines that representation of such indemnified party by the counsel retained by the indemnifying party would be inappropriate due to actual or potential differing interests between such indemnified party and any other party represented by such counsel in such proceeding. The failure to notify an indemnifying party within a reasonable time of the commencement of any such action, to the extent prejudicial to its ability to defend such action, shall relieve such indemnifying party of any liability to the indemnified party under this Section 2.7, but the omission so to notify the indemnifying party will not relieve it of any liability that it may have to any indemnified party otherwise than under this Section 2.7.

(d) In order to provide for just and equitable contribution to joint liability under the 1933 Act in any case in which either (i) any indemnified party makes a claim under this Section 2.7 or any controlling person of such indemnified party makes such a claim but is judicially determined (by entry of a final judgment or decree by a court of competent jurisdiction and the expiration of time to appeal or the denial of the last right of appeal) that such indemnification may not be enforced in such case notwithstanding the fact that this Section 2.7 provides for indemnification in such case, or (ii) contribution under the 1933 Act may be required on the part of any such person seeking indemnity under the terms of this Section 2.7; then, and in each such case, the Company and such person will contribute to the aggregate losses, claims, damages, or liabilities to which they may be subject (after contribution from others) in such proportion as is appropriate to reflect the relative fault of the indemnifying party on the one hand and of the indemnified party on the other in connection with the statements or omissions that resulted in such loss, liability, claim, damage, or expense as well as any other relevant equitable considerations. The relative fault of the indemnifying party and of the indemnified party shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission to state a material fact relates to information supplied by the indemnifying party or by the indemnified party and the parties' relative intent, knowledge, access to information, and opportunity to correct or prevent such statement or omission; provided, however, that, in any such case, (A) no such person shall be required to contribute any amount in excess of the net proceeds from the offering price of all such Registrable Securities sold by it pursuant to such registration statement and (B) no person or entity guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the 1933 Act) shall be entitled to contribution from any person or entity who was not guilty of such fraudulent misrepresentation.

2.8 Reports Under Securities Exchange Act of 1934. With a view to making available to the Holders the benefits of Rule 144 promulgated under the 1933 Act and any other rule or regulation of the SEC that may at any time permit a Holder to sell securities of the Company to the public without registration, the Company agrees to:

(a) use its reasonable efforts to make and keep public information available, as those terms are understood and defined in Rule 144, at all times after ninety (90) days after the closing date of the first registration statement filed by the Company;

(b) use its reasonable efforts to file with the SEC in a timely manner all reports and other documents required of the Company under the 1933 Act and the 1934 Act; and

(c) furnish to any Holder, so long as the Holder owns any Registrable Securities, forthwith upon request: (i) a written statement by the Company that it has complied with the reporting requirements of Rule 144 (at any time after ninety (90) days after the closing date of the first registration statement filed by the Company), the 1933 Act and the 1934 Act (at any time after it has become subject to such reporting requirements); (ii) a copy of the most recent annual or quarterly report of the Company and such other reports and documents so filed by the Company; and (iii) such other information as may be reasonably requested in order to permit any Holder to avail itself of any rule or regulation of the SEC or any state securities authority which permits the selling of any such securities without registration or pursuant to such form.

3. Assignment of Registration Rights.

The piggyback registration rights hereunder may be assigned by a Holder to a transferee or assignee of such securities: (i) if such transfer is made in connection with the transfer of all Registrable Securities held by the transferor; (ii) if such transferee or assignee acquires at least thirty thousand (30,000) shares of the then outstanding Registrable Securities held by such Holder, (iii) to any Affiliate (as defined in Regulation D of the 1933 Act) of such Holder; (iv) to any family member or trust established for the benefit of an individual Holder; or (v) in connection with a distribution by such Holder to any partner, member, former partner, or member or the estate of such partner or member; provided in each case that the Company is, within a reasonable time after such transfer, furnished with written notice of the name and address of such transferee or assignee and the securities with respect to which such registration rights are being assigned; provided, however, that such assignment shall be effective only if the transferee agrees in writing at the time of transfer to be bound by the terms and conditions of this Agreement and such transfer of any Registrable Securities is lawful under all applicable securities laws.

4. Termination of the Company's Obligations.

The Company shall have no obligations hereunder with respect to any registration request or requests made by any Holder (a) more than three years following the date of the Warrants are issued or (b) all Registrable Securities held by and issuable to such Holder (and its affiliates) may be sold under Rule 144 during any ninety (90) day period.

5. Obligations of the Investors. In connection with the registration of the Registrable Securities, any Holder shall have the following obligations:

(a) Such Holder shall cooperate with the Company as reasonably requested by the Company in connection with the preparation and filing of any respective Registration Statement hereunder, unless such Holder has notified the Company in writing of such Holder's election to exclude all of such Holder's Registrable Securities from the Registration Statement; and

(b) Each Holder agrees that, upon receipt of any notice from the Company of the happening of any material event which, in the Company's opinion justifies the cessation of the distribution of the Registrable Securities, such Holder will immediately discontinue disposition of Registrable Securities pursuant to the Registration Statement covering such Registrable Securities until such Holder's receipt of the copies of any supplemented or amended prospectus which addresses such material event, and, if so directed by the Company, such Holder shall deliver to the Company (at the expense of the Company) or destroy (and deliver to the Company a certificate of destruction) all copies in such Holder's possession, of the prospectus covering such Registrable Securities current at the time of receipt of such notice.

6. Amendment of Registration Rights.

Any provision of this Agreement may be amended and the observance thereof may be waived (either generally or in a particular instance and either retroactively or prospectively), only with the written consent of the Company and Holders who hold a fifty (50%) percent interest of the Warrant Shares as of such date. Any amendment or waiver effected in accordance with this Section 6 shall be binding upon each Holder and the Company.

7. Miscellaneous.

(a) A person or entity is deemed to be a holder of Registrable Securities whenever such person or entity owns of record such Registrable Securities. If the Company receives conflicting instructions, notices or elections from two or more persons or entities with respect to the same Registrable Securities, the Company shall act upon the basis of instructions, notice or election received from the registered owner of such Registrable Securities.

(b) Notices required or permitted to be given hereunder shall be given in the manner contemplated by the Warrant: if to the Company or to the Holder, to their respective address contemplated by the Warrant or at such other address as each such party furnishes by notice given in accordance with this clause (b).

(c) Failure of any party to exercise any right or remedy under this Agreement or otherwise, or delay by a party in exercising such right or remedy, shall not operate as a waiver thereof.

(d) This Agreement shall be deemed to be a contract made under the laws of the State of Delaware for contracts to be wholly performed in such state and without giving effect to the principles thereof regarding the conflict of laws. Each of the parties consents to the exclusive jurisdiction of the federal courts whose districts encompass any part of the State of California, Santa Clara County in connection with any dispute arising under this Agreement and hereby waives, to the maximum extent permitted by law, any objection, including any objection based on *forum non conveniens*, to the bringing of any such proceeding in such jurisdiction.

(e) The Company and the Holder hereby waive a trial by jury in any action, proceeding or counterclaim brought by either of the parties hereto against the other in respect of any matter arising out of or in connection with this Agreement.

(f) If any provision of this Agreement shall be invalid or unenforceable in any jurisdiction, such invalidity or unenforceability shall not affect the validity or enforceability of the remainder of this Agreement or the validity or enforceability of this Agreement in any other jurisdiction.

(g) This Agreement shall inure to the benefit of and be binding upon the successors and assigns of each of the parties hereto.

(h) All pronouns and any variations thereof refer to the masculine, feminine or neuter, singular or plural, as the context may require.

(i) The headings in this Agreement are for convenience of reference only and shall not limit or otherwise affect the meaning thereof.

(j) This Agreement may be executed in one or more counterparts, each of which shall be deemed an original but all of which shall constitute one and the same agreement. This Agreement, once executed by a party, may be delivered to the other party hereto by facsimile transmission of a copy of this Agreement bearing the signature of the party so delivering this Agreement.

(k) This Agreement constitutes the entire agreement among the parties hereto with respect to the Holder's registration rights with respect to the Warrant and Warrant Shares. There are no restrictions, promises, warranties or undertakings, other than those set forth or referred to herein. This Agreement supersedes all prior agreements and understandings among the parties hereto with respect to its subject matter.

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IN WITNESS WHEREOF, the parties have caused this Agreement to be duly executed by their respective officers thereunto duly authorized as of the day and year first above written.

COMPANY:

FOCUS ENHANCEMENTS, INC.

By: /s/ Gary Williams
Name: Gary Williams
Title: EVP of Finance & CFO

By: /s/ Darren Bankston
Name: Darren Bankston
Title:

20197708.1

PIGGYBACK REGISTRATION RIGHTS AGREEMENT

THIS PIGGYBACK REGISTRATION RIGHTS AGREEMENT (this "Agreement"), dated as of the same date as the Warrant to which it is attached as Exhibit L, is made by and between **FOCUS ENHANCEMENTS, INC.**, a Delaware corporation, with headquarters located at 1370 Dell Avenue, Campbell, California 95008 (the "Company"), and R. Keith Fetter of Piedmont Consulting, Inc. ("Consultant").

WITNESSETH:

WHEREAS, the Company has agreed to issue the Warrant to the Consultant in connection with the performance of certain services, and the Warrant may be exercised for the purchase of shares of Common Stock (the "Warrant Shares") upon certain terms and conditions; and

WHEREAS, the Company has agreed to provide certain registration rights under the Securities Act of 1933, as amended, (the "1933 Act") with respect to the Warrant.

NOW, THEREFORE, in consideration of the premises and the mutual covenants contained herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Company and the Holder hereby agree as follows:

1. Definitions.

As used in this Agreement, the following terms shall have the following meanings:

(a) "Effective Date" means any date after the date hereof that the Securities and Exchange Commission ("SEC") declares effective a Registration Statement covering Registrable Securities and otherwise meeting the conditions contemplated hereby to be effective.

(b) "Holder" means Consultant and any permitted transferee or assignee who agrees to become bound by the provisions of this Agreement in accordance with Section 3 hereof and who holds Registrable Securities, as the context may require.

(c) "Register," "Registered," and "Registration" refer to a registration effected by preparing and filing a Registration Statement or Statements in compliance with the Securities Act and pursuant to Rule 415 under the Securities Act or any successor rule providing for offering securities on a continuous basis ("Rule 415"), and the SEC's declaration or ordering of effectiveness of such Registration Statement.

(d) "Registrable Securities" means the Warrant and the Warrant Shares purchased upon exercise of the Warrant as set forth in the document to which this Agreement is Exhibit L.

(e) "Registration Statement" means a registration statement of the Company under the 1933 Act covering Registrable Securities on Form S-3, if the Company is then eligible to file using such form, and if not eligible, then on Form SB-2 or other appropriate form.

2. **Piggy-back Registration Rights.** If, after the date hereof (but without any obligation to do so), the Company proposes to register (including for this purpose a registration effected by the Company for persons other than the Holders) any of its securities under the 1933 Act in connection with the public offering of such securities (other than a registration (i) with respect to an employee benefit plan, or (ii) in connection with a Rule 145 transaction under the 1933 Act), the Company shall, each such time, promptly give each Holder written notice of such registration together with a list of the jurisdictions in which the Company intends to attempt to qualify such securities under applicable state securities laws. Upon the written request of each Holder given within twenty (20) business days after delivery of such written notice by the Company to Holder, the Company shall, subject to the provisions hereof, use its reasonable efforts to cause to be registered under the 1933 Act all of the Registrable Securities that each such Holder has requested to be registered. If a Holder decides not to include all of its Registrable Securities in any registration statement thereafter filed by the Company, such Holder shall nevertheless continue to have the right to include any Registrable Securities in any subsequent registration statement or registration statements as may be filed by the Company with respect to offerings of its securities, all upon the terms and conditions set forth herein.

2.1 **Obligations of the Company.** Whenever required to effect the registration of any Registrable Securities, the Company shall, as expeditiously as reasonably possible:

(a) Prepare and file with the SEC a registration statement with respect to such Registrable Securities and use its reasonable efforts to cause such registration statement to become effective, and, upon the request of the holders of a majority of the securities registered thereunder, keep such registration statement effective for up to one hundred twenty (120) days.

(b) Prepare and file with the SEC such amendments and supplements to such registration statement and the prospectus used in connection with such registration statement as may be necessary to comply with the provisions of the 1933 Act with respect to the disposition of all securities covered by such registration statement for a period set forth in Section 2.1 (a) above.

(c) Furnish to the Holders such numbers of copies of a prospectus, including a preliminary prospectus, in conformity with the requirements of the 1933 Act, and such other documents as they may reasonably request in order to facilitate the disposition of Registrable Securities owned by them.

(d) In the event of any underwritten public offering, enter into and perform its obligations under an underwriting agreement with terms generally satisfactory to the managing underwriter of such offering. Each Holder participating in such underwriting shall also enter into and perform its obligations under such an agreement.

(e) Notify each Holder of Registrable Securities covered by such registration statement, at any time when a prospectus relating thereto is required to be delivered under the 1933 Act, of the happening of any event as a result of which the prospectus included in such registration statement, as then in effect, includes an untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein not misleading in light of the circumstances then existing. In such instance, Company shall use its best efforts to amend or supplement such prospectus to cure any such statement or omission so as to render such statement or omission not misleading.

(f) Use its best efforts to furnish, on the date that such Registrable Securities are delivered to the underwriters for sale, if such securities are being sold through underwriters, (i) an opinion, dated as of such date, of the counsel representing the Company for the purposes of such registration, in form and substance as is customarily given to underwriters in an underwritten public offering, addressed to the underwriters, if any, and (ii) a letter, dated as of such date, from the independent certified public accountants of the Company, in form and substance as is customarily given by independent certified public accountants to underwriters in an underwritten public offering addressed to the underwriters.

2.2 Furnish Information. In connection with any action pursuant to this Section 2, the selling Holders shall furnish to the Company such information regarding themselves, the Registrable Securities held by them, and the intended method of disposition of such securities as shall be required to effect the registration of their Registrable Securities. In that connection, each selling Holder shall be required to represent to the Company that all such information which is given is both complete and accurate in all material respects when made.

2.3 Definition of Expenses.

(a) "Registration Expenses" shall mean all expenses incurred by the Company, except for "Selling Expenses," in complying herewith including, without limitation, all registration, filing and qualification fees, underwriters' expense allowances, printing expenses, fees and disbursements of counsel for the Company, blue sky fees and disbursements, and the expense of any special audits incident to or required by any registration.

(b) "Selling Expenses" shall mean all underwriting discounts and selling commissions applicable to the sale of the Registrable Securities in the registration, all stock transfer taxes and all fees and disbursements of any additional special counsel in connection with each such registration attributable to the Registrable Securities being registered.

2.4 Expenses of Registration. The Company shall bear all Registration Expenses incurred in connection with any registration, qualification or compliance, All Selling Expenses shall be borne by the Holders of the securities so registered, pro rata on the basis of the number of Registrable Securities so registered.

2.5 Underwriting Requirements in Piggy-back Registration. The right of any Holder to registration pursuant to an underwriting shall be conditioned upon such Holder's participation in such underwriting and the inclusion of such Holder's Registrable Securities in the underwriting to the extent provided herein. All Holders proposing to distribute their securities through such underwriting shall (together with the Company and any other persons distributing their securities through such underwriting) enter into an underwriting agreement in customary form with the underwriter or underwriters selected by the Company. Notwithstanding any other provision of this Agreement, if the underwriter determines that market factors require a limitation of the number of shares to be underwritten, the underwriter may exclude some or all Registrable Securities from such registration and underwriting. Notwithstanding anything to the contrary herein, no reduction shall be made with respect to securities offered by the Company for its own account in connection with any Company offering. If any Holder disapproves of the terms of any such underwriting, he may elect to withdraw therefrom by written notice to the Company and the underwriter. Any Registrable Securities excluded or withdrawn from such underwriting shall be withdrawn from such registration.

2.6 Delay of Registration. No Holder shall have any right to obtain or seek an injunction restraining or otherwise delaying any such registration as a result of any controversy that might arise with respect to the interpretation or implementation of this Section 2.

2.7 Indemnification. In the event any Registrable Securities are included in a registration statement under this Section 2:

(a) To the extent permitted by law, the Company will indemnify and hold harmless each Holder, the officers, directors and partners of each Holder, any underwriter (as defined in the 1933 Act) for such Holder and each person, if any, who controls such Holder or underwriter within the meaning of the 1933 Act or the Securities Exchange Act of 1934, as amended (the "1934 Act") against any losses, claims, damages, or liabilities (joint or several) to which they may become subject under the 1933 Act, the 1934 Act or other federal or state law, insofar as such losses, claims, damages, or liabilities (or actions in respect thereof) arise out of or are based upon any of the following statements, omissions or violations (collectively a "Violation"): (i) any untrue statement or alleged untrue statement of a material fact contained in such registration statement, including any preliminary prospectus or final prospectus contained therein or any amendments or supplements thereto; (ii) the omission or alleged omission to state therein a material fact required to be stated therein, or necessary to make the statements therein not misleading; or (iii) any violation or alleged violation by the Company of the 1933 Act, the 1934 Act, any state securities law or any rule or regulation promulgated under the 1933 Act, the 1934 Act or any state securities law; and the Company will reimburse each such Holder, officer, director or partner, underwriter or controlling person for any reasonable legal or other expenses reasonably incurred by them in connection with investigating or defending any such loss, claim, damage, liability, or action; provided, however, that the Company's indemnity contained in this

Section 2.7(a) shall not apply to amounts paid in settlement of any such loss, claim, damage, liability or action if such settlement is effected without the consent of the Company (which consent shall not be unreasonably withheld), nor shall the Company be liable in any such case for any such loss, claim, damage, liability, or action to the extent that it arises out of or is based upon a Violation which occurs in reliance upon and in conformity with information furnished in writing and expressly stated for use in connection with such registration by any such Holder, or such Holder's officers, directors or partners, underwriter, or controlling person. The Company shall not be required to indemnify any person against any liability arising out of the failure of any Holder or person acting on behalf of a Holder to deliver a prospectus as required by the 1993 Act. The indemnity provided for in this Section 2.7(a) shall remain in full force and effect regardless of any investigation made by or on behalf of such seller, underwriter, participating person or controlling person and shall survive transfer of such securities by such seller.

(b) To the extent permitted by law, each selling Holder will indemnify and hold harmless the Company, each of its directors, each of its officers who have signed the registration statement, each person, if any, who controls the Company within the meaning of the 1933 Act, any underwriter (within the meaning of the 1933 Act) for the Company, any person who controls such underwriter, and any other Holder selling securities in such registration statement or any of its partners, directors or officers or any person who controls such Holder, against any losses, claims, damages or liabilities (joint or several) to which any of the foregoing persons may become subject, under the 1933 Act, the 1934 Act or other federal or state law, insofar as such losses, claims, damages, or liabilities (or actions in respect thereto) arise out of or are based upon any Violation, in each case to the extent (and only to the extent) that such Violation occurs in reliance upon and in conformity with written information furnished by such Holder expressly stated in a writing for use in connection with such registration; and each such Holder will reimburse any legal or other expenses, as incurred, where same are reasonably incurred by any person intended to be indemnified pursuant to this Section 2.7(b), in connection with investigating or defending any such loss, claim, damage, liability, or action; provided, however, that the indemnity agreement contained in this Section 2.7(b) shall not apply to amounts paid in settlement of any such loss, claim, damage, liability or action if such settlement is effected without the consent of the Holder, which consent shall not be unreasonably withheld. Notwithstanding the foregoing, the liability of each Holder under this Section 2.7(b) shall be limited to an amount equal to the net proceeds from the offering price of the shares sold by such Holder.

(c) Promptly after receipt by an indemnified party under this Section 2.7 of notice of the commencement of any action (including any governmental action), such indemnified party will, if a claim in respect thereof is to be made against any indemnifying party under this Section 2.7, notify the indemnifying party in writing of the commencement thereof, and the indemnifying party shall have the right to participate in and, to the extent the indemnifying party so desires, jointly with any other indemnifying party similarly notified, to assume the defense thereof with counsel mutually satisfactory to the parties; provided, however, that an indemnified party shall have the right to retain its own counsel, with the reasonable fees and expenses to be paid by the indemnifying party if the indemnified party reasonably

determines that representation of such indemnified party by the counsel retained by the indemnifying party would be inappropriate due to actual or potential differing interests between such indemnified party and any other party represented by such counsel in such proceeding. The failure to notify an indemnifying party within a reasonable time of the commencement of any such action, to the extent prejudicial to its ability to defend such action, shall relieve such indemnifying party of any liability to the indemnified party under this Section 2.7, but the omission so to notify the indemnifying party will not relieve it of any liability that it may have to any indemnified party otherwise than under this Section 2.7.

(d) In order to provide for just and equitable contribution to joint liability under the 1933 Act in any case in which either (i) any indemnified party makes a claim under this Section 2.7 or any controlling person of such indemnified party makes such a claim but is judicially determined (by entry of a final judgment or decree by a court of competent jurisdiction and the expiration of time to appeal or the denial of the last right of appeal) that such indemnification may not be enforced in such case notwithstanding the fact that this Section 2.7 provides for indemnification in such case, or (ii) contribution under the 1933 Act may be required on the part of any such person seeking indemnity under the terms of this Section 2.7; then, and in each such case, the Company and such person will contribute to the aggregate losses, claims, damages, or liabilities to which they may be subject (after contribution from others) in such proportion as is appropriate to reflect the relative fault of the indemnifying party on the one hand and of the indemnified party on the other in connection with the statements or omissions that resulted in such loss, liability, claim, damage, or expense as well as any other relevant equitable considerations. The relative fault of the indemnifying party and of the indemnified party shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission to state a material fact relates to information supplied by the indemnifying party or by the indemnified party and the parties' relative intent, knowledge, access to information, and opportunity to correct or prevent such statement or omission; provided, however, that, in any such case, (A) no such person shall be required to contribute any amount in excess of the net proceeds from the offering price of all such Registrable Securities sold by it pursuant to such registration statement and (B) no person or entity guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the 1933 Act) shall be entitled to contribution from any person or entity who was not guilty of such fraudulent misrepresentation.

2.8 Reports Under Securities Exchange Act of 1934. With a view to making available to the Holders the benefits of Rule 144 promulgated under the 1933 Act and any other rule or regulation of the SEC that may at any time permit a Holder to sell securities of the Company to the public without registration, the Company agrees to:

(a) use its reasonable efforts to make and keep public information available, as those terms are understood and defined in Rule 144, at all times after ninety (90) days after the closing date of the first registration statement filed by the Company;

(b) use its reasonable efforts to file with the SEC in a timely manner all reports and other documents required of the Company under the 1933 Act and the 1934 Act; and

(c) furnish to any Holder, so long as the Holder owns any Registrable Securities, forthwith upon request: (i) a written statement by the Company that it has complied with the reporting requirements of Rule 144 (at any time after ninety (90) days after the closing date of the first registration statement filed by the Company), the 1933 Act and the 1934 Act (at any time after it has become subject to such reporting requirements); (ii) a copy of the most recent annual or quarterly report of the Company and such other reports and documents so filed by the Company; and (iii) such other information as may be reasonably requested in order to permit any Holder to avail itself of any rule or regulation of the SEC or any state securities authority which permits the selling of any such securities without registration or pursuant to such form.

3. Assignment of Registration Rights.

The piggyback registration rights hereunder may be assigned by a Holder to a transferee or assignee of such securities: (i) if such transfer is made in connection with the transfer of all Registrable Securities held by the transferor; (ii) if such transferee or assignee acquires at least thirty thousand (30,000) shares of the then outstanding Registrable Securities held by such Holder, (iii) to any Affiliate (as defined in Regulation D of the 1933 Act) of such Holder; (iv) to any family member or trust established for the benefit of an individual Holder; or (v) in connection with a distribution by such Holder to any partner, member, former partner, or member or the estate of such partner or member; provided in each case that the Company is, within a reasonable time after such transfer, furnished with written notice of the name and address of such transferee or assignee and the securities with respect to which such registration rights are being assigned; provided, however, that such assignment shall be effective only if the transferee agrees in writing at the time of transfer to be bound by the terms and conditions of this Agreement and such transfer of any Registrable Securities is lawful under all applicable securities laws.

4. Termination of the Company's Obligations.

The Company shall have no obligations hereunder with respect to any registration request or requests made by any Holder (a) more than three years following the date of the Warrants are issued or (b) all Registrable Securities held by and issuable to such Holder (and its affiliates) may be sold under Rule 144 during any ninety (90) day period.

5. Obligations of the Investors. In connection with the registration of the Registrable Securities, any Holder shall have the following obligations:

(a) Such Holder shall cooperate with the Company as reasonably requested by the Company in connection with the preparation and filing of any respective Registration Statement hereunder, unless such Holder has notified the Company in writing of such Holder's election to exclude all of such Holder's Registrable Securities from the Registration Statement; and

(b) Each Holder agrees that, upon receipt of any notice from the Company of the happening of any material event which, in the Company's opinion justifies the cessation of the distribution of the Registrable Securities, such Holder will immediately discontinue disposition of Registrable Securities pursuant to the Registration Statement covering such Registrable Securities until such Holder's receipt of the copies of any supplemented or amended prospectus which addresses such material event, and, if so directed by the Company, such Holder shall deliver to the Company (at the expense of the Company) or destroy (and deliver to the Company a certificate of destruction) all copies in such Holder's possession, of the prospectus covering such Registrable Securities current at the time of receipt of such notice.

6. Amendment of Registration Rights.

Any provision of this Agreement may be amended and the observance thereof may be waived (either generally or in a particular instance and either retroactively or prospectively), only with the written consent of the Company and Holders who hold a fifty (50%) percent interest of the Warrant Shares as of such date. Any amendment or waiver effected in accordance with this Section 6 shall be binding upon each Holder and the Company.

7. Miscellaneous.

(a) A person or entity is deemed to be a holder of Registrable Securities whenever such person or entity owns of record such Registrable Securities. If the Company receives conflicting instructions, notices or elections from two or more persons or entities with respect to the same Registrable Securities, the Company shall act upon the basis of instructions, notice or election received from the registered owner of such Registrable Securities.

(b) Notices required or permitted to be given hereunder shall be given in the manner contemplated by the Warrant: if to the Company or to the Holder, to their respective address contemplated by the Warrant or at such other address as each such party furnishes by notice given in accordance with this clause (b).

(c) Failure of any party to exercise any right or remedy under this Agreement or otherwise, or delay by a party in exercising such right or remedy, shall not operate as a waiver thereof.

(d) This Agreement shall be deemed to be a contract made under the laws of the State of Delaware for contracts to be wholly performed in such state and without giving effect to the principles thereof regarding the conflict of laws. Each of the parties consents to the exclusive jurisdiction of the federal courts whose districts encompass any part of the State of California, Santa Clara County in connection with any dispute arising under this Agreement and hereby waives, to the maximum extent permitted by law, any objection, including any objection based on *forum non conveniens*, to the bringing of any such proceeding in such jurisdiction.

(e) The Company and the Holder hereby waive a trial by jury in any action, proceeding or counterclaim brought by either of the parties hereto against the other in respect of any matter arising out of or in connection with this Agreement.

(f) If any provision of this Agreement shall be invalid or unenforceable in any jurisdiction, such invalidity or unenforceability shall not affect the validity or enforceability of the remainder of this Agreement or the validity or enforceability of this Agreement in any other jurisdiction.

(g) This Agreement shall inure to the benefit of and be binding upon the successors and assigns of each of the parties hereto.

(h) All pronouns and any variations thereof refer to the masculine, feminine or neuter, singular or plural, as the context may require.

(i) The headings in this Agreement are for convenience of reference only and shall not limit or otherwise affect the meaning thereof.

(j) This Agreement may be executed in one or more counterparts, each of which shall be deemed an original but all of which shall constitute one and the same agreement. This Agreement, once executed by a party, may be delivered to the other party hereto by facsimile transmission of a copy of this Agreement bearing the signature of the party so delivering this Agreement.

(k) This Agreement constitutes the entire agreement among the parties hereto with respect to the Holder's registration rights with respect to the Warrant and Warrant Shares. There are no restrictions, promises, warranties or undertakings, other than those set forth or referred to herein. This Agreement supersedes all prior agreements and understandings among the parties hereto with respect to its subject matter.

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IN WITNESS WHEREOF, the parties have caused this Agreement to be duly executed by their respective officers thereunto duly authorized as of the day and year first above written.

COMPANY:

FOCUS ENHANCEMENTS, INC.

By: /s/ Gary Williams
Name: Gary Williams
Title: EVP of Finance & CFO

By: R. Keith Fetter
Name: R. Keith Fetter
Title:

20197708.1

ASSET PURCHASE AGREEMENT

This Asset Purchase Agreement (“*Agreement*”) is made as of the last date signed by both parties hereunder (the “*Effective Date*”), by and between Hallo Development Co., LLC, a Michigan limited liability company (the “*Seller*”), with its principal place of business at the address set forth below and Focus Enhancements, Inc. a Delaware corporation (the “*Purchaser*”), whose principal place of business is at the address set forth below. Together, Seller and Purchaser are the “*Parties*,” each a “*Party*.”

RECITALS

WHEREAS, Silicon Valley Bank (“*SVB*”) made a loan to AudioMojo, Inc., a Delaware corporation (“*AudioMojo*”), in the original principal amount of \$500,000 pursuant to that certain Loan and Security Agreement effective January 8, 2007, as amended (collectively, the “*Loan and Security Agreement*”).

WHEREAS, Seller acquired all rights of SVB as lender and secured party under the Loan and Security Agreement pursuant to that certain Non Recourse Loan Document Sale and Assignment Agreement effective April 23, 2008.

WHEREAS, AudioMojo is in default of its obligations set forth in the Loan and Security Agreement.

WHEREAS, Seller wishes to sell to Purchaser certain of AudioMojo’s assets set forth in **Exhibit A** hereto (collectively, the “*Assets*”) pursuant to a nonjudicial foreclosure under Article 9 of the Uniform Commercial Code as in effect in the State of Oregon (the “*Foreclosure*”).

WHEREAS, Purchaser wishes to purchase the Assets.

NOW, THEREFORE, in consideration of the foregoing premises, the mutual covenants and agreements contained herein, and other good and valuable consideration, receipt of which is hereby acknowledged, Purchaser and Seller agree as follows:

Definitions

“*Assets*” means those items set forth in **Exhibit A**, including the Intellectual Property embodied therein.

“*Intellectual Property*” means the patents and trademarks, patent rights, trademark rights, and applications for patents and trademarks, know how, confidential or proprietary information, technical information, software, data, plans, drawings, trade secrets, inventions, discoveries, processes, copyrights and applications for any of the foregoing that relate in any way to the wireless digital audio distribution technology developed by AudioMojo as further described in **Exhibit A**.

“*Products*” means those portions of the Assets embodied in the chipset technology developed by AudioMojo, including computer software, and subsequent versions thereof, source code, object, executable and binary code, objects, covenants, screens, user interfaces, report formats, menus, data bases, compilations, manuals, design notes, flow charts, and other items and documentation related thereto or associated therewith.

1. Sale of Assets.

(a) In consideration of the Purchase Price set forth in Section 6 below, the Seller shall sell, assign, transfer and convey to Purchaser, and Purchaser shall purchase, acquire, accept and take possession of, all of the Seller’s right, title and interest in and to the Assets.

(b) Title to the Assets will transfer to Purchaser upon payment of that portion of the Purchase Price identified as “*Stock*” as set forth in **Exhibit C** (the “*Closing*” or “*Closing Date*”).

(c) No liabilities of Seller or AudioMojo incurred with respect to the Assets prior to the Closing are assumed by Purchaser. Purchaser is not assuming any liabilities, obligations or indebtedness of the Seller or AudioMojo (the “*Excluded Liabilities*”).

(d) Simultaneous with the Closing, Seller will do all things that are reasonably necessary to effect the transfer of the Assets to Purchaser, including, without limitation, executing **Exhibits B and B-1** (the “*Ancillary Documents*”). If Seller does not so execute same promptly upon Purchaser’s written demand therefor, Purchaser is hereby appointed as Seller’s attorney in fact for the limited purpose of executing all such documents and taking all such actions as are reasonably appropriate to effect transfer of title to the Assets, the same as if Seller itself had signed same.

2. Proprietary Rights of Purchaser.

Nothing in this Agreement shall cause Seller to acquire any right, title, or interest in or to any copyrights, trademarks, service marks, trade secrets, patents or other intellectual property rights of Purchaser, or to retain any rights to the Assets.

3. Confidentiality.

Without the other Party’s prior written consent or except as required by law, the terms of this Agreement shall be confidential and not be disclosed by either Party. For avoidance of doubt, Seller may provide a copy of this Agreement or disclose its terms to VenCore Solutions, LLC and its attorneys. Either Party may provide a copy of this Agreement or disclose its terms to such Party’s employees, investors, stockholders, attorneys, accountants and other professionals. Additionally, either Party may provide a copy of this Agreement or disclose its terms to third parties in connection with any due diligence review of such Party. The Seller shall not issue a press release or make any other public statements related to this Agreement or the Assets without the express written consent of Purchaser, provided that Seller may inform its Board of Directors and stockholders of the transaction. Notwithstanding the above, Seller shall be entitled to issue press releases regarding the transaction and the Assets acquired hereby.

4. Representations, Warranties and Covenants of Seller. Seller represents and warrants:

4.1 **Organization of the Seller.** The Seller is a limited liability company duly organized, validly existing, and in good standing under the laws of Michigan.

4.2 **Authorization of Transaction.** As of the Closing, the Seller will have full power and authority to enter into and perform its obligations under (i) this Agreement and (ii) all documents and instruments to be executed by it pursuant to this Agreement, including, without limitation, the Ancillary Documents. Without limiting the generality of the foregoing, as of the Closing, the members of Seller shall have duly authorized the transactions contemplated by the Agreement and the Ancillary Documents and Seller’s execution, delivery, and performance thereof, and when so executed and delivered, such documents will be legal, valid and binding obligations of the Seller, enforceable

against it in accordance with their respective terms.

4.3 **Non-contravention.** As of the Closing, the execution and the delivery of this Agreement shall not (i) violate any constitution, statute, regulation, rule, injunction, judgment, order, decree, ruling, charge, or other restriction of any government, governmental agency, or court to which the Seller or any of the Assets is subject or any provision of the operating agreement of the Seller or (ii) conflict with, result in a breach of, constitute a default under, result in the acceleration of, create in any person the right to accelerate, terminate, modify, or cancel, or require any notice under any agreement, contract, lease, license, instrument, or other arrangement to which the Seller is a party or by which it is bound or to which any of the Assets is subject which would have a material effect on such Assets, or result in the imposition of any security interest or other encumbrance of any kind upon any of the Assets. Other than the notice required by Oregon Revised Statutes ("ORS") 79.0611, the Seller does not need to give any notice to, make any filing with, or obtain any authorization, consent, or approval of any third party or government or governmental agency to consummate the transactions contemplated by this Agreement.

4.4 **Brokers' Fees.** As of now and the Closing, the Seller has no liability or obligation to pay any fees or commissions to any broker, finder, or agent with respect to the transactions contemplated by this Agreement.

4.5 **Title to Assets.** As of the Closing, Purchaser shall receive good and marketable title to the Assets and such Assets shall be free and clear of any mortgage, pledge, lien, encumbrance, charge security interest, license (unless expressly assumed hereunder) or other restriction ("**Liens**"); provided, however, that Seller is not required to provide the Assets identified as "Equipment" under Exhibit A hereto free of Liens held by VenCore Solutions, LLC.

4.6 **Undisclosed Liabilities.** As of now and the Closing:

(1) The Seller has no knowledge of:

(a) Any liability or any basis to believe that any present or future action, suit, proceeding, hearing, investigation, charge, complaint, claim, or demand will be brought against Seller or AudioMojo giving rise to any liability that may affect title or marketability to the Assets;

(b) Any claim that the Assets interfere with, infringe upon, misappropriate, or otherwise conflict with third party intellectual property rights;

(c) Any charge, complaint, claim, demand, or notice alleging any claim of such interference, infringement, misappropriation, or violation (including any claim that the Seller or AudioMojo must license or refrain from using any Intellectual Property rights of any third party); or

(d) Any third party interference with, infringement upon, misappropriation of, or other conflict with the Intellectual Property rights of the Seller or AudioMojo.

(2) With respect to the Intellectual Property embodied in the Assets:

(i) all right, title, and interest shall transfer to Purchaser free and clear of any lien, license, or other restriction;

(ii) same is not subject to any outstanding injunction, judgment, order, decree, or ruling; and

(iii) no action, suit, proceeding, hearing, investigation, charge, complaint, claim, or demand is pending or threatened which challenges the legality, validity, enforceability, use, ownership of AudioMojo or foreclosure rights of Seller therein or thereof.

4.7 **Legal Compliance; Litigation.** As of Closing, the Seller has complied with all applicable laws regarding the conduct of its business and its ownership, including all applicable rules, regulations, laws, statutes, treaties, ordinances, codes, plans, injunctions, judgments, orders, decrees, rulings, and charges thereunder of federal, state, local, and foreign governments (and all agencies thereof) (collectively, "**Legal Requirements**"), and no action, suit, proceeding, hearing, investigation, charge, complaint, claim, demand, or notice has been filed or commenced against Seller alleging any failure so to comply. As of now and the Closing, neither Seller nor AudioMojo are, with regard to the Assets, (i) subject to any outstanding injunction, judgment, order, decree, or ruling or (ii) a party or is threatened to be made a party to any action, suit, proceeding, hearing, or investigation of, in, or before any court or quasi-judicial or administrative agency of any federal, state, local, or foreign jurisdiction or before any arbitrator.

4.8 **Foreclosure Issues.** As of the Closing: (a) since the assignment to it of the rights of SVB under the Loan and Security Agreement, Seller has had a valid and perfected first position security interest in the Assets; (b) Seller's disposition of the Assets will comply with ORS 79.0610 through 79.0613; and (c) upon consummation of the private sale referenced in the Recitals above, Purchaser will have the title concerning the Assets set forth in ORS 79.0617(1). Promptly after the Closing, Seller shall provide Purchaser a transfer statement pursuant to ORS 79.0619.

5. Representations, Warranties and Covenants of Purchaser.

Purchaser represents and warrants to the Seller that: (i) Purchaser has full legal capacity to enter into this Agreement and is duly incorporated and in good standing in the jurisdiction of its incorporation; (ii) as of the Closing Date the transaction shall have been approved by Purchaser's Board of Directors; (iii) no other approval of any stockholders, third party, or any governmental authority is necessary for Purchaser's purchase of the Assets, and no filing with any governmental agency is so required; and (iv) the execution and performance of this Agreement by Purchaser will not violate any rights of any third party or person or result in a breach of any other agreement or contract to which Purchaser is a party.

6. **Purchase Price.** In exchange for the sale, assignment, transfer, conveyance and delivery to Purchaser of the Assets in accordance with this Agreement, Purchaser shall pay to Seller at the Closing the Purchase Price, comprised of the transfer to Seller of certain stock of Purchaser (the "**Stock**"), and a limited, ongoing portion of the revenue stream arising from Purchaser's subsequent commercialization of the Assets (the "**Revenue Stream**"), all as set forth in **Exhibit C**.

7. Closing Conditions.

7.1 **Conditions to Sellers' Obligation to Close.** The obligations of the Seller to consummate the transactions under this Agreement are subject to the satisfaction, before or on the Closing Date, of each of the conditions set forth below in this Section 7.1, any of which may be waived by the Seller:

7.1.1 **Accuracy of Representations.** All representations and warranties of Purchaser contained in this Agreement and in the Ancillary Documents at or prior to Closing shall be true in all material respects, in each case on and as of the Closing Date with the same effect as if made on and as of the Closing Date.

7.1.2 **Covenants.** Purchaser shall, in all material respects, have performed and complied with each of the covenants, obligations and agreements contained in this Agreement and the Ancillary Documents that are to be performed or complied with by it at or prior to Closing.

7.1.3 **Consents and Approvals.** All consents, approvals, permits, authorizations and orders required to be obtained from, and all registrations, filings and notices required to be made with or given to any regulatory authority or person as provided herein, if any, shall have been so obtained or filed with such regulatory authority or person.

7.1.4 No Legal Proceedings. No injunction, action, suit or proceeding shall be pending or threatened by or before any regulatory authority and no law shall have been enacted, promulgated or issued or deemed applicable to any of the transactions contemplated by this Agreement and the Ancillary Documents, which would: (i) prevent consummation of any of the transactions contemplated by this Agreement or any of the Ancillary Documents; (ii) cause any of the transactions contemplated by this Agreement or any of the Ancillary Documents to be rescinded following consummation; or (iii) have a material adverse effect on a Party, the Assets, this Agreement or the transactions contemplated hereby.

7.1.5 Bill of Sale and Assumption Agreement. The Parties shall have executed and delivered the Bill of Sale, and any other instruments necessary for the sale, transfer and conveyance to Purchaser of the Assets.

7.2 Conditions to Purchaser's Obligation to Close. The obligations of Purchaser to consummate the transactions under this Agreement are subject to the satisfaction, before or on the Closing Date, of each of the conditions set forth below in this Section 7.2, any of which may be waived by Purchaser:

7.2.1 Accuracy of Representations. All representations and warranties of Seller contained in this Agreement and the Ancillary Documents at or prior to Closing shall be true in all material respects, in each case on and as of the Closing Date with the same effect as if made on and as of the Closing Date.

7.2.2 Covenants. Seller shall, in all material respects, have performed and complied with each of the covenants, obligations and agreements contained in this Agreement and the Ancillary Documents that are to be performed or complied with by it at or prior to Closing.

7.2.3 Key Employees. Purchaser shall have interviewed and, at Purchaser's option, hired certain of the personnel involved in the development of the Assets, including Myron White, Dylan Vance, Scott Leibelt, and Kevin Hammack (collectively, the "**Personnel**") upon terms and conditions satisfactory to Purchaser, and Purchaser shall be satisfied, in its sole and absolute discretion, with the ability of the Personnel to continue the development of the Assets.

7.2.4 No Legal Proceedings. No injunction, action, suit or proceeding shall be pending or threatened by or before any regulatory authority and no law shall have been enacted, promulgated or issued or deemed applicable to any of the transactions contemplated by this Agreement or any of the Ancillary Documents, which would: (i) prevent consummation of any of the transactions contemplated by this Agreement or any of the Ancillary Documents; (ii) cause any of the transactions contemplated by this Agreement or any of the Ancillary Documents to be rescinded following consummation; or (iii) have a material adverse effect on a Party, the Assets, this Agreement or the transactions contemplated hereby.

7.2.5 Bill of Sale. The Parties shall have executed and delivered the Bill of Sale in substantially the form provided in Exhibit B-2 of this Agreement, and any other instruments necessary for the sale, transfer and conveyance to Purchaser of the Assets.

7.2.6 Due Diligence. The Purchaser shall be satisfied, in its sole and absolute discretion, with the results of its due diligence with respect to the Assets.

7.2.7 Foreclosure. Seller shall provide evidence satisfactory to Purchaser that Seller has completed the Foreclosure in accordance with the requirements of ORS 79.0610 through 79.0613.

8. Term and Termination, Survival and Indemnification.

8.1 Early Termination and Survival.

8.1.1 Termination Prior to Close. This Agreement may be terminated at any time prior to the Closing Date: (a) by mutual written consent of the Seller and the Purchaser; or (b) by the Seller if the transactions contemplated hereby shall not have been consummated on or before June 30, 2008.

8.1.2 Survival. The respective representations, warranties and covenants of the Seller and the Purchaser contained in this Agreement shall survive until December 31, 2009 (the "**Survival Period**"). Notwithstanding the foregoing, in the event a claim for breach of any representation, warranty or covenant is made prior to the expiration of the Survival Period, such representation, warranty or covenant shall survive until such claim is resolved. Purchaser's obligation to pay to Seller a portion of the Revenue Stream as part of the Purchase Price shall expire in accordance with the terms of Exhibit C.

8.2 Indemnification.

8.2.1 Seller hereby agrees to indemnify, protect, defend (at Purchaser's request), release and hold Purchaser and its directors, officers, managers, members, employees, agents, successors, affiliates and assigns (collectively, the "**Purchaser Indemnified Parties**") harmless from and against any and all Losses incurred in connection with, arising out of, resulting from or incident to any breach or inaccuracy of any representation or warranty of Seller as set forth in this Agreement or the Ancillary Documents.

8.2.2 The term "**Losses**" as used in this Agreement is not limited to matters asserted by third parties against any indemnified party, but includes losses incurred or sustained by an indemnified party in the absence of third party claims. Payments by an indemnified party of amounts for which such indemnified party is indemnified under this Section 8 shall not be a condition precedent to recovery.

8.3 Indemnification Proceedings.

8.3.1 In the event that any legal proceeding shall be instituted or any claim or demand shall be asserted (individually and collectively, a "**Claim**") by any person or entity in respect of which payment may be sought under this Section 8, the Purchaser Indemnified Party shall reasonably and promptly cause written notice (a "**Claim Notice**") of the assertion of any Claim of which it has knowledge which is covered by this indemnity to be delivered to Seller; provided, however, that the failure of the Purchaser Indemnified Party to give the Claim Notice shall not release, waive or otherwise affect Seller's obligations with respect thereto, except to the extent that Seller can demonstrate actual loss and material prejudice as a result of such failure. If Seller shall notify the Purchaser Indemnified Party in writing within ten (10) business days (or sooner, if the nature of the Claim so requires) of delivery of such Claim Notice that Seller shall be obligated under the terms of its indemnity hereunder in connection with such lawsuit or action, then Seller shall be entitled, if it so elects at its own cost, risk and expense, (i) to take control of the defense and investigation of such lawsuit or action, (ii) to employ and engage attorneys of its own choice, but, in any event, reasonably acceptable to the Purchaser Indemnified Party, to handle and defend the same unless the named parties to such action or proceeding (including any impleaded parties) include both Seller and the Purchaser Indemnified Party and the Purchaser Indemnified Party has been advised in writing by counsel that there may be one or more material legal defenses available to such indemnified party that are different from or additional to those available to Seller, in which event the Purchaser Indemnified Party shall be entitled, at Seller's cost, risk and expense, to select a single firm of separate counsel (plus any necessary local counsel), all at reasonable cost, of its own choosing, reasonably acceptable to Seller and (iii) to compromise or settle such lawsuit or action, which compromise or settlement shall be made only with the prior written consent of the Purchaser Indemnified Party, such consent not to be unreasonably withheld or delayed.

8.3.2 If Seller elects not to defend against, negotiate, settle or otherwise deal with any Claim which relates to any Losses indemnified against hereunder, fails to notify the Purchaser Indemnified Party of its election as provided in this Section 8.3 or contests its obligation to indemnify the Purchaser Indemnified Party for such Losses under this Agreement, the Purchaser Indemnified Party may defend against, negotiate, settle or otherwise deal with such Claim. If the Purchaser Indemnified Party defends any Claim, then Seller shall reimburse the Purchaser Indemnified Party for the Losses incurred in defending such Claim upon submission of periodic bills. If Seller shall assume the defense of any Claim, the Purchaser Indemnified Party may participate, at its own expense, in the defense of such Claim; provided, however, that such indemnified party shall be entitled to participate in any such defense with separate counsel at the expense of Seller if (i) so requested by Seller to participate or (ii) in the reasonable opinion of counsel to the Purchaser Indemnified Party, a material conflict or potential material conflict

exists between the Purchaser Indemnified Party and Seller that would make such separate representation required; and provided, further, that Seller shall not be required to pay for more than one such counsel for all indemnified parties in connection with any Claim. If Seller shall assume the defense of any Claim, Seller shall obtain the prior written consent of the Purchaser Indemnified Party before entering into any settlement of such Claim or ceasing to defend such Claim if, pursuant to or as a result of such settlement or cessation, injunctive or other equitable relief shall be imposed against the Purchaser Indemnified Party or if such settlement or cessation does not expressly and unconditionally release the Purchaser Indemnified Party from all liabilities or obligations with respect to such Claim, with prejudice. The Parties hereto agree to cooperate fully with each other in connection with the defense, negotiation or settlement of any Claim.

8.4 Limitations on Indemnification Obligations. Anything in this Agreement to the contrary notwithstanding, (i) the aggregate liability of the Seller under this Agreement and the Ancillary Documents shall not exceed the value of 300,000 shares of the Stock, and (ii) Purchaser's sole recourse against Seller hereunder and under the Ancillary Documents shall be such 300,000 shares of Stock and the proceeds thereof.

9. Default by Seller; Remedies.

The Seller will be in default under this Agreement if the Seller is in breach of (i) its covenants under this Agreement and such breach is not cured to the reasonable satisfaction of Purchaser within thirty (30) days after Seller has received notice of such breach (if such breach is capable of being cured within such time) or (ii) any of the representations or warranties of the Seller contained in this Agreement, and in such event Purchaser may pursue any remedies available to Purchaser under this Agreement or allowable under law or equity.

10. Default by Purchaser; Remedies.

If Purchaser (a) fails to observe or perform, other than due to a default or breach by the Seller, any of its covenants or obligations contained in this Agreement and such failure or breach is not cured or commenced to be cured within ten (10) days after Purchaser has received notice from the Seller of such default or breach or (b) breaches any of its representations or warranties contained herein, then, Seller may seek specific enforcement of this Agreement, and any remedies available to Seller under this Agreement or allowable under law or equity.

11. Jurisdiction.

The execution, performance and interpretation of this Agreement shall be governed by, construed and enforced in accordance with the substantive laws of the State of California, without regard to California's choice of law rules. The Parties irrevocably consent to the in-personam jurisdiction of and exclusive venue in the United States Federal Courts for the Northern District of California or the California Superior Court for Santa Clara County.

12. Binding Effect; Assignment.

Neither Seller nor Purchaser shall assign any of its right or delegate any of its obligations under this Agreement to any third party without prior written consent of the other Party except that Seller may assign to a disbursing agent, an assignee for the benefit of AudioMojo's creditors or similar person or entity its payment rights only with respect to the Revenue Stream portion of the Purchase Price. This Agreement is binding upon, and shall inure solely to the benefit of, the Parties, their respective successors, and permitted assigns. Except as set forth in the immediately preceding sentence, no third party shall have standing to enforce any provision of this Agreement.

13. Entire Agreement.

This Agreement (including its Exhibits) constitute(s) the Parties' entire agreement with respect to its subject matter, and it supersedes, merges and voids any and all prior and contemporaneous understandings or agreements, whether oral or written, concerning such subject matter. Each Party acknowledges that it enters into this Agreement without relying on any statement by the other Party which is not specifically set forth in this Agreement.

14. Miscellaneous.

14.1 No Other Terms. Nothing in this Agreement, express or implied, is intended to confer upon any third party, other than the Parties and their respective successors and assigns, any rights, remedies, obligations, or liabilities under or by reason of this Agreement, except as expressly provided herein.

14.2 Counterparts. This Agreement may be executed in two or more counterparts, including by facsimile or PDF, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

14.3 Titles and Subtitles. The titles, subtitles and headings used in this Agreement are used for convenience only and are not to be considered in construing or interpreting this Agreement. Unless the context otherwise requires (a) the singular shall include the plural and the plural shall include the singular, and (b) a reference to one gender shall include the other gender and the neuter, and the neuter shall include each gender.

14.4 Notices. Any notice required or permitted under this Agreement shall be given in writing and shall be deemed effectively given upon the earlier of personal delivery or confirmed facsimile to the Party to be notified or actual delivery after deposit with a recognized courier or delivery service or four (4) business days after deposit with the United States post office, by registered or certified mail, postage prepaid and addressed to the Party to be notified (attention: President) at the address or confirmed facsimile number indicated for such Party herein, or at such other address or addressee as such Party may designate by ten (10) days' advance written notice to the other Party.

14.5 Finder's and Broker's Fees. Each Party shall indemnify and hold harmless the other Party from and against any liability for any fee, commission or compensation in the nature of a broker, agent, finder, adviser or other intermediary in connection with this Agreement (and the other Party's costs and expenses of defending against such liability or asserted liability) for which the indemnifying Party or any of its officers, partners, employees, or representatives is responsible.

14.6 Amendments and Waivers. No purported modification or amendment of any term of this Agreement shall be effective unless it is in writing, subsequent to this Agreement and signed by both Parties hereto. Unless a particular provision or section of this Agreement requires otherwise explicitly in a particular instance, any provision of this Agreement may be waived (either generally or in a particular instance and either retroactively or prospectively) with the signed written consent of the Party to whom the obligation or performance is due. Any waiver or amendment so effected shall bind all successors in interest.

14.7 Severability. If one or more provisions of this Agreement is or are held to be invalid, illegal or unenforceable under applicable law or public policy, all other conditions and provisions of this Agreement shall nevertheless remain in full force and effect so long as the economic or legal substance of the transaction contemplated hereby is not affected in any manner adverse to any Party. Upon determination that any term or other provision is invalid, illegal or unenforceable under applicable law or public policy, the Parties shall negotiate in good faith to modify this Agreement to effect the original intent of the Parties as closely as possible in an acceptable manner to the end that transactions originally contemplated hereby are fulfilled to the extent possible.

14.8 Expenses. Regardless of whether the Closing occurs, Purchaser and Seller respectively shall each bear its own legal and other expenses incurred with respect to the negotiation, execution and delivery of this Agreement.

14.9 Arbitration; Attorneys' Fees. Except for breach of Section 3, on written request of either Party, any controversy or claim arising out of this Agreement shall be submitted to binding arbitration before a single arbitrator under the Commercial Rules and Regulations of the American Arbitration Association. If the Parties are unable to

agree on an arbitrator within thirty (30) days after a Party has served notice of a request to arbitrate, then an arbitrator experienced in commercial disputes of like nature shall be selected by the American Arbitration Association pursuant to its then current rules, within thirty (30) days after one Party has advised the other Party it is unable to agree on the arbitrator. Arbitration shall take place in the County of Santa Clara, California. No discovery shall be allowed in such arbitration except for an exchange of documents. The arbitration shall be concluded within ninety (90) days after the arbitrator has been appointed. The maximum number of hearing days for such arbitration shall be five (5), all of which shall occur within a consecutive two week period. The arbitrator shall issue a written decision within thirty (30) days after the last hearing day giving findings of facts and reasons for any award. The award shall be specifically enforceable in a court of law with jurisdiction over the Parties and subject matter. For any breach of Section 3, notwithstanding the foregoing, a Party may seek injunctive relief from a court to enjoin violations. In any litigation or arbitration between the Parties, the prevailing Party therein shall be entitled to obtain its reasonable attorney fees and costs of the proceedings from the other Party as an element of its damages in enforcing this Agreement.

IN WITNESS WHEREOF, the Parties have executed this Agreement effective as of the date first written above.

Focus Enhancements, Inc. ("**Purchaser**")

By: /s/ Brett A. Moyer

Brett A. Moyer

Title: President and CEO

Date: June 25, 2008

Address:

1370 Dell Avenue
Campbell, CA 95008
Fax: 408.866.4795

Hallo Development Co., LLC ("**Seller**")

By: /s/ Dennis Howitt

Dennis Howitt

Title: General Partner

Date: June 24, 2008

Address:

1221 Pinecrest SE
E. Grand Rapids, MI 49506
Fax 503.223.9073

Exhibit A

Assets

ASSETS:

Intellectual Property/Technology:

Patents

- Patent Application Titled "HIGH QUALITY, CONTROLLED LATENCY MULTI-CHANNEL WIRELESS DIGITAL AUDIO DISTRIBUTION SYSTEM AND METHODS", No. 20070058762, filed August 4, 2006
- Patent Application Titled "SYSTEM AND METHODS FOR ALIGNING CAPTURE AND PLAYBACK CLOCKS IN A WIRELESS DIGITAL AUDIO DISTRIBUTION SYSTEM", No 20070030986, filed August 4, 2006
- IP and Patent Rights Pertaining to Room Mapping
- IP and Patent Rights Pertaining to My Zone

All software files (in source and object form), notes, designs, documentation and other materials proprietary to AudioMojo comprising the Product as of the Closing Date, including without limitation:

- Specifications for System, MAC, ASIC Design, and Command Interface
- Verilog, VHDL, and RTL Source for ASIC
- Firmware source for Master and Slaves in Demo Condition
- FPGA Board Designs, Schematic, BOM, and Layout
- FPGA Programming File
- Ultrasonic Pinger Board Design, Schematic, BOM, and Layout
- Class D Amplifier Board Design, Schematic, BOM, and Layout
- Power Interface Board Design, Schematic, BOM, and Layout
- ASIC Design Support Files
- Methods and Processes for Converting and Loading Filter Parameters
- Audio Performance Reports

Equipment:

- Demo Setup Consisting of Radio Modules, Speakers, Master Interface, and Cases
- FPGA Boards for Lab use, not all board functional

PRODUCTS:

AudioMojo's audio solution that incorporates the patents set forth in the first 4 bullets above.

Exhibit B

Patent Assignment

ASSIGNMENT OF PATENTS

This ASSIGNMENT OF PATENTS is effective as of July 8, 2008, between Hallo Development Co., LLC, a Michigan limited liability company, ("ASSIGNOR"), and Focus Enhancements, Inc., a Delaware corporation ("ASSIGNEE").

WHEREAS, ASSIGNEE has entered into that certain Asset Purchase Agreement dated June 25, 2008 with ASSIGNOR (the "Agreement") wherein ASSIGNEE is purchasing certain property and assets described therein, including certain intellectual property;

WHEREAS, ASSIGNOR holds all right, title and interest in and to the patent applications (and the inventions disclosed therein) identified in the attached Schedule A ("Patent Properties"); and

WHEREAS, ASSIGNEE is desirous of acquiring the aforesaid Patent Properties and the right to recover damages for any past and future acts of infringement associated with the Patent Properties.

NOW, THEREFORE, in consideration of the premises and the mutual covenants set forth herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged by ASSIGNOR, ASSIGNOR does hereby assign unto ASSIGNEE all rights, title and interest in and to the aforesaid Patent Properties identified hereinabove, any legal equivalent thereof in all foreign countries (subject, however, to applicable patents laws in such countries), the right to claim priority therefrom, and in and to all additional patents and patent applications to be obtained from such Patent Properties from any future applications, continuations, divisions, renewals, extensions, substitutes, reissues or re-examinations thereof, each and all to be held and enjoyed by ASSIGNEE, its successors and assigns, to the full end of the terms for which any of such Patent Properties are granted, plus any extensions, as fully and entirely as the same would have been held and enjoyed by ASSIGNOR had this assignment not been made, together with all claims for damages by reason of past and future infringement of said Patent Properties, with the right to sue for and collect the same for its own use and enjoyment, and for the use and enjoyment of its successors, assigns or other legal representatives.

ASSIGNOR authorizes and requests the United States Patent and Trademark Office to issue any and all United States Letters Patent resulting from the Patent Properties listed herein or any divisions, reissues, continuations (in whole or in part), renewals, extensions, substitutes or re-examinations thereof to ASSIGNEE as assignee of ASSIGNOR's interest therein.

ASSIGNOR: HALLO DEVELOPMENT CO., LLC

By: /s/ Dennis Howitt

Name: Dennis Howitt

Title: Managing Member

SCHEDULE A

TYPE OF APPLICATION/ COUNTRY	APPLICATION NO.	FILING DATE	STATUS AS OF _____
Utility/USA	20,070,058,762	August 4, 2006	Pending
Utility/USA	20,070,030,986	August 4, 2006	Pending

Exhibit B-1

Bill of Sale

BILL OF SALE

THIS BILL OF SALE ("**Bill of Sale**") is made, executed and delivered as of July 8, 2008, by Hallo Development Co., LLC, a Michigan limited liability company ("**Grantor**"), to Focus Enhancements, Inc., a Delaware corporation ("**Grantee**").

RECITALS

A. Grantor and Grantee are parties to a certain Asset Purchase Agreement ("**Asset Purchase Agreement**"), dated as of June 25, 2008, providing for, among other things, the transfer and sale to Grantee of certain assets ("**Assets**"), all as more fully described in Exhibit A of the Asset Purchase Agreement, for consideration in the amount and on the terms and conditions provided in the Asset Purchase Agreement. All capitalized terms used and not otherwise defined herein shall have the meanings assigned to them in the Asset Purchase Agreement.

B. All of the terms and conditions precedent provided in the Asset Purchase Agreement have been met and performed or waived by the respective parties, and the parties now desire to carry out the intent and purpose of the Asset Purchase Agreement by Grantor's execution and delivery to Grantee of this instrument evidencing the vesting in Grantee of all of Grantor's right, title and interest in and to the Assets, in addition to such other instruments as Grantee shall have otherwise received or may hereafter request.

NOW, THEREFORE, for the consideration set forth in the Asset Purchase Agreement, the receipt and sufficiency of which are hereby acknowledged:

Grantor hereby conveys, sells, transfers, assigns, and delivers unto Grantee, its successors and permitted assigns forever, and Grantee hereby accepts from Grantor, all right, title and interest in and to the Assets free and clear of any Liens.

Grantor hereby authorizes Grantee, its successors and permitted assigns, to institute and prosecute in the name of Grantor, or otherwise, for the benefit of Grantee, its successors and permitted assigns, any and all proceedings at law, in equity or otherwise, which Grantee, its successors or permitted assigns, may deem proper for the collection or reduction to possession of any of the Assets or for the collection and enforcement of any claim or right of any kind hereby sold, conveyed, transferred and assigned, or intended so to be, and to do all acts and things relating to the Assets which Grantee, its successors or permitted assigns, shall deem desirable.

Grantor hereby covenants that, from time to time after the delivery of this instrument, at Grantee's reasonable request and without further consideration, Grantor will do, execute, acknowledge and deliver, or will cause to be done, executed, acknowledged and delivered, all and every such further acts, deeds, conveyances, transfers, assignments, powers of attorney and assurances as may be reasonably required more effectively to convey, transfer to and vest in Grantee, and to put Grantee in possession of, any of the Assets.

Notwithstanding any other provisions of this Bill of Sale to the contrary, nothing contained in this Bill of Sale shall in any way supersede, modify, replace, amend, change, rescind, expand, exceed or enlarge or in any way affect the provisions of, or any rights and remedies of Grantor or Grantee under, the Asset Purchase Agreement. This Bill of Sale is being delivered pursuant to the Asset Purchase Agreement to memorialize the transfer of the Assets pursuant to the Asset Purchase Agreement.

This instrument is executed by Grantor and shall be binding upon Grantor and Grantee, their successors and permitted assigns, for the uses and purposes above set forth and referred to, effective immediately upon its delivery to Grantee. This Bill of Sale may be executed in one or more counterparts, and by facsimile or PDF, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

IN WITNESS WHEREOF, Grantor and Grantee caused this Bill of Sale to be signed on the date first above written.

Hallo Development Co., LLC

By: /s/ Dennis Howitt
Name: Dennis Howitt
Title: Managing Member

ACCEPTED:

Focus Enhancements, Inc.

By: /s/ Brett Moyer

Its: President and CEO

Exhibit C
Purchase Price

(a) **Stock.** In consideration of the purchase of the Assets and of the Seller's covenants and agreements set forth in this Agreement, Purchaser shall issue to Seller 1,800,000 shares of the authorized common stock in Focus Enhancements, Inc. (the "**Stock**") as of the Closing Date, subject to the following conditions.

(1) Notwithstanding Rule 144, the Stock shall be subject to restrictions against sale by Seller to any third party until the earlier of (a) the date at which Purchaser has sold and received \$1,000,000 in Net Revenues from the Covered Product, or (b) December 31, 2009.

(2) Subject to the above, the Stock shall be saleable pursuant to Rule 144.

(3) If, following the expiration of the restrictions on sale as set forth in subitem (1) above, the Stock must be registered to enable subsequent sale by Seller, then Purchaser will supplement one of Purchaser's existing S-3 forms to do so, if such form is then available.

(4) The Parties shall, on the Closing Date, set into an escrow account 300,000 shares of the Stock in connection with Section 8.4 of the Agreement (the "**Escrowed Shares**"). The terms of the escrow account shall provide for the release of the Escrowed Shares.

The number of shares of Stock shall be subject to adjustment from time to time as follows upon the happening of any of the following between the Effective Date and the Closing Date: the Company shall (i) pay a dividend in shares of common stock or make a distribution in shares of common stock to all of the holders of its outstanding common stock, (ii) subdivide its outstanding shares of common stock into a greater number of shares, or (iii) combine its outstanding shares of common stock into a smaller number of shares of common stock, then the number of shares of Stock shall be proportionately increased or decreased, as the case may be.

(b) **Revenue Stream.** In consideration of the Seller's covenants and agreements set forth in this Agreement, Purchaser agrees to pay Seller amounts based on the revenues obtained by Purchaser from the subsequent sale or licensing of the Covered Products (the "**Revenue Share**"), as set forth below:

(1) For purposes of this Agreement, "**Covered Product**" means any product sold or licensed by Purchaser that includes the Products, which shall be either (a) the Product sold on a standalone basis (the "**Standalone Product**"), or (b) the Product combined with the Purchaser's TV-Out, Ultra WideBand (UWB) or any other intellectual property the Purchaser shall purchase or develop not related to the Product, and packaged into a single chip, a multichip (system in a package), or a systems product or other combination (a "**Combined Product**."). "**Net Revenues**" for any particular period of time means all sales revenue based on the gross dollar amount invoiced by Purchaser for the sale of Covered Product, less returns, rebates, and allowances with respect to such Covered Product, and all licensing revenues earned by Purchaser from its licenses of Covered Product. "**FCS**" means the date of first commercial shipment by Purchaser or a licensee of Purchaser of a Covered Product and shall include the sale of a hardware developer's kit (HDK) for revenue so long as the Products included on such HDK are included on working silicon (chip) and not on an FPGA.

(2) The Revenue Share shall be equal to (a) ten percent (10%) of Net Revenues received for Covered Products during the first year after FCS, (b) seven and one half percent (7.5%) of Net Revenues received for Covered Products between the first and second year after FCS, and (c) five percent (5%) of Net Revenues received for Covered Products received between the second and third year after FCS. The three (3) year period commencing on FCS shall be the "**Revenue Share Term**." No Revenue Share shall be owed for any revenues received for the Covered Products after the Revenue Share Term. Notwithstanding the above, in the event that Purchaser creates and sells or licenses Combined Products during the Revenue Share Term, the Revenue Share owed with respect to the Combined Product shall be measured against the most recent average selling price of the Standalone Product (e.g., if in the first year after FCS the average selling price for the Standalone Product is \$100, and the average selling price for a Combined Product is \$150, then the Revenue Share for the sale of that given Combined Product shall be equal to ten percent (10%) of \$100).

(3) Within forty five (45) days after the end of each calendar quarter during the Revenue Share Term, Purchaser will provide Seller with payment of the Revenue Share for the preceding calendar quarter, together with a written report that includes information on Purchaser's sales and shipments of Covered Products by Purchaser and/or its licensees for that calendar quarter, by dollar volume and number of units reasonably sufficient for Seller to confirm the amounts of the Revenue Share.

(4) No more than once per year during the Revenue Share Term, upon at least thirty (30) days prior written notice, Seller may, at its expense, hire an independent auditor to review Purchaser's relevant books and records to confirm the amount of Revenue Share owed under this Agreement. Any such audit will be conducted during regular business hours at Purchaser's facilities and will not unreasonably interfere with Purchaser's business activities, and the auditor shall sign a reasonable confidentiality agreement provided by Purchaser. Purchaser will provide the auditor with access to the relevant Purchaser records and facilities. If an audit reveals that Purchaser has underpaid the Revenue Share during the period audited, then Purchaser will promptly pay Seller for such underpaid amounts, and in the event that the underpaid amounts exceed the greater of Five Thousand Dollars (\$5,000) or five percent (5%) of the amount owed during the period audited, then Purchaser will reimburse Seller for Seller's fees to the auditor in connection with such audit.

(5) Seller agrees that the Revenue Share set forth in this Agreement is an unsecured obligation for Purchaser to pay such amounts.

Certification of the Chief Executive Officer
(Pursuant to Rule 13a-14(a))

I, Brett Moyer, certify that:

1. I have reviewed this Form 10-Q of Focus Enhancements, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 14, 2008

/s/ Brett Moyer

Brett Moyer
President and CEO

Certification of the Chief Financial Officer
(Pursuant to Rule 13a-14(a))

I, Gary Williams, certify that:

1. I have reviewed this Form 10-Q of Focus Enhancements, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 14, 2008

/s/ Gary Williams

Gary Williams
Executive VP of Finance and CFO

CEO CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Focus Enhancements, Inc. (the "Company") on Form 10-Q for the period ended June 30, 2008, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Brett Moyer, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/Brett A. Moyer

Brett A. Moyer

Chief Executive Officer

August 14, 2008

CFO CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Focus Enhancements, Inc. (the "Company") on Form 10-Q for the period ended June 30, 2008, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Gary L. Williams, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/Gary L. Williams

Gary L. Williams

Chief Financial Officer

August 14, 2008