ONE VOICE TECHNOLOGIES INC
Form 10QSB
August 20, 2007

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-QSB

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

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2007

COMMISSION FILE NUMBER 0-27589

ONE VOICE TECHNOLOGIES, INC.

(Name of Small Business Issuer in its Charter)

| NEVADA | 95-4714338 |
|---|---|
| (State or Other Jurisdiction of Incorporation or Organization) | (I.R.S. Employer Identification No.) |

4250 Executive Square, Ste 770, La Jolla CA 92037

(Address of principal Executive Offices) (Zip Code)

| (858) 552-4466 | (858) 552-4474 |
|---|---|
| (Issuer's Telephone Number) | (Issuer's Facsimile Number) |

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

Securities registered under Section 12(g) of the Exchange Act:

COMMON STOCK-$.001 PAR VALUE

(Title of Class)

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock at the latest practicable date.

As of August 10, 2007 the registrant had 646,575,476 shares of common stock, $.001 par value, issued and outstanding.

Transitional small business disclosure format (check one): Yes [ ] No [X]

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PART I
FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)


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ONE VOICE TECHNOLOGIES INC.
BALANCE SHEETS
(UNAUDITED)

| | JUNE 30, 2007 | DECEMBER 31, 2006 |
|---|---|---|
| **ASSETS** | | |
| **CURRENT ASSETS:** | | |
| Cash and cash equivalents | $ 34,393 | $ 34,585 |
| Accounts Receivable | 69,130 | 99,111 |
| Inventories | 4,661 | 4,841 |
| Prepaid expenses | 14,985 | 28,785 |
| TOTAL CURRENT ASSETS | 123,169 | 167,322 |
| PROPERTY AND EQUIPMENT, NET | 162,220 | 164,389 |
| Software development & licensing, net | 4,495 | 12,618 |
| Trademarks, net | 2,375 | 2,452 |
| Patents, net | 61,869 | 77,580 |
| Deposits | 18,665 | 18,665 |
| Deferred debt issue costs | 182,614 | 344,835 |
| TOTAL ASSETS | $ 555,407 | $ 787,861 |
| **LIABILITIES AND STOCKHOLDERS' DEFICIT** | | |
| **CURRENT LIABILITIES:** | | |
| Accounts payable | $ 414,338 | $ 444,088 |
| Accrued expenses | 387,472 | 239,593 |
| Settlement agreement liability | 350,000 | 350,000 |
| License agreement liability | 1,049,000 | 930,000 |
| Debt derivative liability | 302,133 | 256,495 |
| Warrant derivative liability | 7,116,409 | 2,808,308 |
| Revolving line of credit | 803,917 | 240,000 |
| TOTAL CURRENT LIABILITIES | 10,423,269 | 5,268,484 |
| **LONG TERM LIABILITIES:** | | |
| Note payable | 100,000 | 100,000 |
| Convertible notes payable, net | 1,090,108 | 982,972 |
| Deferred rent | 14,990 | 12,017 |
| TOTAL LIABILITIES | 11,628,367 | 6,363,473 |
| **STOCKHOLDER'S DEFICIT:** | | |

| | | |
|---|---|---|
| Preferred stock; $.001 par value, 10,000,000 shares authorized, no shares issued and outstanding | | |
| Common stock; $.001 par value, 1,290,000,000 shares authorized, 640,075,476 and 584,513,637 shares issued and outstanding at June 30, 2007 and December 31, 2006, respectively | 648,995 | 585,327 |
| Additional paid-in capital | 41,299,058 | 40,696,540 |
| Accumulated deficit | (53,021,013) | (46,857,479) |
| TOTAL STOCKHOLDERS' DEFICIT | (11,072,960) | (5,575,612) |
| TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT | $ 555,407 | $ 787,861 |

SEE ACCOMPANYING NOTES TO THESE CONDENSED FINANCIAL STATEMENTS.



ONE VOICE TECHNOLOGIES INC.
STATEMENTS OF OPERATIONS
(UNAUDITED)

| | THREE MONTHS ENDED | | SIX MONT |
|---|---|---|---|
| | JUNE 30, 2007 | JUNE 30, 2006 | JUNE 30, 2007 |
| | | (RESTATED) | |
| Net Revenue | $ 152,146 | $ 109,851 | $ 362,539 |
| Cost of goods sold | 94,999 | 16,552 | 194,220 |
| GROSS PROFIT | 57,147 | 93,299 | 168,319 |
| General and administrative expenses | 708,483 | 962,475 | 1,340,088 |
| NET LOSS FROM OPERATIONS | (651,336) | (869,176) | (1,171,769) |
| OTHER INCOME / (EXPENSE) | | | |
| Interest expense | (219,341) | (194,159) | (489,963) |
| Settlement expense, net | -- | (100,000) | -- |
| Gain / (loss) on warrant and debt derivatives | 1,507,678 | 4,098,311 | (4,353,739) |
| Other income (expense) | (147,310) | 247 | (147,263) |
| TOTAL OTHER INCOME / (EXPENSE) | 1,141,027 | 3,804,399 | (4,990,965) |
| NET INCOME / (LOSS) BEFORE INCOME TAX | 489,691 | 2,935,223 | (6,162,734) |
| Income tax expense | -- | -- | (800) |
| NET INCOME / (LOSS) | $ 489,691 | $ 2,935,223 | $ (6,163,534) |

| | | | |
|---|---|---|---|
| BASIC INCOME /(LOSS) PER SHARE | $ 0.01 | $ 0.01 | $ (0.01) |
| BASIC WEIGHTED AVERAGE SHARES OUTSTANDING | 624,850,000 | 471,037,000 | 602,817,000 |

SEE ACCOMPANYING NOTES TO THESE CONDENSED FINANCIAL STATEMENTS.

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ONE VOICE TECHNOLOGIES INC.
STATEMENTS OF CASH FLOWS
(UNAUDITED)

| | SIX MONTHS ENDED JUNE 30, 2007 | JUNE 30, 2006 (RESTATED) |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net loss | $(6,163,534) | $(2,732,434) |
| ADJUSTMENTS TO RECONCILE NET LOSS TO NET CASH USED IN OPERATING ACTIVITIES | | |
| Depreciation and amortization | 45,869 | 62,896 |
| Amortization of debt issue costs | 162,221 | 69,978 |
| Amortization of debt discount | 242,136 | 788,735 |
| Decrease in convertible note discount | -- | (529,627) |
| (Gain) loss on debt derivative liability | 45,638 | 69,388 |
| (Gain) loss on warrant derivative liability | 4,308,101 | 287,980 |
| Common stock issued in exchange for services | 147,200 | 320,500 |
| Share based compensation expense | 73,566 | 194,636 |
| Issuance of common stock interest conversion | 8,903 | -- |
| Cashless warrant exercise | 169,277 | -- |
| (Gain) on sale of equipment | (21,940) | -- |
| CHANGES IN CERTAIN ASSETS AND LIABILITIES | | |
| Accounts receivable | 29,981 | (28,201) |
| Inventories | 180 | (6,284) |
| Prepaid expenses | 13,800 | (4,756) |
| Accounts payable | (29,750) | 196,997 |
| Accrued expenses | 147,879 | 99,661 |
| Deferred rent | 2,973 | 6,721 |
| Settlement agreement liability | -- | (420,000) |
| NET CASH USED IN OPERATING ACTIVITIES | (817,500) | (1,623,810) |
| CASH FLOW FROM INVESTING ACTIVITIES | | |
| Purchase of property and equipment | (22,849) | (15,811) |

| | | |
|---|---|---|
| Proceeds from sale of property & equipment | 25,000 | -- |
| Purchase of intangible assets | -- | (18,014) |
| NET CASH USED IN INVESTING ACTIVITIES | 2,151 | (33,825) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Issuance of common stock - private funding | -- | 52,000 |
| Shares to be issued related to private placement | -- | 60,000 |
| License agreement liability | 119,000 | -- |
| Warrant exercise | 132,240 | 300,200 |
| Proceeds from convertible notes | -- | 1,024,000 |
| Payment for debt issue cost to secure financing | -- | (85,000) |
| Proceeds from revolving credit line | 563,917 | -- |
| NET CASH PROVIDED BY FINANCING ACTIVITIES | 815,157 | 1,351,200 |
| Net increase (decrease) in cash | (192) | (306,435) |
| Cash and cash equivalents, beginning of period | 34,585 | 338,811 |
| CASH AND CASH EQUIVALENTS, END OF PERIOD | $ 34,393 | $ 32,376 |



| | | |
|---|---|---|
| **SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION** | | |
| Interest paid | $ -- | $ 10,000 |
| Income taxes paid | $ 800 | $ 800 |
| **SUPPLEMENTAL DISCLOSURE OF NON-CASH FINANCING ACTIVITIES** | | |
| Issuance of warrant derivative in connection with private placement and debt financing, initial valuation | $ -- | $ 514,198 |
| Common Stock issued upon conversion of debt and interest | $ 135,000 | $ 1,028,650 |
| Common stock issued in connection with reduction of settlement liability and services rendered | $ 147,200 | $ 320,500 |

SEE ACCOMPANYING NOTES TO THESE CONDENSED FINANCIAL STATEMENTS.

ONE VOICE TECHNOLOGIES, INC.
NOTES TO FINANCIAL STATEMENTS

## ITEM 1a. DESCRIPTION OF BUSINESS

### INTRODUCTION

One Voice Technologies, Inc. is a voice recognition technology company with over $43 million invested in Research and Development and deployment of products in both the telecom and PC multi-media markets. To date, our customers include: Telefonos de Mexico, S.A.B. de C.V. (TELMEX), Intel Corporation, Alltel Wireless, Inland Cellular, Nex-Tec Wireless and several additional telecom service providers throughout the United States. Our telecom solutions allow business and consumer phone users to Voice Dial, Group Conference Call, Read and Send E-Mail and Instant Message, all by voice. We offer PC Original Equipment Manufacturers (OEM's) the ability to bundle a complete voice interactive computer assistant which allows PC users to talk to their computers to quickly play digital media (music, videos, DVD) along with reading and sending e-mail messages, SMS text messaging to mobile phones, PC-to-Phone calling (VoIP) and PC-to-PC audio/video. We feel we are strongly positioned across these markets with our patented voice technology.

The Company is traded on the NASD OTC Bulletin Board ("OTCBB") under the symbol ONEV. One Voice is incorporated in the State of Nevada and commenced operations on July 14, 1999.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

### INTERIM FINANCIAL STATEMENTS:

The accompanying audited financial statements represent the financial activity of One Voice Technologies, Inc. These financial statements have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC"). Certain information and note disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been or omitted pursuant to such rules and regulations. These financial statements and the accompanying notes are unaudited and should be read in conjunction with the consolidated financial statements and the notes thereto included in the Company's Annual Report on Form 10-KSB for the year ended December 31, 2006. In the opinion of management, the financial statements herein include adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation of the Company's financial position as of June 30, 2007, results of operations for the three and six months ended June 30, 2007 and 2006. The results of operations for the three and six months ended June 30, 2007 are not necessarily indicative of the operating results to be expected for the full fiscal year or any future periods.

### ORGANIZATION AND BASIS OF PRESENTATION

One Voice Technologies, Inc., ("The Company"), is incorporated under the laws of the State of Nevada. The Company develops voice recognition software and it commenced operations in 1999. The Company's telecom solutions allow business and

consumer phone users to Voice Dial, Group Conference Call, Read and Send E-Mail and Instant Message, all by voice. We offer PC Original Equipment Manufacturers (OEM's) the ability to bundle a complete voice interactive computer assistant which allows PC users to talk to their computers to quickly play digital media (music, videos, DVD) along with reading and sending e-mail messages, SMS text messaging to mobile phones, PC-to-Phone calling (VoIP) and PC-to-PC audio/video.

GOING CONCERN

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The Company has incurred significant losses since inception of $53,021,013 and used cash from operations of $ 817,500 during the six month period ended June 30, 2007. The Company also has a working capital deficit of $10,300,100 of which $7,418,542 represents a non-cash warrant and debt derivative liabilities. The





2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Company also has a stockholders' deficit of $11,073,000 as of June 30, 2007. These factors raise substantial doubt about the Company's ability to continue as a going concern. Management has instituted a cost reduction program that included a reduction in labor and fringe costs. Historically, management has been able to obtain capital through either the issuance of equity or debt, and is currently seeking such financing. There can be no assurance as to the availability or terms upon which such financing and capital might be available. Additionally, management is currently pursuing revenue-bearing contracts utilizing various applications of its technology including wireless technology. The financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

RECLASSIFICATIONS

Certain reclassifications have been made to prior year's amounts to conform to current year classifications. These reclassifications did not have an effect on the previously reported results of operations or retained earnings.

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the amount of revenue and expense reported during the period. Significant estimates include valuation of derivative and warrant liabilities. Actual results could differ from those estimates.

FAIR VALUE

The Company's financial instruments consist principally of cash and cash equivalents, accounts receivable, accounts payable, notes payable and convertible debt. The carrying value of cash and cash equivalents, accounts receivable and accounts payable, approximates their fair value due to their short term nature. The carrying value of notes payable and convertible debt approximate their fair value, as interest approximates market rates.

CASH AND CASH EQUIVALENTS

For purposes of the statement of cash flows, cash equivalents include all highly liquid debt instruments with original maturities of three months or less which are not securing any corporate obligations.

CONCENTRATION

The Company maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts.

REVENUE RECOGNITION

The Company recognizes revenue when persuasive evidence of a sale arrangement exists, delivery has occurred or services have been rendered, the sales price is fixed or determinable, and collectibility is reasonably assured in accordance with SEC Staff Accounting Bulletin No. 104, "Revenue Recognition in Financial Statements" ("SAB 104").

When a customer order contains multiple items such as hardware, software, and services which are delivered at varying times, the Company determines whether the delivered items can be considered separate units of accounting as prescribed under Emerging Issues Task Force ("EITF") Issue No. 00-21, "Revenue Arrangements with Multiple Deliverables" ("EITF 00-21"). EITF 00-21 states that delivered items should be considered separate units of accounting if delivered items have value to the customer on a standalone basis, there is objective and reliable evidence of the fair value of undelivered items, and if delivery of undelivered items is probable and substantially in the Company's control.





2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In these circumstances, the Company allocates revenue to each element based on its relative vendor specific objective evidence of fair value ("VSOE"). VSOE for products and software is established based on the Company's approved pricing schedules. To establish VSOE for services, the Company uses standard billing rates based on said services. Generally, the Company is able to establish VSOE for all elements of the sales order and bifurcate the customer order or contract accordingly. In these instances, sales are recognized on each element separately. However, if VSOE cannot be established or if the delivered items do not have stand alone value to the customer without additional services provided, the Company recognizes revenue on the contract as a whole based on either the

completed-performance or proportional-performance methods as described below.

In most cases, revenue from hardware and software product sales is recognized when title passes to the customer. Based upon the Company's standard shipping terms, FOB The Company, title passes upon shipment to the customer.

Revenue is recognized on service contracts using either the completed-performance or proportional-performance method depending on the terms of the service agreement. When the amount of services to be performed in the last series of acts is so significant in relation to the entire service contract that performance is deemed not to have occurred until the final act is completed or when there are acceptance provisions based on customer-specified subjective criteria, the completed-performance method is used. Once the last significant act has been performed, revenue is recognized. The Company uses the proportional-performance method when a service contract specifies a number of acts to be performed and the Company has the ability to produce reasonable estimates. The estimates used on these contracts are periodically updated during the term of the contract and may result in the Company's revision of recognized sales in the period in which they are identified.

In some contracts, billing terms are agreed upon based on performance milestones such as the execution of a contract, the customer's acceptance of a list detailing the equipment and/or vendor for products, the partial or complete delivery of products and/or the completion of specified services. Payments received before delivery has occurred or services have been rendered are recorded as deferred revenue until the revenue recognition criteria are met. Deferred revenue from maintenance or warranty contracts is recognized over the terms of the underlying contract.

## TRADEMARKS AND PATENTS

The Company's trademark costs consist of legal fees paid in connection with trademarks. The Company amortizes trademarks using the straight-line method over the period of estimated benefit, generally four years.

The Company's patent costs consist of legal fees paid in connection with patents pending. The Company amortizes patents using the straight-line method over the period of estimated benefit, generally five years. Yearly patent renewal fees are expensed in the year incurred.

In accordance with SFAS No. 142, the Company evaluates its operations to ascertain if a triggering event has occurred which would impact the value of finite-lived intangible assets (e.g., patents). Examples of such triggering events include a significant disposal of a portion of such assets, an adverse change in the market involving the business employing the related asset, a significant decrease in the benefits realized from an asset

As of June 30, 2007, no such triggering event has occurred. An impairment test involves a comparison of undiscounted cash flows against the carrying value of the asset as an initial test. If the carrying value of such asset exceeds the undiscounted cash flow, the asset would be deemed to be impaired. Impairment would then be measured as the difference between the fair value of the fixed or amortizing intangible asset and the carrying value to determine the amount of the impairment. The Company determines fair value generally by using the discounted cash flow method. To the extent that the carrying value is greater than the asset's fair value, an impairment loss is recognized for the difference.

ONE VOICE TECHNOLOGIES INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Convertible Notes and Financial Instruments with Embedded Features

The Company accounts for conversion options embedded in convertible notes in accordance with Statement of Financial Accounting Standard ("SFAS) No. 133 "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133") and EITF 00-19 "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock" ("EITF 00-19"). SFAS 133 generally requires Companies to bifurcate conversion features embedded in convertible notes from their host instruments and to account for them as free standing derivative financial instruments in accordance with EITF 00-19. SFAS 133 provides for an exception to this rule when convertible notes, as host instruments, are deemed to be conventional as that term is described in the implementation guidance under Appendix A to SFAS 133 and further clarified in EITF 05-2 "The Meaning of "Conventional Convertible Debt Instrument" in Issue No. 00-19.

The Company accounts for convertible notes (if deemed conventional) in accordance with the provisions of Emerging Issues Task Force Issue ("EITF")98-5 "Accounting for Convertible Securities with Beneficial Conversion Features," ("EITF 98-5"), EITF 00-27 "Application of EITF 98-5 to Certain Convertible Instruments," Accordingly, the Company records, as a discount to convertible notes, the intrinsic value of such conversion options based upon the differences between the fair value of the underlying common stock at the commitment date of the note transaction and the effective conversion price embedded in the note. Debt discounts under these arrangements are amortized over the term of the related debt to their earliest date of redemption.

The Companys convertible notes do host conversion features and other features that are deemed to be embedded derivatives financial instruments or beneficial conversion features based on the commitment date fair value of the underlying common stock.

### COMMON STOCK PURCHASE WARRANTS AND OTHER DERIVATIVE FINANCIAL INSTRUMENTS

The Company accounts for the issuance of common stock purchase warrants issued and other free standing derivative financial instruments in accordance with the provisions of EITF 00-19. Based on the provisions of EITF 00-19, the Company classifies as equity any contracts that (i) require physical settlement or net-share settlement or (ii) gives the Company a choice of net-cash settlement or settlement in its own shares (physical settlement or net-share settlement). The Company classifies as assets or liabilities any contracts that (i) require net-cash settlement (including a requirement to net cash settle the contract if an event occurs and if that event is outside the control of the Company) (ii) give the counterparty a choice of net-cash settlement or settlement in shares (physical settlement or net-share settlement).

### DEFERRED DEBT ISSUE COST

The costs relating to obtaining and securing debt financing are capitalized and

is expensed over the term of the debt instrument. In the event of settlement of such debt in advance of the maturity date, an expense is recognized for the remaining unamortized deferred debt issue cost.

For the six months ended June 30, 2007 and the year ended December 31, 2006, the estimated the estimated fair value of the Company's deferred debt issue cost were $182,614 and $344,835 respectively.



ONE VOICE TECHNOLOGIES INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### NET LOSS PER COMMON SHARE

Basic earnings per share ("EPS") is calculated using the weighted-average number of outstanding common shares during the period. Diluted earnings per share is calculated using the weighted-average number of outstanding common shares and dilutive common equivalent shares outstanding during the period, using either the as-converted method for convertible notes and convertible preferred stock or the treasury stock method for options and warrants.

The net income / (loss) per common share for the three and six months ended June 30, 2007 and 2006 is based on the weighted average number of shares of common stock outstanding during the periods. Potentially dilutive securities include options, warrants and convertible debt; however, such securities have not been included in the calculation of the net loss per common share as their effect is anti dilutive.

Potentially dilutive securities for the three and six months ending June 30, 2007 and 2006 are:

| POTENTIALLY DILUTIVE SECURITIES: | | |
|---|---|---|
| Convertible debentures | 67,767,442 | 110,345,663 |
| Options | 55,459,000 | 59,121,500 |
| Warrants | 311,605,032 | 251,795,472 |
| TOTAL ANTI-DILUTIVE SHARES | 434,831,474 | 421,262,635 |



### INCOME TAXES

Deferred income taxes are reported using the asset/liability method. Deferred tax assets are recognized for deductible temporary differences and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation

allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

In June 2006, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation 48 ("FIN 48"), ACCOUNTING FOR UNCERTAINTY IN INCOME TAXES. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in accordance with SFAS 109, ACCOUNTING FOR INCOME TAXES. FIN 48 prescribes a comprehensive model for how a company should recognize, measure, present and disclose in its financial statements uncertain tax positions that the company has taken or expects to take on a tax return. This interpretation is effective for fiscal years beginning after December 15, 2006.

The Company files federal income tax returns in the U.S. The Company is no longer subject to U.S. state, or non-U.S. income tax examinations by tax authorities for years before 2001. Certain U.S. Federal returns for years 1999 and following are not closed by relevant statutes of limitation due to unused net operating losses reported on those returns.

The Company adopted the provisions of FIN 48 on January 1, 2007. As a result of the implementation of FIN 48, the Company had no changes in the carrying value of its tax assets or liabilities for any unrecognized tax benefits.





## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### ACCOUNTING FOR STOCK-BASED COMPENSATION

On January 1, 2006 the Company adopted "SFAS" No.123 (Revised 2004), "Share Based Payment," ("SFAS 123R"), using the modified prospective method. In accordance with SFAS No. 123R, the Company measures the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. That cost is recognized over the period during which an employee is required to provide service in exchange for the award - the requisite service period. The Company determines the grant-date fair value of employee share options using the Black-Scholes option-pricing model.

During the six months ended June 30, 2007 and 2006, the Company recorded $74,000 and $195,000 respectively in non-cash charges for stock based compensation.

The fair value of stock options at date of grant was estimated using the Black-Scholes model with the following assumptions: expected volatility of 90.9%, expected term of 2.0 years, risk-free interest rate of 4.74%, and expected dividend yield of 0%. Expected volatility is based on the historical volatilities of the Company's common stock. The expected life of employee stock options is determined using guidance from SAB 107. As such, the expected life of the options and warrants is the average of the vesting term and the full contractual term of the options and warrants. The risk free interest rate is based on the U.S. Treasury notes for the expected life of the stock option.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

STOCK WARRANT ACTIVITY

The fair value of each option and warrant award is estimated on the date of grant using the Black-Scholes option-pricing model that uses the assumptions noted in the following table. The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's stock options and warrants have characteristics significantly different from those of traded options, and because changes in the subjective assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its stock options and warrants. The expected dividend yield assumption is based on the Company's expectation of dividend payouts. Expected volatilities are based on historical volatility of the Company's stock. The average risk-free interest rate is based on the U.S. treasury yield curve in effect as of the grant date. The expected life is primarily determined using guidance from SAB 107. As such, the expected life of the options and warrants is the average of the vesting term and the full contractual term of the options and warrants.

The Company accounts for stock options and warrants issued to third parties for services in accordance with the provisions of the Emerging Issues Task Force ("EITF") Issue No. 96-18, "Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling Goods or Services". Under the provisions of EITF 96-18, because none of the Company's agreements have a disincentive for nonperformance, the Company records a charge for the fair value of the portion of the stock options and warrants earned from the point in time when vesting of the stock options and warrants becomes probable. Final determination of fair value of the stock options and warrants occurs upon actual vesting.

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ONE VOICE TECHNOLOGIES INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

COMPREHENSIVE INCOME

The Company has adopted Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income," which establishes standards for reporting comprehensive income and its components in the financial statements. Comprehensive income consists of net income and other gains and losses affecting shareholders' equity that, under generally accepted accounting principles, are excluded from net income. For the six months ended June 30, 2007 and 2006, the Company's comprehensive income (loss) had equaled its net loss. Accordingly, a statement of comprehensive loss is not presented.

COMMITMENTS AND CONTINGENCIES

Certain conditions may exist as of the date the financial statements are issued, which may result in a loss to the Company but which will only be resolved when one or more future events occur or fail to occur. The Company's management and its legal counsel assess such contingent liabilities, and such assessment inherently involves an exercise of judgment. In assessing loss contingencies related to legal proceedings that are pending against the Company or unasserted claims that may result in such proceedings, the Company's legal counsel evaluates the perceived merits of any legal proceedings or unasserted claims as well as the perceived merits of the amount of relief sought or expected to be sought therein.

If the assessment of a contingency indicates that it is probable that a material loss has been incurred and the amount of the liability can be estimated, then the estimated liability would be accrued in the Company's financial statements. If the assessment indicates that a potentially material loss contingency is not probable, but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss if determinable and material, would be disclosed.

Loss contingencies considered remote are generally not disclosed unless they involve guarantees, in which case the nature of the guarantee would be disclosed.

SEGMENT

The Company operates in a single business segment that includes the design and development of its products.

RECENT ACCOUNTING PRONOUNCEMENTS

In June 2006, the FASB ratified the consensus on Emerging Issues Task Force ("EITF") Issue No. 06-3, "How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement" ("EITF No. 06-3"). The scope of EITF No. 06-3 includes any tax assessed by a governmental authority that is directly imposed on a revenue-producing transaction between a seller and a customer and may include, but is not limited to, sales, use, value added, Universal Service Fund ("USF") contributions and some excise taxes. The Task Force affirmed its conclusion that entities should present these taxes in the income statement on either a gross or a net basis, based on their accounting policy, which should be disclosed pursuant to APB Opinion No. 22, "Disclosure of Accounting Policies." If such taxes are significant and are presented on a gross basis, the amounts of those taxes should be disclosed. The consensus on EITF No. 06-3 will be effective for interim and annual reporting periods beginning after December 15, 2006. The Company currently does not show sales tax billed to its customers on the income statement but records the same as a liability.





RECENT ACCOUNTING PRONOUNCEMENTS (CONTINUED)

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements," which defines fair value, establishes a framework for measuring fair value in

generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS No. 157 does not require any new fair value measurements, but provides guidance on how to measure fair value by providing a fair value hierarchy used to classify the source of the information. This statement is effective on the Company beginning July 1, 2008. The Company is currently assessing the potential impact that the adoption of SFAS No. 157 will have on its financial statements.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities--Including an amendment of FASB Statement No. 115" ("SFAS 159"). SFAS 159 expands the use of fair value accounting but does not affect existing standards which require assets or liabilities to be carried at fair value. Under SFAS 159, a company may elect to use fair value to measure accounts and loans receivable, available-for-sale and held-to-maturity securities, equity method investments, accounts payable, guarantees and issued debt. Other eligible items include firm commitments for financial instruments that otherwise would not be recognized at inception and non-cash warranty obligations where a warrantor is permitted to pay a third party to provide the warranty goods or services. If the use of fair value is elected, any upfront costs and fees related to the item must be recognized in earnings and cannot be deferred, e.g., debt issue costs. The fair value election is irrevocable and generally made on an instrument-by-instrument basis, even if a company has similar instruments that it elects not to measure based on fair value. At the adoption date, unrealized gains and losses on existing items for which fair value has been elected are reported as a cumulative adjustment to beginning retained earnings. Subsequent to the adoption of SFAS 159, changes in fair value are recognized in earnings. SFAS 159 is effective for fiscal years beginning after November 15, 2007 and is required to be adopted by the Company in the first quarter of fiscal 2009. The Company currently is determining whether fair value accounting is appropriate for any of its eligible items and cannot estimate the impact, if any, which SFAS 159 will have on its consolidated results of operations and financial condition.

In June 2007, the FASB ratified Emerging Issues Task Force (EITF) Issue No. 06-11, "Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards." EITF 06-11 provides for the recognition and classification of deferred taxes associated with dividends or dividend equivalents on nonvested equity shares or nonvested equity share units (including restricted stock units (RSUs)) that are paid to employees and charged to retained earnings. This issue is effective for annual periods beginning after September 15, 2007. Also in June 2007, the EITF ratified EITF Issue No. 07-3, "Accounting for Advance Payments for Goods or Services to Be Used in Future Research and Development Activities." EITF 07-3 provides that nonrefundable advance payments made for goods or services to be used in future research and development activities should be deferred and capitalized until such time as the related goods or services are delivered or are performed, at which point the amounts would be recognized as an expense.

This issue is effective for fiscal years beginning after December 15, 2007 We have evaluated the potential impact of these issues and anticipate that they will have no material impact on our financial position and results of operations.

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

3. PREPAID EXPENSES

| | SIX MONTHS ENDED JUNE 30, 2007 | YEAR ENDED DECEMBER 31, 2006 |
|---|---|---|
| Rents | 8,600 | -- |
| Business and health insurance | 5,050 | 24,000 |
| Legal fees | -- | 4,000 |
| Other | 1,335 | 785 |
| TOTAL | $ 14,985 | $ 28,785 |



4. PROPERTY AND EQUIPMENT

| | SIX MONTHS ENDED JUNE 30, 2007 | YEAR ENDED DECEMBER 31, 2006 |
|---|---|---|
| Computer equipment | $ 719,567 | $ 703,099 |
| Website development | 38,524 | 38,524 |
| Equipment | 1,562 | 1,562 |
| Furniture and fixtures | -- | 46,431 |
| Telephone equipment | 5,365 | 5,365 |
| Molds and tooling | 120,216 | 113,836 |
| TOTAL | 885,234 | 908,816 |
| Less accumulated depreciation | (723,014) | (744,427) |
| NET PROPERTY AND EQUIPMENT | $ 162,220 | $ 164,389 |

Depreciation expense totaled $22,000 and $26,000 for the six months ended June 30, 2007 and 2006, respectively.

On June 30, 2007 the Company relocated to a new office space. The new office is located at 4250 Executive Square Ste. 770 La Jolla, CA 92037. The relocation cost was approximately $1,500. Rent expense decreased by approximately $9,500 per month due to the relocation. The new lease is an amendment of the prior lease, the term of the new lease is July 1, 2007 thru December 31, 2010.

5. DEFERRED DEBT ISSUE COSTS

These costs relate to obtaining and securing debt financing and financing agreements. These costs are amortized over the term of the debt agreement using the straight line method. There were no costs incurred during the six months

ended June 30, 2007. A balance of $183,000 remains as of June 30, 2007.

## 6. ACCRUED EXPENSES

| | SIX MONTHS ENDED JUNE 30, 2007 | YEAR ENDED DECEMBER 31, 2006 |
|---|---|---|
| Accrued salaries | $ 46,696 | $ 10,976 |
| Accrued vacation | 84,787 | 57,441 |
| Accrued interest | 193,058 | 118,842 |
| Accrued audit fees | 55,104 | 50,000 |
| Marketing | 5,827 | 2,334 |
| Licensing | 2,000 | -- |
| TOTAL | $ 387,472 | $ 239,593 |

## 7. SETTLEMENT AGREEMENT LIABILITY

On January 6, 2006, La Jolla Cove Investors, Inc. and the Company entered into a Settlement Agreement and Mutual Release (the "Settlement Agreement") in which La Jolla and the Company agreed to forever settle, resolve and dispose of all claims, demands and causes of action asserted, existing or claimed to exist between the parties because of or in any way related to the Action. Under the Settlement Agreement, La Jolla and the Company agreed that the parties shall bear their own costs and attorney's fees associated with the Action. In addition, we agreed to pay to La Jolla:





## 7. SETTLEMENT AGREEMENT LIABILITY (CONTINUED)

- 10,000,000 restricted shares of our common stock upon the execution of the Settlement Agreement;
- $300,000 was paid on May 5, 2006; and
- $400,000 was due on June 6, 2006 (this payment was not made)
- $50,000 was paid on September 13, 2006

Interest accrued on the $400,000 unpaid balance at 8% per annum commencing on the date of the Settlement Agreement until paid in full. Because payment of $400,000 was not made within 30 days of its due date (June 6, 2006), La Jolla is entitled to enter a judgment against us for the unpaid balance, plus accrued interest and $100,000, upon the filing of a declaration of default by La Jolla. Upon a negotiation being reached the payment has been restructured at to an amount of $50,000 due the 15th of each month starting September 15, 2006 with a

10 day late payment grace period. In January 23, 2007 La Jolla Cove Investors Inc, filed suit in the Superior Court Of California entitled La Jolla Cove Investors, Inc. ("La Jolla") vs. One Voice Technologies, Inc., Case No. GIC850038 for in reference to the settlement agreement mentioned above. The penalty by default of $100,000 was dismissed by the court.

Accordingly, $350,000 is accrued as a settlement liability along with accrued interest of $46,703 as of June 30, 2007.

Currently the Company is in the negotiation process of settling this dispute. Most likely the settlement will be in the form of both cash and equity.

8. LICENSE AGREEMENT LIABILITY

In March 2000 the Company entered into a Software License Agreement ("License Agreement") with Philips Speech Processing, a division of Philips Electronics North America ("Philips"). Pursuant to the License Agreement, the Company received a world-wide, limited, nonexclusive license to certain speech recognition software owned by Philips. The initial term of the License Agreement was three (3) years, and the License Agreement included an extended term provision under which the License Agreement was automatically renewable for successive one (1) year periods, unless terminated by either party upon a minimum of sixty (60) days written notice prior to the expiration of the initial term or any extended term.

The License Agreement provides for the Company to pay a specified commission on revenues from products incorporating licensed software, and includes minimum royalty payment obligations over the initial three (3) year term of the License Agreement in the aggregate amount of $1,100,000.

Under an amendment to the License Agreement entered into in March 2002, the initial term of the License Agreement was extended for two (2) years, and the aggregate minimum royalty payment was increased to $1,500,000. The amendment also included a revised payment schedule of the minimum royalty payment obligation that provided for semi-annual payments of $250,000 (due on June 30th and December 31st of each year). In lieu of scheduled payments, in May, 2003, based on a verbal agreement with Philips, the Company began making monthly payments of $15,000, of which $10,000 is being applied against the remaining minimum royalty payment due and $5,000 is being applied as interest.





8. LICENSE AGREEMENT LIABILITY (CONTINUED)

On February 1, 2007 the Company amended the Software License Agreement originally entered into March 2000 with Philips Speech Processing, a division of

Philips Electronics North America ("Philips"). Under the amendment the following payment two terms will be followed:

The 2006 past due amounts owed by the Company of $70,000 were allocated as follows: The Company paid $20,000 on February 23, 2007, the remaining $50,000 is to be paid in the form of a non-interest bearing note payable to Philips Speech Processing.

During the period of January 1, 2007 thru June 30, 2007 the following payments will be allocated as follows: $6,000 is to be paid monthly by the Company to Philips Speech Processing. The monthly remaining balance of $11,500 due to Philips Speech Processing is to be paid by the Company in the form of a non-Interest bearing note payable to Philips Speech Processing.

On July 1, 2007 and continuing thereafter, a minimum Software License fee of $17,500 is to be paid to Philips Speech Processing on a monthly basis.

As of June 30, 2007 the note payable balance due Philips Speech Processing was $1,049,000.

## 9. DEBT DERIVATIVE LIABILITY

During the year ended December 31, 2006 the Company entered into convertible debt financing agreements with several institutional investors. Embedded within these convertible financing transactions are derivatives which require special treatment pursuant with SFAS No. 133 and EITF 00-19. The Company did not enter into any convertible debt financing agreements during 2007. The derivatives include but are not limited to the following characteristics:

- Beneficial conversion features
- Early redemption option
- Registration rights and associated liquidated damage clauses

As a result of the valuation conducted as of June 30, 2007 the Company incurred a net non-cash loss of $45,638 for the six months with a corresponding increase in the debt derivative liability.

The valuation at June 30, 2007 and the year ended December 31, 2006 resulted in the fair value of the debt derivative liability being $302,133 and $256,495 respectively.

## 10. WARRANT DERIVATIVE LIABILITY

During the six months ended June 30, 2006, the Company issued warrants in connection with convertible debt financing agreements and private placements that required analysis in accordance with EITF 00-19. There were no warrants issued during the period ended June 30, 2007. EITF 00-19 specifies the conditions which must be met in order to classify warrants issued in a company's own stock as either equity or as a derivative liability. Evaluation of these conditions under EITF 00-19 resulted in the determination that these warrants are classified as a derivative liability. In accordance with EITF 00-19, warrants which are determined to be classified as derivative liabilities are marked-to-market each reporting period, with a corresponding non-cash gain or loss charged to the current period. The Company valued all warrant derivative liabilities as of June 30, 2007 using a Black-Scholes option pricing model using the following assumptions: expected dividend yield of 0.0%, expected stock price volatility of 112%, risk free interest rate of 4.74% and a remaining contractual life ranging from .38 years to 3.17 years.

As a result of the valuation conducted, the Company incurred a net non-cash loss of $4,308,101 for the six months period with a corresponding increase in the warrant derivative liability.

The valuation conducted as of June 30, 2006 resulted in a non-cash gain of $220,802 with a corresponding decrease in the warrant derivative liability.

The valuation at June 30, 2007 and the year ended December 31, 2006 the resulted

in the fair value of the warrant derivative liability being $7,116,409 and $2,808,308 respectively.



ONE VOICE TECHNOLOGIES INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

## 11. REVOLVING CREDIT NOTE PAYABLE

On December 21, 2006, the Company completed a private placement pursuant to a Revolving Credit Note Agreement which the Company entered into with several institutional Investors, pursuant to which the Investors subscribed to advance up to a maximum amount of $640,000 bearing an interest rate of 7%. The term of the agreement shall be effective as of December 21, 2006 and shall be in full force and effect until the earliest to occur of (a) 12 months from December 21, 2006 (B) a date not less than thirty days after Lender gives notice of termination to the Company. In connection with the Revolving Credit Note Agreement, the Company also issued 20,000,000 shares of its common stock to the related investors. Interest shall be calculated daily on the outstanding principal balance due, and is to be reimbursed to the Investors a monthly basis. The reimbursement of the interest shall be in the form of the Company's restricted shares of common stock. The stock is to be valued at the month end stock closing price. The advances to the Company are to be based on an amount of up to 75% of the face value of the current and future invoices "Receivables" submitted for borrowing. All proceeds paid relating to the previously mentioned invoices are to be deposited into a lockbox account belonging to Investors. The lockbox proceeds are to be 100% applied towards any outstanding principal amount owed by the Company. The Company's obligation to repay all principal and accrued and unpaid interest under the convertible notes is secured by the Company's assets pursuant to a certain Security Agreement dated February 16, 2006, which also secures the remaining principal amount of the Company's convertible notes in the aggregate amount of $1,592,000 which the Company issued on March 18, 2005, July 13, 2005, March 17, 2006 May 5, 2006, July 6, 2006 and August 29, 2006 to certain of the investors participating in this new private placement.

The original Revolving Credit Note agreement has been amended three times during the six months ended June 30, 2007. The amendments increased the maximum borrowing by the Company to an amount of $840,000. On the second amendment in May 2007, the principal and interest payment terms by the Company to the lender changed. The original note payment terms were that all outstanding principal and interest was to be paid in cash by the Company upon maturity of the note.

On May 2, 2007, the Company amended the revolving line of credit. The amendment provided for the conversion of the balance into common shares of stock of the Company. At May 2, 2007, the total debt balance was $716,297, which based on the conversion rate of the lower of $0.015 or 80% of the lowest 3 days, gave a conversion rate of $0.016. Given the $0.03 stock price at that date, the Company recorded a derivative liability of $121,563 at issuance. As of June 30, 2007, the derivative value decreased to $97,375, so the Company recognized an other expense item of $24,188 to reflect the difference. In valuing the derivative liability, the company used the computed volatility of 112%, the bond discount rate of 4.74%, as well as the closing and conversion prices at each measurement date. All other original terms and conditions of the original note are still in full force and effect.

During the period of January 1, 2007 thru June 30, 2007 the investors elected to convert $8,902 in accrued interest related to the credit note. Approximately

270,000 shares of the Company's restricted stock are to be issued. As of June 30, 2007 these shares have not been issued.

During the Period of January 1, 2007 thru June 30, 2007 the Company borrowed $620,000 against the revolving note. During the same period the Company paid $56,083 against the outstanding balance for a total net borrowing of $803,917 since inception. All borrowings are used to cover recurring operating expenses by the Company.

As of June 30, 2007 the outstanding principal amount owed to the Investors is $803,917. Interest accrued on the outstanding principal is $14,642 as of June 30, 2007.

## 12. NOTE PAYABLE

On August 8, 2003 the Company entered into a note payable in the amount of $100,000, with principal and interest at 8.0% per annum, due on August 8, 2008. At June 30, 2007 and December 31, 2006 the principal balance on the note payable was $100,000 respectively. Accrued interest as of June 30, 2007 is $31,167.





## 13. CONVERTIBLE NOTES PAYABLE SUMMARY

During the six months ended June 30, 2007 the Company did not enter into any convertible debt financing agreements.

During the six months ended June 30, 2007 and 2006, $135,000 and $1,028,650 of notes payable and accrued interest was converted into approximately 21,429,000 and 74,410,000 shares of the Company's common stock at an average conversion price of $ 0.0063 and$0.014 per share.

On March 17, 2006, the Company completed a private placement pursuant to a Subscription Agreement which the Company entered into with several institutional investors, pursuant to which the investors subscribed to purchase an aggregate principal amount of $700,000 in 6% secured convertible promissory notes and one Class A common stock purchase warrant for each one share which would be issued on the closing date assuming full conversion of the secured convertible notes issued on the closing date.

The secured convertible notes bear simple interest at 6% per annum payable June 1, 2006 and semi-annually thereafter, and mature 2 years after the date of issuance. Each investor shall have the right to convert the secured convertible notes after the date of issuance and at any time, until paid in full into shares of our common stock. The conversion price per share shall be the lower of (i) $0.043 or (ii) 80% of the average of the three lowest closing bid prices for our common stock for the 30 trading days prior to, but not including, the conversion date as reported by Bloomberg, L.P. on any principal market or exchange where our common stock is listed or traded. The conversion price is adjustable in the event of any stock split or reverse stock split, stock dividend, reclassification of common stock,

recapitalization, merger or consolidation. In addition, the conversion price of the secured convertible notes will be adjusted in the event that we spin off or otherwise divest ourselves of a material part of our business or operations or dispose all or a portion of our assets. Our obligation to repay all principal and accrued and unpaid interest under the convertible notes is secured by all of our assets pursuant to a certain Security Agreement dated February 16, 2006, which also secures the remaining principal amount of our convertible notes in the aggregate amount of $1,115,000 which we issued on March 18, 2005 and July 13, 2005 to certain of the investors participating in this new private placement.

The Company issued an aggregate of 50,972,111 Class A common stock purchase warrants to the investors, representing one Class A warrant issued for each one share which would be issued on the closing date assuming full conversion of the secured convertible notes issued on the closing date. The Class A warrants are exercisable until four years from the closing date at an exercise price of $0.045 per share. The exercise price of the Class A warrants will be adjusted in the event of any stock split or reverse stock split, stock dividend, reclassification of common stock, recapitalization, merger or consolidation. In addition, the exercise price of the warrants will be adjusted in the event that we spin off or otherwise divest ourselves of a material part of our business or operations or dispose all or a portion of our assets. The fair value of the warrants of $457,000 using the Black Scholes option pricing model is recorded as a derivative liability. The beneficial conversion feature of approximately $243,000 will be amortized over the life of the debt using the interest method.

On May 5, 2006, the Company completed a private placement pursuant to a Subscription Agreement which we entered into with several institutional investors, pursuant to which the investors subscribed to purchase an aggregate principal amount of $324,000 in 6% secured convertible promissory notes. The secured convertible notes bear simple interest at 6% per annum payable June 1, 2006 and semi-annually thereafter, and mature 2 years after the date of issuance. Each investor shall have the right to convert the secured convertible notes after the date of issuance and at any time, until paid in full into shares of our common stock. The conversion price per share shall be the lower of (i) $0.043 or (ii) 80% of the average of the three lowest closing bid prices for our common stock for the 30 trading days prior to, but not including, the conversion date as reported by Bloomberg, L.P. on any principal market or exchange where our common stock is listed or traded. The conversion price is adjustable in the event of any stock split or reverse stock split, stock dividend, reclassification of common stock, recapitalization, merger or consolidation. In addition, the conversion price of the secured convertible notes will be adjusted in the event that we spin off or otherwise divest ourselves of a material part of our business or operations or dispose all or a portion of our assets.





The following as a summary of outstanding convertible debt financing agreements as of June 30, 2007:

A SUMMARY OF CONVERTIBLE DEBT AT DECEMBER 31, 2006 IS AS FOLLOWS:

| | DUE DATE | PRINCIPAL AMOUNT REMAINING | UNAMORTIZED DISCOUNT |
|---|---|---|---|
| STONESTREET LIMITED PARTNERSHIP | DECEMBER 23, 2007 | $ 10,000 | $ |
| ALPHA CAPITAL AKTIENGESELLSCHAFT | JULY 13, 2008 | 135,000 | (53,8 |
| ALPHA CAPITAL AKTIENGESELLSCHAFT | MARCH 17, 2008 | 250,000 | (108,7 |
| ALPHA CAPITAL AKTIENGESELLSCHAFT | MAY 5, 2008 | 108,000 | (4,9 |
| WHALEHAVEN CAPITAL FUND LIMITED | MAY 5, 2008 | 108,000 | (4,9 |
| ALPHA CAPITAL AKTIENGESELLSCHAFT | JULY 6, 2008 | 105,500 | (46,0 |
| BRISTOL INVESTMENT FUND LTD | JULY 6, 2008 | 250,000 | (120,8 |
| CENTURION MICROCAP L.P. | JULY 6, 2008 | 100,000 | (46,0 |
| WHALEHAVEN CAPITAL FUND LIMITED | JULY 6, 2008 | 105,500 | (46,0 |
| ALPHA CAPITAL AKTIENGESELLSCHAFT | AUGUST 29, 2008 | 105,000 | (43,3 |
| ELLIS INTERNATIONAL LIMITED | AUGUST 29, 2008 | 150,000 | (64,9 |
| OSHER CAPITAL | AUGUST 29, 2008 | 60,000 | (25,9 |
| WHALEHAVEN CAPITAL FUND LIMITED | AUGUST 29, 2008 | 105,000 | (43,3 |
| TOTAL LONG TERM CONVERTIBLE DEBT DECEMBER 31, 2006 | | $ 1,592,000 | $ (609,0 |

ONE VOICE TECHNOLOGIES INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

ONE VOICE TECHNOLOGIES INC.
CONVERTIBLE DEBT FINANCING SUMMARY (CONTINUED)

A SUMMARY OF CONVERTIBLE DEBT AT JUNE 30, 2007 IS AS FOLLOWS:

| | DUE DATE | PRINCIPAL AMOUNT REMAINING | UNAMORTIZED DISCOUNT |
|---|---|---|---|
| STONESTREET LIMITED PARTNERSHIP | DECEMBER 23, 2007 | $ 10,000 | $ (1,7 |
| ALPHA CAPITAL AKTIENGESELLSCHAFT | MARCH 17, 2008 | 250,000 | (64,1 |
| ALPHA CAPITAL AKTIENGESELLSCHAFT | MAY 5, 2008 | 108,000 | (3,0 |
| WHALEHAVEN CAPITAL FUND LIMITED | MAY 5, 2008 | 108,000 | (3,0 |
| ALPHA CAPITAL AKTIENGESELLSCHAFT | JULY 6, 2008 | 105,500 | (30,9 |
| BRISTOL INVESTMENT FUND LTD | JULY 6, 2008 | 250,000 | (77,4 |
| CENTURION MICROCAP L.P . | JULY 6, 2008 | 100,000 | (30,9 |
| WHALEHAVEN CAPITAL FUND LIMITED | JULY 6, 2008 | 105,500 | (30,9 |
| ALPHA CAPITAL AKTIENGESELLSCHAFT | AUGUST 29, 2008 | 105,000 | (30,3 |
| ELLIS INTERNATIONAL LIMITED | AUGUST 29, 2008 | 150,000 | (45,5 |
| OSHER CAPITAL | AUGUST 29, 2008 | 60,000 | (18,2 |
| WHALEHAVEN CAPITAL FUND LIMITED | AUGUST 29, 2008 | 105,000 | (30,3 |

| | | |
|---|---|---|
| TOTAL LONG TERM CONVERTIBLE DEBT JUNE 30, 2007 | $ 1,457,000 | $ (366,8 |



ONE VOICE TECHNOLOGIES INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

14. COMMON STOCK

- CONVERTIBLE DEBT CONVERSION

During the six months ended June 30, 2007, Alpha Capital Akteingesellschaft converted approximately $135,000 of notes payable and accrued interest into approximately 21,428,571 shares of the Company's common stock at an average conversion price of $0.0063.

During the six months ended June 30, 2006, Alpha Capital Akteingesellschaft converted approximately $291,000 of notes payable and accrued interest into approximately 21,196,000 shares of the Company's common stock at an average conversion price of $0.014. During the same period, Alpha Capital Akteingesellschaft exercised warrants to purchase 14,300,000 shares of common stock for cash in the amount of $200,200.

During the six months ended June 30, 2006, Whalehaven Fund, Limited converted approximately $583,000 of notes payable and accrued interest into approximately 41,030,000 shares of the Company's common stock at an average conversion price of $0.014.

During the six months ended June 30, 2006, Ellis International Ltd. converted approximately $101,000 of notes payable and accrued interest into approximately 8,035,000 shares of the Company's common stock at an average conversion price of $0.013. During the same period, Ellis International Ltd. exercised warrants to purchase 6,250,000 shares of common stock for cash in the amount of $100,000.

During the six months ended June 30, 2006, Omega Capital Small Cap Fund converted approximately $27,000 of notes payable and accrued interest into approximately 2,167,000 shares of the Company's common stock at an average conversion price of $0.013.

During the six months ended June 30, 2006, Osher Capital Inc. converted approximately $16,000 of notes payable and accrued interest into approximately 1,134,000 shares of the Company's common stock at an average conversion price of $0.014.

During the six months ended June 30, 2006, Momona Capital Corp. converted approximately $10,000 of notes payable and accrued interest into approximately 847,000 shares of the Company's common stock at an average conversion price of $0.012.

Private placement

During the six months ended June 30, 2007 the Company did not engage in any private placement activity.

During the six months ended June 30, 2006, an accredited investor purchased an aggregate of 7,000,000 shares of restricted common stock for a total purchase price of $112,000. In addition, the investor received an aggregate of 3,000,000 Class A and 3,000,000 Class B common stock purchase warrants with an exercise price of $0.045 and $0.06 per share respectively.

- WARRANT EXERCISE

During the six months ended June 30, 2007 a total of 20,578,616 warrants were exercised at an average price of $0.0064. As a result the Company received cash proceeds of $132,240.

During the six months ended June 30, 2006 a total of 20,550,000 warrants were exercised at an average price of $0.015. As a result the Company received cash proceeds of $300,200.

ISSUANCE OF WARRANTS ON A CASHLESS BASIS

From time to time warrants can be exercised on a cashless basis if certain conditions exist. If warrants are held for a certain period of time and there is no effective registration statement for these warrants, the holder of these warrants may exercise them on a cashless basis. The result is the Company issuing restricted shares pursuant to rule 144 or 144K. The number of shares issued are discounted according the subscription agreement formula. EX: The Company issues 1,250,000 restricted shares and the holder forfeits 1,500,000 shares.





14. COMMON STOCK (CONTINUED)

During the six months ended June 30, 2007 approximately 6,470,621 warrants were issued on a cashless basis and 7,796,190 warrants were forfeited.

- ISSUANCE OF COMMON STOCK IN EXCHANGE OF SERVICES

During the six months ended June 30, 2007 the Company issued approximately 7,100,000 shares of its restricted common stock having a market value of $147,200 in exchange for services rendered.

During the six months ended June 30, 2006 the Company issued approximately 13,000,000 shares of its restricted common stock having a market value of $320,500 in exchange for a settlement of debt.

- SHARES TO BE ISSUED IN EXCHANGE FOR INTEREST OWED

During the period of January 1, 2007 thru June 30, 2007 the investors elected to convert $8,902 in accrued interest related to the revolving credit note. Approximately 270,000 shares of the Company's restricted stock are to be issued. As of June 30, 2007 these shares have not been issued.

## 15. OTHER INCOME (EXPENSE)

For the six months ended June 30, 2007 and 2006, other expense was ($4,990,965) and ($912,272) respectively.

OTHER INCOME / (EXPENSE) SUMMARY

| | SIX MONTHS ENDED JUNE 30, 2007 | SIX MONTHS ENDED JUNE 30, 2006 |
|---|---|---|
| Interest expense | $ (489,963) | $ (938,504) |
| Settlement expense | -- | (200,500) |
| Gain / (loss) on warrant and debt derivative | (4,353,739) | 220,802 |
| Other income / (expense) | (147,263) | 5,930 |
| TOTAL | $(4,990,965) | $ (912,272) |

Other income (expense) consisted of interest expense, settlement expense, gain (loss) on warrant and debt derivative liability and other income (expense), details below.

### INTEREST EXPENSE

INTEREST EXPENSE SUMMARY

| | SIX MONTHS ENDED JUNE 30, 2007 | SIX MONTHS ENDED JUNE 30, 2006 |
|---|---|---|
| Debt issue cost | $ 162,222 | $ 69,333 |
| Discount amortization | 242,134 | 788,735 |
| Accrued interest | 82,206 | 80,436 |
| Other / penalties | 3,401 | -- |
| TOTAL | $ 489,963 | $ 938,504 |

15. OTHER INCOME (EXPENSE) (CONTINUED)

For six months ended June 30, 2007 and 2006, interest expense was $489,963 compared to $938,504 respectively.

Interest expense is composed of three very distinct transactions, which vary in their financial treatment.

1. Monthly amortization of debt issue costs related to securing convertible debt financing.

This represents a cash related transaction.

For the six months ended June 30, 2007 and 2006, interest expense related to debt issue costs was $162,222 compared to $69,333, respectively.

2. Monthly amortization of the embedded discount features within convertible debt financing.

This represents a non-cash transaction.

For the six months ended June 30, 2007, and 2006, interest expense related to the amortization of discount was $242,134 compared to $788,735, respectively.

3. Monthly accrued interest related to notes payable and convertible notes payable financing.

This represents a future cash transaction if the convertible interest accrued is not converted into common stock. No accrued interest related to convertible notes payable was paid in cash during the six months ended June 30, 2007 and 2006.

For the six months ended June 30, 2007 and 2006, interest expense related to notes payable and convertible notes payable was $82,206 compared to $80,436, respectively.

4. Other / misc. for the six months ended June 30, 2007 and 2006, was $3,401 compared to $0, respectively.

SETTLEMENT EXPENSE

For the six months ended June 30, 2007 and 2006, settlement expense was $0 compared to $200,500 respectively. The decrease in period 2007 over 2006 is attributable to a one time settlement for the exchange of services. Payment was in the form of the Companys restricted common stock.

GAIN / (LOSS) ON WARRANT AND DEBT DERIVATIVES

For the six months ended June 30, 2007 and 2006, losses recorded on warrant derivatives and debt derivatives was ($4,353,739) compared to gain of $220,802 respectively. See Note 9 in the accompanying notes to the financial statements.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

OTHER INCOME (EXPENSE)

For the six months ended June 30, 2007 and 2006, other / net was a loss of ($147,263) compared to a gain of $5,930 respectively. The increase in loss of $153,000 over year 2006 is due warrants being issued pursuant to a cashless exercise during the six months ended June 30, 2007. Refer to F-19 for details.

16. COMMITMENTS AND CONTINGENCIES

The Company leases its facilities and certain equipment under leases that expire at various times through 2010. The following is a schedule, by year, of future minimum rental payments required under operating leases that have non cancelable lease terms in excess of one year as of June 30, 2007:

| Year | Amount |
|---|---|
| 2007 | 51,634 |
| 2008 | 106,276 |
| 2009 | 109,618 |
| 2010 | 112,960 |
| | $ 380,488 |

Rent expense, net of sublease income, amounted to $110,479 and $108,895 for the six months ended June 30, 2007 and 2006 respectively.

On July 1, 2007 the Company entered into a new lease agreement with the same property management company. The new office space is approximately 2,333 square feet of usable area. The savings is expected to be approximately $315,162 throughout the term of the lease. Leasehold improvements for the build out are expected to be completed by the end of July 2007. The new lease is an amendment to the prior lease, the term of the new lease is July 1, 2007 thru December 31, 2010.

17. INCENTIVE AND NONQUALIFIED STOCK OPTION PLAN

On July 14, 1999, the Company adopted an Incentive and Nonqualified Stock Option Plan (the "Plan") for its employees and consultants under which a maximum of 3,000,000 options (Amendment to increase the available shares from 1,500,000 to 3,000,000 approved by the shareholders in December 2001) and approved by the shareholders may be granted to purchase common stock of the Company. On July 29, 2005 the Company adopted the 2005 Stock Incentive Plan and reserved 60,000,000 shares of the Company's common stock for issuance under the 2005 Plan.

Two types of options may be granted under the 2005 Plan: (1) Incentive Stock Options (also known as Qualified Stock Options) which may only be issued to employees of the Company and whereby the exercise price of the option is not less than the fair market value of the common stock on the date it was reserved for issuance under the Plan; and (2) Nonstatutory Stock Options which may be issued to either employees or consultants of the Company and whereby the exercise price of the option is greater than 85% of the fair market value of the common stock on the date it was reserved for issuance under the plan. Grants of options may be made to employees and consultants without regard to any performance measures. All options issued pursuant to the Plan vest at a rate of at least 20% per year over a 5-year period from the date of the grant or sooner

if approved by the Board of Directors. All options issued pursuant to the Plan are nontransferable and subject to forfeiture.

In 2005, the Company elected to follow Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB 25) and related interpretations in accounting for its employee stock options because the alternative fair value accounting provided for under SFAS No. 123, "Accounting for Stock-Based Compensation," requires use of option valuation models. Under APB 25, because the exercise price of the Company's employee stock options equals the market price of the underlying stock on the date of grant, no compensation expense is recognized. The Company follows SFAS No. 123 for stock options granted to non-employees and records a consulting expense equal to the fair value of the options at the date of grant.

Upon termination of employment or service contract, all options vested or non-vested expire unless the options have been exercised in full, or in part within 90 days of such event. Management reserves the right to extend vested options under certain circumstances, given approval by the Board of Directors.





## 17. INCENTIVE AND NONQUALIFIED STOCK OPTION PLAN (CONTINUED)

No stock options were granted to employees during the six months period ended June 30, 2007. A total of 2,600,000 options were terminated during the period ended June 30, 2007.

The total intrinsic value of options relating to employee and director compensation exercised during the year ended for the period ended June 30, 2007 and year ended 2006, respectively, was $0.

The total intrinsic value of vested options relating to employee and director compensation during the period ended June 30, 2007 and 2006, is $599,922 and $0 respectively, this consists of 37,495,111 vested options at an average exercise price of $0.089 per share. The increase of $599,922 from the prior period is due to the Company's closing stock price at June 29, 2007 of $0.03 per share compared to $0.0128 per share at December 29, 2006 (see footnote 17.a for details).

For the periods ended June 30, 2007 and 2006, there was approximately $73,566 and $194,636 of total compensation expense recorded by the Company related to share-based compensation.

The weighted average grant date fair value of options relating to employee and director compensation granted during 2006 was $455,696.

As of June 30, 2007, there was approximately $96,585 of total unrecognized compensation cost related to non-vested share-based compensation arrangements with employees. Of this amount, $32,479 is expected to be recognized throughout 2008.

As of June 30, 2007, there was approximately $14,190 of total unrecognized compensation cost related to non-vested share-based compensation arrangements with directors and contractors. Of this amount, $4,730 is expected to be recognized throughout 2008.

The Companys closing stock price reported by NASDAQ listed under symbol ONEV at June 29, 2007 was $0.03 per share.

See footnote 17 a. for a description of the Company's share-based Compensation plan.

STOCK OPTIONS ACTIVITY

The following table is a summary of the activity for the two stock compensation plans adopted by the Company as of June 30, 2007.

SIX MONTHS ENDED JUNE 30, 2007

| | NUMBER OF SHARES AUTHORIZED | NUMBER OF SHARES OUTSTANDING | NUMBER OF SHARES AVAILABLE FOR GRANT |
|---|---|---|---|
| Year 1999 plan | 3,000,000 | 272,435 | 2,727,565 |
| Year 2005 plan | 60,000,000 | 55,186,565 | 4,813,435 |
| TOTAL | 63,000,000 | 55,459,000 | 7,541,000 |



ONE VOICE TECHNOLOGIES INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

17. INCENTIVE AND NONQUALIFIED STOCK OPTION PLAN (CONTINUED)

A summary of the Company's stock option activity and related information is as follows for the period ending June 30, 2007 and 2006, respectively:

SIX MONTHS ENDED

| | JUNE 30, 2007 | | |
|---|---|---|---|
| | NUMBER | WEIGHTED AVERAGE EXERCISE PRICE | NU |
| Outstanding at beginning of year | 58,059,000 | $ 0.06 | |
| Options granted | 0 | N/A | 5 |
| Options exercised | 0 | N/A | |
| Options terminated | (2,600,000) | 0.016 | |
| OPTIONS OUTSTANDING AT END OF 2ND QUARTER | 55,459,000 | 0.065 | 5 |
| OPTIONS EXERCISABLE AT END OF 2ND QUARTER | 37,495,111 | $ 0.089 | 2 |

The following table summarizes the number of options authorized by the plan and available for distribution as of June 30, 2007 and 2006, respectively.

| | PERIOD ENDING JUNE 30, 2007 NUMBER OF SHARES | PERIOD ENDING JUNE 30, 2006 NUMBER OF SHARES |
|---|---|---|
| Beginning options available for grant | 4,941,000 | 61,078,500 |
| Add: Additional options authorized | -- | -- |
| Less: Options granted | -- | (57,200,000) |
| Add: Options terminated | 2,600,000 | -- |
| ENDING OPTIONS AVAILABLE FOR DISTRIBUTION | 7,541,000 | 3,878,500 |



ONE VOICE TECHNOLOGIES INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

17. INCENTIVE AND NONQUALIFIED STOCK OPTION PLAN (CONTINUED)

The following tables summarize the number of option shares, the weighted average exercise price and the weighted average life (by years) by price range for both total outstanding options and total exercisable options as of June 30, 2007 and 2006, respectively:

FOR THE PERIOD ENDED JUNE 30, 2007

| | TOTAL OUTSTANDING | | | TOTAL EXERCISABLE | |
|---|---|---|---|---|---|
| PRICE RANGE | # OF SHARES | WEIGHTED AVERAGE EXERCISE PRICE | LIFE | # OF SHARES | WEIGH AVERA EXERC PRI |
| $6.08 - $ 12.80 | 270,000 | $ 7.170 | 3.19 | 270,000 | |
| $0.32 - $2.00 | 839,000 | 0.911 | 4.03 | 839,000 | |
| $0.016 - $0.19 | 54,350,000 | 0.017 | 8.54 | 36,386,111 | |
| TOTAL | 55,459,000 | $ 0.065 | 8.44 | 37,495,111 | $ |

FOR THE PERIOD ENDED JUNE 30, 2006

| | TOTAL OUTSTANDING | | | TOTAL EXERCISABLE | | |
|---|---|---|---|---|---|---|
| PRICE RANGE | # OF SHARES | WEIGHTED AVERAGE EXERCISE PRICE | LIFE | # OF SHARES | WEIGHTED AVERAGE EXERCISE PRICE | LIFE |

| | | | | | | |
|---|---|---|---|---|---|---|
| $6.08 - $ 12.80 | 270,000 | $ 7.170 | 4.19 | 270,000 | $ 7.170 | 4.19 |
| $0.32 - $2.00 | 876,500 | 0.912 | 5.03 | 876,500 | 0.912 | 5.03 |
| $0.016 - $0.19 | 57,975,000 | 0.017 | 9.53 | 19,695,139 | 0.018 | 9.47 |
| TOTAL | 59,121,500 | $ 0.063 | 9.72 | 20,841,639 | $ 0.086 | 9.66 |



ONE VOICE TECHNOLOGIES INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

17. INCENTIVE AND NONQUALIFIED STOCK OPTION PLAN (CONTINUED)

A summary of option activity relating to employee, director and contractor compensation as of June 30, 2007, and the intrinsic value related to the options:

| OPTIONS RELATING TO EMPLOYEE, CONSULTANTS AND DIRECTOR COMPENSATION | SIX MONTHS ENDED June 30, 2007 SHARES | WEIGHTED AVERAGE EXERCISE PRICE | LIFE |
|---|---|---|---|
| Outstanding at beginning of year | 58,059,000 | $ 0.060 | 8.44 |
| Options granted | 0 | N/A | N/A |
| Options exercised | 0 | N/A | N/A |
| Options terminated | (2,600,000) | 0.02 | N/A |
| OPTIONS OUTSTANDING AT END OF 2ND QUARTER | 55,459,000 | 0.065 | 8.44 |
| OPTIONS EXERCISABLE AT END OF 2ND QUARTER | 37,495,111 | $ 0.089 | 8.38 |

A summary of the status of the Company's nonvested option shares relating to employee and director compensation as of December 31, 2006, and changes during the period ended June 30, 2007 is presented below:

| NON VESTEDOPTIONS RELATING TO EMPLOYEE, CONSULTANTS AND DIRECTOR COMPENSATION | SIX MONTHS ENDED JUNE 30, 2007 SHARES | WEIGHTED AVERAGE GRANT-DATE FAIR VALUE |
|---|---|---|
| Outstanding at beginning of year | 58,059,000 | $ 0.06 |
| Options granted | 0 | N/A |

| | | |
|---|---|---|
| Options exercised | 0 | N/A |
| Options vested | (37,495,111) | 0.089 |
| Options terminated | (2,600,000) | 0.016 |
| NON VESTED AT END OF 2ND QUARTER | 17,963,889 | $ 0.016 |

In addition to the assumptions in the above tables, the Company applies a forfeiture-rate assumption in its estimate of fair value that is primarily based on historical annual forfeiture rates of the Company.

| | 2007 |
|---|---|
| Expected dividend yield | 0.00% |
| Expected volatility | 113% |
| Average risk-free interest rate | 4.74% |
| Expected life (in years) | 3.19 to 8.54 |

The above options carry vesting date's as follows: 1/3 of the options vest on the grant date, 1/3 of the options vest one year after the grant date, the final 1/3 of the options vest two years after the grant date.



ONE VOICE TECHNOLOGIES INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

17 a. INCENTIVE AND NONQUALIFIED STOCK OPTION PLAN (CONTINUED)

On July 14, 1999, the Company adopted an Incentive and Nonqualified Stock Option Plan (the "Plan") for its employees and consultants under which a maximum of 3,000,000 options (Amendment to increase the available shares from 1,500,000 to 3,000,000 approved by the shareholders in December 2001) and approved by the shareholders may be granted to purchase common stock of the Company. On July 29, 2005 the Company adopted the 2005 Stock Incentive Plan and reserved 60,000,000 shares of the Company's common stock for issuance under the 2005 Plan.

The Company has elected to follow Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB 25) and related interpretations in accounting for its employee stock options because the alternative fair value accounting provided for under SFAS No. 123, "Accounting for Stock-Based Compensation," requires use of option valuation models. Under APB 25, because the exercise price of the Company's employee stock options equals the market price of the underlying stock on the date of grant, no compensation expense is recognized. The Company follows SFAS No. 123 as of December 31, 2006, the Company has 3 stock option plans for the benefit of officers, directors, employees, independent contractors and consultants of the Company. These plans include: (i) the 1998 Stock Option Plan, (ii) the 1996 Stock Option Plan, and (iii) the 1996 Employee Compensatory Stock Option Plan. In addition to these plans, the Company grants various other stock options, warrants and stock directly to certain parties. The Company grants all such awards as incentive compensation to officers, directors, and employees, and as compensation for the services of independent contractors and consultants of the Company.

Stock options: The Company generally grants stock options to employees at exercise prices equal to the fair market value of the Company's stock at the dates of grant. Stock options may be granted throughout the year, vest

immediately, vest based on years of continuous service, or vest upon completion of specified performance conditions, and expire 10 years following the initial grant date. The Company recognizes compensation expense for the fair value of the stock options over the requisite service period for each separate vesting portion of the stock option award, or, for awards with performance conditions, when the performance condition is met.

Warrant options: The Company generally grants stock options to directors and consultants at exercise prices equal to the fair market value of the Company's stock at the dates of grant. Stock options may be granted throughout the year, vest immediately, vest based on years of continuous service, or vest upon completion of specified performance conditions, and expire 10 years following the initial grant date. The Company recognizes compensation expense for the fair value of the stock options over the requisite service period for each separate vesting portion of the stock option award, or, for awards with performance conditions, when the performance condition is met.

The fair value of each option and warrant award is estimated on the date of grant using the Black-Scholes option-pricing model that uses the assumptions noted in the following table. The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's stock options and warrants have characteristics significantly different from those of traded options, and because changes in the subjective assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its stock options and warrants. The expected dividend yield assumption is based on the Company's expectation of dividend payouts. Expected volatilities are based on historical volatility of the Company's stock. The average risk-free interest rate is based on the U.S. treasury yield curve in effect as of the grant date. The expected life is primarily determined using guidance from SAB 107. As such, the expected life of the options and warrants is the average of the vesting term and the full contractual term of the options and warrants.





## 18. WARRANTS

At June 30, 2007, the Company had warrants outstanding that allow the holders to purchase up to 311,605,032 shares of common stock.

At June 30, 2007, the weighted average remaining contractual life of the warrants was approximately 30 months.

The number and weighted average exercise prices of the warrants for the period ended June 30, 2007 and 2006 are as follows:

| | SIX MONTHS ENDED | |
|---|---|---|
| | JUNE 30, | JUNE 30, |

| | 2007 | | 2006 | |
|---|---|---|---|---|
| | NUMBER | WEIGHTED AVERAGE EXERCISE PRICE | NUMBER | WEIGH AVERA EXERC PRIC |
| Outstanding at beginning of year | 339,979,838 | $ 0.02 | 215,373,361 | $ 0 |
| Warrants granted | 0 | N/A | 56,972,111 | 0 |
| Warrants exercised | (28,374,806) | 0.00 | (20,550,000) | 0 |
| Warrants terminated | 0 | N/A | 0 | |
| WARRANTS OUTSTANDING AT END OF 2ND QUARTER | 311,605,032 | $ 0.02 | 251,795,472 | $ 0 |
| WARRANTS EXERCISABLE AT END OF 2ND QUARTER | 311,605,032 | $ 0.02 | 251,795,472 | $ 0 |

During the six months ended June 30, 2007 a total of 28,374,806 warrants were exercised at an average price of $0.0047. As a result the Company received cash proceeds of $132,240

As an incentive to exercise warrants early, the Company reduced the exercise price to $0.016 Per share for Series A and B warrants on March 23, 2006. As a result, the Company raised approximately $300,200 during the period ended June 30, 2006 in connection with the re-pricing and subsequent sales of warrants to the investors.

During the six months ended June 30, 2007 and 2006, the Company issued zero and 56,972,111 warrants to Stockholders, respectively.





## 19. RESTATEMENT OF FINANCIAL STATEMENTS

The Company has restated previously issued 10-QSB for period ended March 31, 2006 and June 30, 2006 and the consolidated financial statements for matters relating to the proper treatment of conversion features embedded in the convertible debt financing transactions. The restatement is pursuant to EITF Nos. 00-19, 05-02, and SFAS No. 133. The accompanying financial statements for the period ended March 31, 2006 and June 30, 2006 have been restated to reflect the corrections. Accumulated as of June 30, 2006 was decreased by $402,021 as a result of adjustments related to the carrying value of convertible debentures, warrant liability and other derivative liabilities, which previously either in part or as a whole, were unrecorded liabilities during the six months ended June 30, 2006.

THREE MONTHS ENDED MARCH 31, 2006

THE FOLLOWING IS A SUMMARY OF THE RESTATEMENTS FOR THE THREE MONTHS ENDED MARCH 31, 2006 (UNAUDITED):

| | |
|---|---|
| Increase / (decrease) in interest expense | $(148,960) |

| | |
|---|---|
| Increase / (decrease) in gain on warrant and debt derivative | -- |
| Increase / (decrease) in the fair value of debt derivative liability | 156,350 |
| Increase / (decrease) in the fair value of net convertible notes | 247,039 |
| Increase / (decrease) additional paid in capital | (777,827) |
| Increase / (decrease) accumulated deficit | (374,438) |

THE FOLLOWING IS A SUMMARY OF THE RESTATEMENTS FOR THE THREE MONTHS ENDED MARCH 31, 2006 (UNAUDITED):

| | |
|---|---|
| Total decrease of 2006 net loss | $ 148,960 |

THE EFFECT ON THE COMPANY'S PREVIOUSLY ISSUED MARCH 31, 2006 FINANCIAL STATEMENTS ARE SUMMARIZED AS FOLLOWS:

| | PREVIOUSLY REPORTED | CHANGE | RESTATED |
|---|---|---|---|
| | (unaudited) | | (unaudited) |
| BALANCE SHEET | | | |
| Derivative liability | - | 156,350 | 156,350 |
| TOTAL CURRENT LIABILITIES | - | 156,350 | 156,350 |
| Convertible notes payable, net | 90,605 | 247,039 | 337,644 |
| TOTAL LONG TERM LIABILITIES | 90,605 | 247,039 | 337,644 |
| TOTAL LIABILITIES | 90,605 | 403,389 | 493,994 |
| Additional paid in capital | 40,369,813 | (777,827) | 39,591,986 |
| Accumulated deficit | (48,480,731) | 374,438 | (48,106,293 |
| TOTAL STOCKHOLDERS EQUITY | (8,110,918) | (403,389) | (8,514,307 |
| STATEMENT OF OPERATIONS | | | |
| Interest expense | (893,305) | 148,960 | (744,345 |
| Loss on warrant and debt derivative | (3,877,509) | - | (3,877,509 |
| Other Income / (Expense) | - | - | - |
| NET INCOME / (LOSS) | (4,770,814) | 148,960 | (4,621,854 |

19. RESTATEMENT OF FINANCIAL STATEMENTS (CONTINUED)

THE FOLLOWING IS A SUMMARY OF THE RESTATEMENTS FOR THE SIX MONTHS ENDED JUNE 30, 2006 (UNAUDITED):

| | |
|---|---|
| Increase / (decrease) in interest expense | $(176,543) |
| Increase / (Decrease) in derivative expense | -- |
| Increase / (decrease) in the fair value of debt derivative liability | 178,305 |
| Increase / (decrease) in the fair value of net convertible notes | 308,015 |
| Increase / (decrease) additional paid in capital | (888,341) |
| Increase / (decrease) accumulated deficit | (402,021) |

THE FOLLOWING IS A SUMMARY OF THE RESTATEMENTS FOR THE SIX MONTHS ENDED JUNE 30, 2006 (UNAUDITED):

| | |
|---|---|
| Total decrease of 2006 net loss | $ 176,543 |

THE EFFECT ON THE COMPANY'S PREVIOUSLY ISSUED JUNE 30, 2006 FINANCIAL STATEMENTS ARE SUMMARIZED AS FOLLOWS:

| | PREVIOUSLY REPORTED | CHANGE | RESTATE |
|---|---|---|---|
| | (unaudited) | | (unaudite |
| BALANCE SHEET | | | |
| Derivative liability | -- | 178,305 | 178,3 |
| TOTAL CURRENT LIABILITIES | -- | 178,305 | 178,3 |
| Convertible Note Discount | 420,666 | 308,015 | 728,6 |
| TOTAL LONG TERM LIABILITIES | 420,666 | 308,015 | 728,6 |
| TOTAL LIABILITIES | 420,666 | 486,320 | 906,9 |
| Additional paid in capital | 40,650,563 | (888,341) | 39,762,2 |
| Accumulated deficit | (45,573,090) | 402,021 | (45,171,0 |
| TOTAL STOCKHOLDERS EQUITY | (4,922,527) | (486,320) | (5,408,8 |
| STATEMENT OF OPERATIONS - THREE MONTHS | | | |
| Interest Income / (Expense) | (221,742) | 27,583 | (194,1 |
| Gain / (Loss) derivative's | 4,098,311 | -- | 4,098,3 |
| Other Income / (Expense) | -- | -- | |
| NET INCOME / (LOSS) | 3,876,569 | 27,583 | 3,904,1 |

STATEMENT OF OPERATIONS - SIX MONTHS

| | | | |
|---|---|---|---|
| Interest Income / (Expense) | (1,115,047) | 176,543 | (938,5 |
| Gain / (Loss) derivative's | 220,802 | -- | 220,8 |
| Other Income / (Expense) | -- | -- | |
| NET INCOME / (LOSS) | (894,245) | 176,543 | (717,7 |



ONE VOICE TECHNOLOGIES INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

20. SUBSEQUENT EVENTS

- REVOLVNG CREDIT NOTE FINANCING

  On August 2, 2007 the original revolving credit note of $640,000 dated December 21, 2006 was amended to a maximum borrowing amount of $1,030,000. On August 2 2007, the Company received an advance of $95,000. The advance is to be used for expenses that relate to normal monthly operating expenses incurred by the Company. The note balance is $922,955 at August 10 2007, which includes principal and interest.

- CONVERTBLE DEBT CONVERSIONS

  On July 11, 2007, an accredited investor converted $90,000 of convertible debt into 6,000,000 shares of the Company's restricted common stock.

- WARRANT EXERCISE

  On July 3, 2007, pursuant to a cashless exercise, the company issued a total of 500,000 restricted common stock purchase warrants to an accredited investor. The shares were issued at a price of $.008 per share. A total of 633,429 Common stock purchase warrants were forfeited due to the cashless discount feature.



ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION OR PLAN OF OPERATION

FORWARD-LOOKING STATEMENTS

The information in this report contains forward-looking statements. All statements other than statements of historical fact made in this report are forward looking. In particular, the statements herein regarding industry prospects and future results of operations or financial position are forward-looking statements. These forward-looking statements can be identified

by the use of words such as "believes," "estimates," "could," "possibly," "probably," anticipates," "projects," "expects," "may," "will," or "should" or other variations or similar words. No assurances can be given that the future results anticipated by the forward-looking statements will be achieved. Forward-looking statements reflect management's current expectations and are inherently uncertain. Our actual results may differ significantly from management's expectations.

The following discussion and analysis should be read in conjunction with our financial statements, included herewith. This discussion should not be construed to imply that the results discussed herein will necessarily continue into the future, or that any conclusion reached herein will necessarily be indicative of actual operating results in the future. Such discussion represents only the best present assessment of our management.

## OVERVIEW OF THE BUSINESS

One Voice Technologies, Inc. is a voice recognition technology company with over $43 million invested in Research and Development and deployment of more than 20 million products worldwide in seven languages. To date, our customers include: Telefonos de Mexico, S.A.B. de C.V. (TELMEX), Intel Corporation, Alltel Wireless, Inland Cellular, Nex-Tec Wireless, Rural Independent Networks and several additional telecom service providers throughout the United States.

Based on our patented technology, One Voice offers voice solutions for the Telecom and Interactive Multimedia markets. Our telecom solutions allow business and consumer phone users to voice dial, group conference call, read and send e-mail and instant messages, all by voice. We offer PC Original Equipment Manufacturers (OEM's) the ability to bundle a complete voice interactive computer assistant which allows PC users to talk to their computers to quickly play digital media (music, videos, DVD) along with read and send e-mail messages, SMS text messaging to mobile phones, PC-to-Phone calling (VoIP) and PC-to-PC audio/video. We feel we are strongly positioned across these markets with our patented voice technology.

The Company believes that the presence of voice technology as an interface in mobile communications and PC computing is of paramount importance. Voice interface technology makes portable communications more effective and safer to use and it makes communicating with a PC to play digital content, such as music, videos and photos, easier for consumers. One Voice's development efforts currently are focused on the Telecom and PC multimedia markets and more specifically on mobile communications from a cell phone, directory assistance and in-home digital media access.

## TELECOM SECTOR

In the Telecom sector, we believe that the Mobile Messaging market, which has both business and consumer market applications including: e-mail, instant messages, and SMS (Short Message Service), is extremely large and is growing at an astonishing rate. One Voice solutions enable users to send, route and receive text messages using voice from any type of phone (wired or wireless) anywhere in the world.

The Company's strategy, in the telecom sector, is to continue aggressive sales and marketing activities for our voice solutions, which we believe, may result in increased deployments and revenue stream. The product offerings will encompass both MobileVoice(TM) suite of solutions as well as our ADA (Alternative to Directory Assistance(TM)).

In June 2007 the Company entered into a hosting services agreement with India based Mantec Consultants Pvt. Ltd. ("Mantec") in which Mantec will act on an exclusive basis as a local sales and technology agent for the Company in the India market. Both Mantec and One Voice are in the final stages of service approval by the carrier Mahanagar Telephone Nigam Ltd. ("MTNL") of India to provide MobileVoice services to MTNL's over 6 million subscribers. The MobileVoice service has been tested and approved by MTNL and both One Voice and Mantec are awaiting final contract signing by MTNL. As a contract stipulation, MTNL requires to sign with an India based company; therefore One Voice has entered into a hosting services agreement with Mantec to provide these services to MTNL. One Voice has been working with Mantec since 2006 on sales opportunities in India and MTNL is a potential customer from this joint effort.

The Company recently signed an agreement to deploy MobileVoice services with Mohave Wireless. This service is anticipated to be launched to Mohave Wireless subscribers sometime in August or September, 2007.

The Company recently signed a deployment contract with TELMEX for deployment of One Voice's MobileVoice solutions to the over 19 million TELMEX subscribers throughout Mexico. The MobileVoice service was launched to TELNOR subscribers, a TELMEX subsidiary, on June 18, 2007 as a TELNOR branded service called IRIS. The IRIS marketing campaign also began in June 2007. The MobileVoice (IRIS) service has tested and performed very well as anticipated, with full launch to TELNOR subscribers scheduled to begin the week of August 27, 2007. We are in discussions with TELMEX for a national rollout throughout Mexico for the MobileVoice (IRIS) service and anticipate this to happen in Q3, 2007. We are currently bidding on additional contracts within TELMEX for other services to be offered by TELMEX to their subscribers. At this time, we do not know if these additional contracts will ever come to any material fruition.

## PC SECTOR

In the PC sector, we believe that digital in-home entertainment is rapidly growing with the wide acceptance of digital photography, MP3 music and videos, along with plasma and LCD TV's. We believe that companies including Apple, Microsoft and Intel are actively creating products and technology, which allow consumers to experience the next-generation of digital entertainment. The Company's Media Center Communicator(TM) product works with Microsoft Windows XP Media Center Edition 2005 and Microsoft Windows Vista to add voice-navigation and a full suite of communication features allowing consumers to talk to their Media Center PC to play music, view photo slideshows, watch and record TV, place Voice-Over-IP (VoIP) phone calls, read and send e-mail and Instant Message friends and family, all by voice.

The Company's strategy, in the PC Sector, is to continue its aggressive marketing efforts to sign-up system integrators, such as those engaged in the business of home theatre installation and value-added resellers under the Company's reseller program launched in 2005. The Company will continue to pursue OEMs for bundling agreements of its Media Center Communicator product. These OEM agreements may include revenue share business models as well as discounted individual user license fees. The Company will continue to use industry associations, forums and tradeshow events such as CES, CEDIA, EHX and Digital Life to promote awareness of our products and build strategic alliances.

The Company anticipates having its Media Center Communicator bundled with a tier-one PC manufacturer in the Fall 2007.

The Company recently launched is Media Center Communicator product designed for Microsoft Windows Vista operating system. Additionally, the Company recently signed distribution agreements with Navarre Corporation and Ingram Micro as software distributors for Media Center Communicator.

On August 15, 2007 the Company signed a Memorandum of Understanding ("MOU") with Intel Corporation in which both companies will work together to add One Voice's voice technology to a Linux based handheld device. The Company sees a potential opportunity with this mass consumer electronics (CE) device and will apply the necessary resources to co-develop this project.



In summary, since the beginning of 2006 and continuing throughout 2007, the Company has deployed services with telecom carriers and began recognizing recurring a revenue stream. Management believes the Company's transition into the revenue recognition phase is very important as it signifies acceptance of our solutions and the value they deliver to the customer and their subscribers. For the six months ended June 30, 2007 and 2006, the Company has experienced revenue growth of $192,000 or 112% respectively.

The management team remains committed to generating short and long term revenues significant enough to fund daily operations, expand the intellectual property portfolio and development of cutting edge solutions and applications for the emerging speech recognition market sector which should build shareholder value.

## CRITICAL ACCOUNTING POLICIES

Our discussion and analysis of our financial condition and results of operations are based upon our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates, including those related to impairment of property, plant and equipment, intangible assets, deferred tax assets, fair value of derivative liabilities and fair value of options or warrants computation using Black Scholes option pricing model. We base our estimates on historical experience and on various other assumptions, such as the trading value of our common stock and estimated future undiscounted cash flows, that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions; however, we believe that our estimates, including those for the above-described items, are reasonable.

The following is a discussion that relates to certain financial transactions and the results of operations for the three months ended June 30, 2007 and 2006.

RESULTS OF OPERATION FOR THE THREE MONTHS ENDED JUNE 30, 2007 AND 2006.

ONE VOICE TECHNOLOGIES INC.
SELECTED STATEMENT OF OPERATIONS INFORMATION

| | THREE MONTHS ENDED JUNE 30, 2007 | JUNE 30, 2006 | FAV/ (UN FAV) CHANGE | PERCENTAGE CHANGE |
|---|---|---|---|---|
| | | (RESTATED) | | |
| Net Revenue | $ 152,000 | $ 110,000 | $ 42,000 | 38% |
| Cost of goods sold | 95,000 | 17,000 | (78,000) | -459% |
| GROSS PROFIT | 57,000 | 93,000 | (36,000) | -39% |
| General and administrative expenses | 708,000 | 962,000 | 254,000 | 26% |
| Other income (expense) | 1,141,000 | 3,804,000 | (2,663,000) | -70% |
| NET INCOME BEFORE INCOME TAX | 490,000 | 2,935,000 | (2,445,000) | -83% |
| Income tax expense | -- | -- | -- | 0% |
| Net income | $ 490,000 | $ 2,935,000 | $(2,445,000) | -83% |



REVENUES

Net revenues totaled $152,000 and $110,000 for the three months ended June 30, 2007 and 2006, respectively. Increased revenues of $42,000 38% between the two periods was attributable to 3 new MobileVoice customers.

COST OF GOODS SOLD

Cost of goods sold for the three months ended June 30, 2007 and 2006 totaled $95,000 and $17,000, respectively. The increase in cost of goods sold of $78,000 459% between the two periods was due to the reclassification of expenses during 2007 that previously had been recorded as general and administrative expenses. These expenses are related to licensing agreements and telecommunication expenses that allow the voice recognition products offered to be functional.

GENERAL AND ADMINISTRATIVE EXPENSE

Operating expenses totaled $708,000 and $962,000 for the three months ended June 30, 2007 and 2006, respectively. The decrease of $254,000 26% between the two periods was due to overall budget reductions in 2007 and the reclassification of operating expenses to cost of goods sold as mentioned above.

SALARY AND COMPENSATION

Salary and wage expenses totaled $295,000 and $395,000 for the three months ended June 30, 2007 and 2006, respectively. The decrease of $100,000 25% between the two periods was due to headcount reductions, which increased the overall

efficiency of the Company.

ACCOUNTING AND LEGAL

Accounting, Legal and consulting totaled $124,00 and $98,000 for the three months ended June 30, 2007 and 2006, respectively. The increase of $26,000 26% between the two periods was due to increased year end 2006 audit fees due to the transition of audit firms and filing fees incurred for the filing of the registration statement on Form SB-2.

OTHER INCOME (EXPENSE)

Other income totaled $1,141,000 and income of $3,804,000 for the three months ended June 30, 2007 and 2006, respectively. A decrease of $2,663,000 70%.

OTHER INCOME / (EXPENSE) SUMMARY

| | THREE MONTHS ENDED | |
|---|---|---|
| | JUNE 30, 2007 | JUNE 30, 2006 |
| Interest expense | $ (219,341) | $ (194,159) |
| Settlement expense | -- | (99,753) |
| Gain / (loss) on warrant and debt derivative | 1,507,678 | 4,098,311 |
| Other income / (expense) | (147,310) | -- |
| TOTAL | $ 1,141,027 | $ 3,804,399 |

- Other income (expense) consist of interest expense, settlement expense, gain (loss) on warrant / debt derivative liability and other misc. Details below.

INTEREST EXPENSE

INTEREST EXPENSE SUMMARY

| | THREE MONTHS ENDED | |
|---|---|---|
| | JUNE 30, 2007 | JUNE 30, 2006 |
| Debt issue cost | $ 79,508 | $ 13,254 |
| Discount amortization | 93,593 | 126,247 |
| Accrued interest | 45,406 | 54,658 |
| Other / penalties | 834 | - |
| TOTAL | $ 219,341 | $ 194,159 |

For three months ended June 30, 2007 and 2006, interest expense was approximately $219,000 compared to $194,000 respectively. The increase of $25,000 13% between the two periods was due to the timing of debt conversions which effect both issue cost and discount amortization expenses.

Interest expense is composed of three very distinct transactions, which vary in their financial treatment.

Upon conversion of convertible debt into equity, both the debt issue cost and discount costs associated are prorated accordingly and expensed immediately. If no conversions occur, the debt issue cost and discount costs are expensed over the life of the convertible debt using the straight line method.

1. Monthly amortization of debt issue costs related to securing convertible debt financing.

This represents a cash related transaction.

For the three months ended June 30, 2007 and 2006, interest expense related to debt issue costs was approximately $80,000 compared to $13,000, respectively.

2. Monthly amortization of the embedded discount features within convertible debt financing.

This represents a non-cash transaction.

For the three months ended June 30, 2007, and 2006, interest expense related to the amortization of discount was approximately $94,000 compared to $126,000 respectively.

3. Monthly accrued interest related to notes payable and convertible notes payable financing.

This represents a future cash transaction if the convertible interest accrued is not converted into common stock. No accrued interest related to convertible notes payable has been paid in cash during the three months ended June 30, 2007 and 2006.

For the three months ended June 30, 2007 and 2006, interest expense related to notes payable and convertible notes payable was approximately $45,000 compared to $55,000, respectively.

4. Other / misc. for the three months ended June 30, 2007 and 2006, was approximately $1,000 compared to $0 respectively.

SETTLEMENT EXPENSE
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Settlement expense is comprised of expenses related to settlement of debt in the form of the Companies restricted stock.

For the three months ended June 30, 2007 and 2006, settlement expense was approximately $0 compared to $100,000 respectively. The decrease between the two periods was attributable a one time settlement for the exchange of services during June 2006. Payment was in the form of the Companys restricted common stock.

GAIN / (LOSS) ON WARRANT DERIVATIVES
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For the three months ended June 30, 2007 and 2006, gains recorded on warrant derivatives was approximately $1,508,000 compared to a gain of $4,098,000 respectively. See Note 10 in the accompanying notes to the financial statements for a full description of the nature of these transactions.

GAIN / (LOSS) ON DEBT DERIVATIVES

For the three months ended a (loss) of $(97,000) and $0 was recorded during the periods ended June 30, 2007 and 2006 respectively. See Note 9 in the accompanying notes to the financial statements for a full description of the nature of these transactions.



OTHER INCOME (EXPENSE)

For the three months ended June 30, 2007 and 2006, other expense net was approximately $(148,000) compared to $0 respectively. The increase over the prior period was due to warrants being exercised pursuant to a cashless exercise. Refer to F-19 for details.

LIQUIDITY AND CAPITAL RESOURCES

NON-CASH (INCOME) / EXPENSES EFFECTING OPERATING ACTIVITIES

Non-cash related (income) / expense items of $1,090,992 are reflected in the three months ended June 30, 2007, consist of the following items:

| | THREE MONTHS ENDED JUNE 30, 2007 |
|---|---|
| Depreciation and amortization | 20,628 |
| Stock compensation expense | 36,783 |
| Stock issuance for exchange of debt | 51,000 |
| Amortization of note discount | 93,593 |
| Interest payable related to convertible debt | 45,406 |
| (Gain) on warrant and debt derivatives | (1,507,678) |
| Cashless warrant exercise | 169,276 |
| TOTAL NON-CASH RELATED (INCOME) | (1,090,992) |

The above information is intended to illustrate the impact that these specific expenses have on the Company's net income / (loss) . There are no cash transactions that related to these expenses. More specifically, this table is shown to demonstrate the impact that the re-valuation of warrant and debt derivatives have on the income statement. Please note that this table is not in conformity with auditing standards generally accepted in the United States of America.

- Depreciation and amortization expense of $21,000.

- Compensation expense relating to the issuance of stock options of $37,000.

- Issuance of common stock in exchange for services and debt of $51,000.

- Amortization of embedded discount relating to convertible debt financing of $94,000.

- Accrued interest expense related to convertible debt financing transactions of $45,000.

- Re-pricing of the warrant derivative liability and debt derivative relating to convertible debt financing of $(1,508,000).

- Cashless warrant exercise of 169,000.



At June 30, 2007, the Company had a working capital deficit of $10,300,000 as compared with a working capital deficit of $5,101,000 at December 31, 2006. The increase of $5,177,000 consists primarily of the following:

- Increase in derivative liability of $4,353,000
- Increase in accrued expenses of $148,000
- Increase in revolving line of credit of $564,000
- Increase in license agreement liability of $119,000

Net cash used for operating activities is $818,000 for the six months ended June 30, 2007 compared to $1,624,000 for the six months ended June 30, 2006.

Net cash used for investing activities is ($2,000) for the six months ended June 30, 2007 compared to $34,000 for the six months ended June 30, 2006.

Net cash provided by financing activities is $815,000 for the six months ended June 30, 2007 compared to $1,351,000 for the six months ended June 30, 2006. See details below.

FINANCING TRANSACTIONS

The following is a discussion that summarizes the net financing and conversion activities for the six months ended June 30, 2007 and 2006.

NET CASH PROCEEDS RECEIVED DUE TO FINANCING ACTIVITY

| | Six months ended June 30, 2007 | Six months ended June 30, 2006 |
|---|---|---|
| Private placement | $ -- | $ 112,000 |
| Warrant exercise | 132,240 | 300,200 |
| Convertible debt financing net of debt issue cost | -- | 939,000 |
| Revolving line of credit net of paydown | 563,917 | -- |

| | | |
|---|---|---|
| License agreement liability | 119,000 | -- |
| TOTAL PROCEEDS RECEIVED | $ 815,157 | $ 1,351,200 |

CONVERTIBLE NOTES PAYABLE SUMMARY

During the six months ended June 30, 2007 the Company did not enter into any convertible debt financing agreements.

During the six months ended June 30, 2007 and 2006, $135,000 and $1,029,000 of notes payable and accrued interest was converted into approximately 21,429,000 and 74,410,000 shares of the Company's common stock at an average conversion price of $ 0.0063 and$0.013 per share.

On March 17, 2006, the Company completed a private placement pursuant to a Subscription Agreement which we entered into with several institutional investors, pursuant to which the investors subscribed to purchase an aggregate principal amount of $700,000 in 6% secured convertible promissory notes and one Class A common stock purchase warrant for each one share which would be issued on the closing date assuming full conversion of the secured convertible notes issued on the closing date.



The secured convertible notes bear simple interest at 6% per annum payable June 1, 2006 and semi-annually thereafter, and mature 2 years after the date of issuance. Each investor shall have the right to convert the secured convertible notes after the date of issuance and at any time, until paid in full into shares of our common stock. The conversion price per share shall be the lower of (i) $0.043 or (ii) 80% of the average of the three lowest closing bid prices for our common stock for the 30 trading days prior to, but not including, the conversion date as reported by Bloomberg, L.P. on any principal market or exchange where our common stock is listed or traded. The conversion price is adjustable in the event of any stock split or reverse stock split, stock dividend, reclassification of common stock, recapitalization, merger or consolidation. In addition, the conversion price of the secured convertible notes will be adjusted in the event that we spin off or otherwise divest ourselves of a material part of our business or operations or dispose all or a portion of our assets. Our obligation to repay all principal and accrued and unpaid interest under the convertible notes is secured by all of our assets pursuant to a certain Security Agreement dated February 16, 2006, which also secures the remaining principal amount of our convertible notes in the aggregate amount of $1,115,000 which we issued on March 18, 2005 and July 13, 2005 to certain of the investors participating in this new private placement.

The Company issued an aggregate of 50,972,111 Class A common stock purchase warrants to the investors, representing one Class A warrant issued for each one share which would be issued on the closing date assuming full conversion of the secured convertible notes issued on the closing date. The Class A warrants are exercisable until four years from the closing date at an exercise price of $0.045 per share. The exercise price of the Class A warrants will be adjusted in the event of any stock split or reverse stock split, stock dividend, reclassification of common stock, recapitalization, merger or consolidation. In addition, the

exercise price of the warrants will be adjusted in the event that we spin off or otherwise divest ourselves of a material part of our business or operations or dispose all or a portion of our assets. The fair value of the warrants of $457,000 using the Black Scholes option pricing model is recorded as a derivative liability. The beneficial conversion feature of approximately $243,000 will be amortized over the life of the debt using the interest method.

On May 5, 2006, the Company completed a private placement pursuant to a Subscription Agreement which we entered into with several institutional investors, pursuant to which the investors subscribed to purchase an aggregate principal amount of $324,000 in 6% secured convertible promissory notes. The secured convertible notes bear simple interest at 6% per annum payable June 1, 2006 and semi-annually thereafter, and mature 2 years after the date of issuance. Each investor shall have the right to convert the secured convertible notes after the date of issuance and at any time, until paid in full into shares of our common stock. The conversion price per share shall be the lower of (i) $0.043 or (ii) 80% of the average of the three lowest closing bid prices for our common stock for the 30 trading days prior to, but not including, the conversion date as reported by Bloomberg, L.P. on any principal market or exchange where our common stock is listed or traded. The conversion price is adjustable in the event of any stock split or reverse stock split, stock dividend, reclassification of common stock, recapitalization, merger or consolidation. In addition, the conversion price of the secured convertible notes will be adjusted in the event that we spin off or otherwise divest ourselves of a material part of our business or operations or dispose all or a portion of our assets.



## COMMON STOCK

### CONVERTIBLE DEBT CONVERSION

During the six months ended June 30, 2007, Alpha Capital Akteingesellschaft converted approximately $135,000 of notes payable and accrued interest into approximately 21,428,571 shares of the Company's common stock at an average conversion price of $0.0063.

During the six months ended June 30, 2006, Alpha Capital Akteingesellschaft converted approximately $291,000 of notes payable and accrued interest into approximately 21,196,000 shares of the Company's common stock at an average conversion price of $0.014. During the same period, Alpha Capital Akteingesellschaft exercised warrants to purchase 14,300,000 shares of common stock for cash in the amount of $200,200.

During the six months ended June 30, 2006, Whalehaven Fund, Limited converted approximately $583,000 of notes payable and accrued interest into approximately 41,030,000 shares of the Company's common stock at an average conversion price of $0.014.

During the six months ended June 30, 2006, Ellis International Ltd. converted approximately $101,000 of notes payable and accrued interest into approximately 8,035,000 shares of the Company's common stock at an average conversion price of $0.013. During the same period, Ellis International Ltd. exercised warrants to purchase 6,250,000 shares of

common stock for cash in the amount of $100,000.

During the six months ended June 30, 2006, Omega Capital Small Cap Fund converted approximately $27,000 of notes payable and accrued interest into approximately 2,167,000 shares of the Company's common stock at an average conversion price of $0.013.

During the six months ended June 30, 2006, Osher Capital Inc. converted approximately $16,000 of notes payable and accrued interest into approximately 1,134,000 shares of the Company's common stock at an average conversion price of $0.014.

During the six months ended June 30, 2006, Momona Capital Corp. converted approximately $10,000 of notes payable and accrued interest into approximately 847,000 shares of the Company's common stock at an average conversion price of $0.012.

PRIVATE PLACEMENT

There was no private placement activity during the six months ended June 30, 2007.

During the six months ended June 30, 2006, an accredited investor purchased an aggregate of 7,000,000 shares of restricted common stock for a total purchase price of $112,000. In addition, the investor received an aggregate of 3,000,000 Class A and 3,000,000 Class B common stock purchase warrants with an exercise price of $0.045 and $0.06 per share respectively.

o WARRANT EXERCISE

During the six months ended June 30, 2007 approximately 20,579,000 common stock warrants were exercised at an average price of $0.0064. The Company received cash proceeds of $132,240.

During the six months ended June 30, 2006 a total of 20,550,000 warrants were exercised at an average price of $0.015. As a result the Company received cash proceeds of $300,200.



ISSUANCE OF WARRANTS ON A CASHLESS BASIS

From time to time warrants can be exercised on a cashless basis if certain conditions exist. If warrants are held for a certain period of time and there is no effective registration statement for these warrants, the holder of these warrants may elect to exercise them on a cashless basis. The result is the Company issuing restricted shares pursuant to rule 144 or 144K. The number of shares issued are discounted according the subscription agreement formula. EX: The Company issues 1,000,000 restricted shares and the holder forfeits 1,250,000 of their warrants.

During the six months ended June 30, 2007 approximately 6,470,621 warrants were issued on a cashless basis and 7,796,190 warrants were forfeited.

ISSUANCES OF STOCK FOR SERVICES OR IN SATISFACTION OF OBLIGATIONS

On January 5, 2007, the Company issued an aggregate of 400,000 shares of restricted common stock to in exchange for services rendered. The services were valued at approximately $5,200.

On January 24, 2007, the Company issued an aggregate of 5,000,000 shares of restricted common stock to in exchange for services rendered. The services were valued at approximately $91,000 and will be provided for over a 3 year period.

On April 27, 2007 the Company issued an aggregate of 1,500,000 shares of restricted common stock to in exchange for services rendered. The services were related to the fiscal year ended 2006 audit. The shares were valued at approximately $45,000.

On June 1, 2007, the Company issued an aggregate of 200,000 shares of restricted common stock to in exchange for services rendered. The services were valued at approximately $6,000.

During the six months ended June 30, 2006 the Company issued approximately 13,000,000 shares of its restricted common stock having a market value of $320,500 in exchange for a settlement of debt.

REVOLVING CREDIT NOTE PAYABLE
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On December 21, 2006, the Company completed a private placement pursuant to a Revolving Credit Note Agreement which the Company entered into with several institutional Investors, pursuant to which the Investors subscribed to advance up to a maximum amount of $640,000 bearing an interest rate of 7%. The term of the agreement shall be effective as of December 21, 2006 with a term of 1 year ending December 20, 2007. The original Revolving Credit Note agreement was amended several times during the six months ended June 30, 2007. The amendments increased the maximum borrowing by the Company to an amount of $840,000. All terms and agreements of the original note are still in full force and effect.

During the Period of January 1, 2007 thru June 30, 2007 the Company borrowed $620,000 from the revolving note. During the same period the Company paid $56,083 against the outstanding balance for a net borrowing of $803,917. All borrowings are used to cover recurring operating expenses by the Company.

As of June 30, 2007 the outstanding principal amount owed to the Investors is $803,917.

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The following is a discussion that relates to certain financial transactions and the results for the six months ended June 30, 2007 and 2006.

| | SIX MONTHS ENDED | | FAV/ (UN FAV) | PERCENTAGE |
|---|---|---|---|---|
| | JUNE 30, 2007 | JUNE 30, 2006 | CHANGE | CHANGE |

| | | (RESTATED) | | |
|---|---|---|---|---|
| Net Revenue | $ 363,000 | $ 171,000 | $ 192,000 | 112% |
| Cost of goods sold | 194,000 | 37,000 | 157,000 | -424% |
| GROSS PROFIT | 169,000 | 134,000 | 35,000 | 26% |
| General and administrative expenses | 1,340,000 | 1,953,000 | 613,000 | 31% |
| Other income (expense) | (4,991,000) | (912,000) | (4,079,000) | -447% |
| NET LOSS BEFORE INCOME TAX | (6,162,000) | (2,731,000) | (3,431,000) | -126% |
| Income tax expense | 800 | 800 | -- | 0% |
| Net loss | $(6,163,000) | $(2,732,000) | $(3,431,000) | -126% |

REVENUES

Net revenues totaled $363,000 and $171,000 for the six months ended June 30, 2007 and 2006, respectively. Increased revenues of $192,000 112% between the two periods was attributable to 3 new MobileVoice customers.

COST OF GOODS SOLD

Cost of goods sold for the six months ended June 30, 2007 and 2006 totaled $194,000 and $37,000, respectively. The increase in cost of goods sold of $157,000 424% between the two periods was due to the reclassification of expenses during 2007 that previously had been recorded as general and administrative expenses. These expenses are related to licensing agreements and telecommunication expenses that allow the voice recognition products offered to be functional.

GENERAL AND ADMINISTRATIVE EXPENSE

Operating expenses totaled $1,340,000 and $1,953,000 for the six months ended June 30, 2007 and 2006, respectively. The decrease of $613,000 31% between the two periods was due to overall budget reductions and the reclassification of operating expenses to cost of goods sold as mentioned above.

SALARY AND COMPENSATION

Salary and wage expenses totaled $588,000 and $812,000 for the six months ended June 30, 2007 and 2006, respectively. The decrease of $224,000 27.5% between the two periods was due to headcount reductions, which increased the overall efficiency of the Company.

ACCOUNTING AND LEGAL

Accounting, Legal and consulting totaled $216,00 and $140,000 for the six months ended June 30, 2007 and 2006, respectively. The increase of $76,000 55% between the two periods was due to increased year end 2006 audit fees due to the transition of audit firms and filing fees incurred for the filing of the registration statement on Form SB-2. In previous years the audit fees were being expenses as incurred, in 2007 all fees are being properly accrued based on conservative estimates. The SB-2 filings continue to need the consent of both the prior auditors and the current auditors, the need for both auditors consent will be eliminated by year end 2007.

OTHER INCOME (EXPENSE)

Other expense totaled $(4,991,000) and an expense of $(912,000) for the six months ended June 30, 2007 and 2006, respectively. An increase of $4,079,000 447%.

OTHER INCOME / (EXPENSE) SUMMARY

| | SIX MONTHS ENDED JUNE 30, 2007 | SIX MONTHS ENDED JUNE 30, 2006 |
|---|---|---|
| Interest expense | $ (490,000) | $ (939,000) |
| Settlement expense | -- | (201,000) |
| Gain / (loss) on warrant and debt derivative | (4,354,000) | 221,000 |
| Other income / (expense) | (147,000) | 7,000 |
| | $(4,991,000) | $ (912,000) |

o Other income (expense) consist of interest expense, settlement / other expense, gain (loss) on warrant / debt derivative liability and other misc. Details below.

INTEREST EXPENSE

INTEREST EXPENSE SUMMARY

| | SIX MONTHS ENDED JUNE 30, 2007 | SIX MONTHS ENDED JUNE 30, 2006 |
|---|---|---|
| Debt issue cost | $ 162,222 | $ 69,333 |
| Discount amortization | 242,134 | 788,735 |
| Accrued interest | 82,206 | 80,436 |
| Other / penalties | 3,401 | - |
| TOTAL | $ 489,963 | $ 938,504 |

For three months ended June 30, 2007 and 2006, interest expense was approximately $490,000 compared to $939,000 respectively. The decrease of $449,000 48% between the two periods was due to an overall increase of convertible debt conversions in 2006. Upon conversion of debt the amortization

is accelerated accordingly. For the period ended June 30, 2007 and 2006, $135,000 and $1,028,650 of debt was converted into common stock.

Interest expense is composed of three very distinct transactions, which vary in their financial treatment.

Upon conversion of convertible debt into equity, both the debt issue cost and discount costs associated are prorated accordingly and expensed immediately. If no conversions occur, the debt issue cost and discount costs are expensed over the life of the convertible debt using the straight line method.

1. Monthly amortization of debt issue costs related to securing convertible debt financing.

This represents a cash related transaction.

For the six months ended June 30, 2007 and 2006, interest expense related to debt issue costs was approximately $162,000 compared to $69,000, respectively.

2. Monthly amortization of the embedded discount features within convertible debt financing.



This represents a non-cash transaction.

For the six months ended June 30, 2007, and 2006, interest expense related to the amortization of discount was approximately $242,000 compared to $789,000 respectively.

3. Monthly accrued interest related to notes payable and convertible notes payable financing.

This represents a future cash transaction if the convertible interest accrued is not converted into common stock. No accrued interest related to convertible notes payable has been paid in cash during the six months ended June 30, 2007 and 2006.

For the six months ended June 30, 2007 and 2006, interest expense related to notes payable and convertible notes payable was approximately $82,000 compared to $80,000, respectively.

4. Other / misc. for the six months ended June 30, 2007 and 2006, was approximately $3,000 compared to $0 respectively.

SETTLEMENT EXPENSE
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Settlement expenses related to settlement of debt in the form of the Companies restricted stock

For the six months ended June 30, 2007 and 2006, settlement expense was approximately $0 compared to $201,000 respectively. The expenses for the six months ended June 30, 2006 are related to settlement of debt in the form of the Companys common stock.

LOSS ON WARRANT DERIVATIVES
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For the six months ended June 30, 2007 and 2006, losses recorded on warrant derivatives was approximately $(4,309,000) compared to a gain of $221,000 respectively.

See Note 10 in the accompanying notes to the financial statements for a full description of the nature of these transactions.

GAIN ON DEBT DERIVATIVES

For the six months ended June 30, 2007 and 2006, losses recorded on debt derivatives were approximately $(45,000) compared to $0 respectively.

See Note 9 in the accompanying notes to the financial statements for a full description of the nature of these transactions.

OTHER INCOME (EXPENSE)

For the six months ended June 30, 2007 and 2006, other expense was approximately ($147,000) compared to income of $7,000 respectively. The increase in expense over the prior period was due to warrants being exercised pursuant to a cashless exercise. Refer to F-19 for details.

LIQUIDITY AND CAPITAL RESOURCES

NON-CASH EXPENSES EFFECTING OPERATING ACTIVITIES

Non-cash related expense items of $5,113,989 are reflected in the six months ended June 30, 2007, consist of the following items:



| | SIX MONTHS ENDED JUNE 30, 2007 |
|---|---|
| Depreciation and amortization | 45,868 |
| Stock compensation expense | 73,566 |
| Stock issuance for exchange of debt | 147,200 |
| Amortization of note discount | 242,134 |
| Interest payable related to convertible debt | 82,206 |
| Loss on warrant and debt derivatives | 4,353,739 |
| Loss on cashless warrant exercise | 169,276 |
| TOTAL NON-CASH RELATED EXPENSE | 5,113,989 |

The above information is intended to illustrate the impact that these specific expenses have on the Company's net income / (loss). There are no cash transactions that related to these expenses. More specifically, this table is shown to demonstrate the impact that the re-valuation of warrant and debt derivatives have on the income statement. Please note that this table is not in conformity with auditing standards generally accepted in the United States of

America.

- Depreciation and amortization expense of $46,000.
- Compensation expense relating to the issuance of stock options of $74,000.
- Issuance of common stock in exchange for services and debt of $147,000.
- Amortization of embedded discount relating to convertible debt financing of $242,000.
- Accrued interest expense related to convertible debt financing transactions of $82,000.
- Loss on the re-pricing of the warrant derivative liability and debt derivative relating to convertible debt financing of $4,354,000.
- Loss on cashless warrant exercise of 169,276



## FUTURE CAPITAL OUTLOOK

The Company will continue to rely heavily on our current method of convertible debt and equity funding along with the proceeds borrowed from the revolving line of credit, which have financed the Company since 2001. The losses through the six months ended June 30, 2007 are due to minimal revenues and recurring operating expenses, with a majority of expenses in the areas of: salaries, accounting fees, legal fees and licensing costs. The Company faces considerable risk in completing each of our business plan steps, including, but not limited to: a lack of funding or available credit to continue development and undertake product rollout; potential cost overruns; a lack of interest in its solutions in the market on the part of wireless carriers or other customers; potential reduction in wireless carriers which could lead to significant delays in consummating revenue bearing contracts; and/or a shortfall of funding due to an inability to raise capital in the securities market. Since further funding is required, and if none is received, we would be forced to rely on our existing cash in the bank, collection of monthly accounts receivable or secure short-term loans. This may hinder our ability to complete our product development until such time as necessary funds could be raised. In such a restricted cash flow scenario, we would delay all cash intensive activities including certain product development and strategic initiatives described above.

## OFF BALANCE SHEET ARRANGEMENTS

We do not have any off balance sheet arrangements that are reasonably likely to have a current or future effect on our financial condition, revenues, results of operations, liquidity or capital expenditures.

## RISK FACTORS

This section summarizes certain risks regarding our business and industry. The

following information should be considered in conjunction with the other information included and incorporated by reference in this report on Form 10-KSB before purchasing shares of our common stock.

WE HAVE A HISTORY OF LOSSES. WE MAY CONTINUE TO INCUR LOSSES, AND WE MAY NEVER ACHIEVE AND SUSTAIN PROFITABILITY.

Since inception, we have incurred significant losses and have negative cash flows from operations. For the six months ended June 30, 2007 and 2006, the Company incurred a net loss of $6,088,000 and $2,732,000 respectively, an increase of $3,356,000 123%. A large part of the discrepancy between 2007 and 2006 is due to a non-cash loss differential of $4,353,739 between 2007 and 2006 due to warrant and debt derivative liability re-valuation.

As a result of our limited operating history and the rapidly changing nature of the markets in which we compete, our quarterly and annual revenues and operating results are likely to fluctuate from period to period. These fluctuations may be caused by a number of factors, many of which are beyond our control.

For these reasons, you should not rely solely on period-to-period comparisons of our financial results, if any, as indications of future results. Our future operating results could fall below the expectations of public market analysts or investors and significantly reduce the market price of our common stock. Fluctuations in our operating results will likely increase the volatility of our stock price.

In order to reduce expenditures, the Company has aggressively reduced its operating expenses to a target of $160,000 per month beginning in November 2006 and is currently operating within the target. This reduction has come from a series of measures including reduction in head-count by eliminating all part-time workers, placing some full-time employees on part-time status, reducing license agreement costs and reducing additional operating overhead. Given these cost cutting measures, the Company feels it can better reach operationally break-even by decreasing operating expenses while increasing our revenue stream by acquiring additional customers contracts.



ITEM 3. CONTROLS AND PROCEDURES

The Company, under the supervision and with the participation of its management, including its Chief Executive Officer (the principal executive officer) and Chief Financial Officer (the principal accounting and financial officer), previously evaluated the effectiveness of the design and operation of its disclosure controls and procedures (as defined in Rule 13a-15(e) and Rule 15d-15(e) of the Exchange Act) as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, during the period covered by this report, such disclosure controls and procedures were not effective in ensuring that information required to be disclosed by us in our periodic reports is recorded, processed, summarized and reported, within the time periods specified for each report and that such information is accumulated and communicated to our management, including our principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. Specifically, our disclosure controls and procedures were not effective to detect the inappropriate application of US GAAP rules as more fully described below. Furthermore, based on this evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, during

the period covered by this report, such disclosure controls and procedures were not effective since our annual report on Form 10-KSB for the year ended December 31, 2006, was filed late. We are in the process of determining how filing delays may be avoided in the future.

Our deficiencies with regards to our ability to detect inappropriate application of US GAAP rules was due to deficiencies that existed in the design or operation of our internal control over financial reporting that adversely affected our disclosure controls and that may be considered to be "material weaknesses." The Public Company Accounting Oversight Board has defined a material weakness as a "significant deficiency or combination of significant deficiencies that results in more than a remote likelihood that a material misstatement of the annual or annual financial statements will not be prevented or detected."

We identified deficiencies in our internal controls and disclosure controls related to the treatment of our convertible debt and the related embedded conversion features, which resulted in us restating our 2004 and 2005 financial statements.

As a result of the identification of the misapplication of US GAAP rules, our principal executive officer/principal financial officer has concluded that, as of March 31, 2007, our disclosure controls over financial reporting were not effective.

The Company's management received a letter dated March 31, 2006 (the "Letter") from Peterson & Co., LLP, its independent auditors, addressed to the Chief Executive Officer and Chairman of the Board of Directors in connection with the audit of our financial statements as of December 31, 2005, in which the independent auditors identified certain matters involving internal controls and procedures that they consider to be significant deficiencies or material weaknesses under the standards of the Public Company Accounting Oversight Board. These material weaknesses were: (1) lack of sufficient and knowledgeable personnel to maintain appropriate accounting and financial reporting organizational structure to support the activities of the Company; (2) lack of a functioning audit committee and lack of a majority of outside directors on the Company's board of directors, resulting in ineffective oversight in the establishment and monitoring of required internal controls and procedures; (3) inadequate segregation of duties consistent with control objectives; (4) insufficient written policies and procedures for accounting and financial reporting with respect to the requirements and application of US GAAP and SEC disclosure requirements; (5) ineffective personnel resources and technical accounting expertise within the accounting function to resolve non-routine or complex accounting matters; (6) ineffective controls over period end financial close and reporting processes; and (7) inadequate procedures for appropriately identifying, assessing and applying accounting principles. The aforementioned material weaknesses were identified by the Company's independent auditors in connection with the audit of our financial statements as of December 31, 2005 and communicated to our management through the Letter.



Management believes that the material weaknesses set forth in items (3), (4) and (6) above did not have an affect on the Company's financial results or any restatements which have occurred. Inadequate segregation of duties consistent with control objectives (item (3)) was due to the fact that the Company did not have a sufficient number of personnel within the accounting department. Management believes that this did not have an effect on the most recent and updated financial statements filed by the Company as the adjustments made to the financial statements were related to the application of technical accounting

guidance and resulted primarily from the lack of accounting department staff with sufficient technical accounting expertise and experience. We believe that even if there had been sufficient staff to remedy the segregation of duties problem, unless one of more of the additional staff members had sufficient technical accounting expertise, this would not have prevented the adjustments and restatement. Management believes that the weakness due to insufficient written policies and procedures (item (4)) did not have an effect on the most recent and updated financial statements filed by the Company as the adjustments were related to the application of technical accounting guidance and resulted primarily from the lack of accounting department staff with sufficient technical accounting expertise and experience. We believe that even if there had been sufficient written policies and procedures in place, the problem related to the lack of accounting staff members with sufficient technical accounting expertise would not have been resolved and this would not have prevented the adjustments and restatement. Further, we do not feel that improper controls and procedures over the period end process (item (6)) caused any material effects or misstatements to the financials filed, as these inefficiencies were more associated with timely closing, review and filing of financial statements. These issues were due primarily to the fact that the Company had an insufficient number of personnel within the accounting department and that it did not have written policies and procedures to ensure that the financial statement closing and reporting processes were timely and effective. We believe that even if stronger controls had been in place related to the period end financial close and reporting processes, the problem related to the lack of accounting staff members with sufficient technical accounting expertise would not have been resolved and this would not have prevented the adjustments and restatement.

However, management believes that the lack of sufficient and knowledgeable personnel to maintain appropriate accounting and financial reporting organizational structure to support the activities of the Company (Item (1)), lack of a functioning audit committee and lack of a majority of outside directors on the Company's board of directors, resulting in ineffective oversight in the establishment and monitoring of required internal controls and procedures (Item (2)), ineffective personnel resources and technical accounting expertise within the accounting function to resolve non-routine or complex accounting matters (Item (5)), and inadequate procedures for appropriately identifying, assessing and applying accounting principles (Item (7)) resulted in the Company's determination to restate its financial statements for the years ended December 31, 2004 and 2003. Specifically, the material weaknesses specified in the preceding sentence resulted in management determining that the Company's previous accounting for its common stock purchase warrants issued from 2003 to 2004 did not comply with Emerging Issues Task Force 00-19, ACCOUNTING FOR DERIVATIVE FINANCIAL INSTRUMENTS INDEXED TO, AND POTENTIALLY SETTLED IN A COMPANY'S OWN STOCK. As a result, the Company determined that the fair value of the warrants should have been reclassified from additional paid in capital, to a current liability, and that the warrant fair value should have been marked to market as of the balance sheet date with the corresponding non-cash gain or loss reflected in the results of operations. This resulted in the Company restating its net loss for the fiscal year ended December 31, 2004 to $(8,752,000) compared to $(5,383,000) as previously reported, and a net loss for the fiscal year ended December 31, 2003 to $(5,839,000) compared to $(5,932,000) as previously reported. In addition, total liabilities for the fiscal year ended December 31, 2004 and 2003 was restated to $6,464,000 and $1,431,000 respectively, compared to $1,523,000 and $1,140,000, respectively, as previously reported.



In accordance with Exchange Act Rules 13a-15 and 15d-15, and after receipt of

the Letter, the Company has re-evaluated, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, the effectiveness of the design and operation of the Company's disclosure controls and procedures as of the end of the period covered by this report. Based upon this re-evaluation the Chief Executive Officer and Chief Financial Officer have concluded that the Company's current disclosure controls and procedures are not effective in ensuring that the information required to be disclosed is recorded, processed, summarized and reported, within the time periods specified in the Commission's rule and forms and is accumulated and communicated to the issuer's management, including its Chief Executive Officer (the principal executive officer) and Chief Financial Officer (the principal accounting and financial officer) as appropriate to allow timely decisions regarding required disclosure.

We are committed to improving our financial organization. As part of this commitment, we will create a segregation of duties consistent with control objectives and will increase our personnel resources and technical accounting expertise within the accounting function by the end of fiscal 2007 to resolve non-routine or complex accounting matters. In addition, we will take the following actions to enhance our internal controls, when funds are available to the Company, which we expect to occur by the end of fiscal 2007:

i) Appointing one or more outside directors to our board of directors who shall be appointed to the audit committee of the Company resulting in a fully functioning audit committee who will undertake the oversight in the establishment and monitoring of required internal controls and procedures. All compensation paid to board members comes in the form of stock options that normally carry a value of less than $10,000, which vest over a period of time;

ii) Preparing and implementing sufficient written policies and checklists which will set forth procedures for accounting and financial reporting with respect to the requirements and application of US GAAP and SEC disclosure requirements, which management estimates will cost approximately $65,000 per annum; and

iii) Hiring additional knowledgeable personnel with technical accounting expertise to further support the current accounting personnel at the Company, which management estimates will cost approximately $90,000 per annum. On March 12, 2007 the Company engaged an outside consulting firm that specializes in the accounting for derivative instruments that are embedded within the Company's financing transactions. The Company will continue to engage the firm in order to ensure proper treatment.

Management believes that the appointment of one or more outside directors, who shall be appointed to a fully functioning audit committee, will remedy the lack of a functioning audit committee and a lack of a majority of outside directors on the Company's Board. In addition, management believes that preparing and implementing sufficient written policies and checklists will remedy the following material weaknesses (i) insufficient written policies and procedures for accounting and financial reporting with respect to the requirements and application of US GAAP and SEC disclosure requirements; (ii) ineffective controls over period end financial close and reporting processes; and (iii) inadequate procedures for appropriately identifying, assessing and applying accounting principles. Further, management believes that hiring additional knowledgeable personnel with technical accounting expertise will remedy the following material weaknesses: (A) lack of sufficient and knowledgeable personnel to maintain appropriate accounting and financial reporting organizational structure to support the activities of the Company; (B) inadequate segregation of duties consistent with control objectives; and (C) ineffective personnel resources and technical accounting expertise within the accounting function to resolve non-routine or complex accounting matters.

Management believes that the hiring of additional personnel who have the technical expertise and knowledge with the non-routine or technical issues the Company has encountered in the past will result in both proper recording of these transactions and a much more knowledgeable finance department as a whole. Due to the fact that the Company's accounting staff consists of a controller and an interim CFO, additional personnel will also ensure the proper segregation of duties and provide more checks and balances within the department. Additional personnel will also provide the cross training needed to support the Company if personnel turn over issues within the department occur. This coupled with the appointment of additional outside directors will greatly decrease any control and procedure issues the Company may encounter in the future.

We will continue to monitor and evaluate the effectiveness of our disclosure controls and procedures and our internal controls over financial reporting on an ongoing basis and are committed to taking further action and implementing additional enhancements or improvements, as necessary and as funds allow.

(b) Changes in Internal Controls

There have been no changes in our internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Rules 13a-15 or 15d-15 under the Exchange Act that occurred during the small business issuer's last fiscal quarter 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, we may become involved in various lawsuits and legal proceedings, which arise in the ordinary course of business. However, litigation is subject to inherent uncertainties, and an adverse result in these or other matters may arise from time to time that may harm business. Except as disclosed below we are currently not aware of any such legal proceedings or claims that will have, individually or in the aggregate, a material adverse affect on business, financial condition or operating results.

There has been no bankruptcy, receivership or similar proceedings. As previously disclosed to the public in our reports filed with the Securities and Exchange Commission, we were the subject of a legal proceeding in the San Diego County Superior Court (the "Court") entitled La Jolla Cove Investors, Inc. ("La Jolla") vs. One Voice Technologies, Inc., Case No. GIC850038 (the "Action") which was filed with the Court for an unspecified amount of damages. La Jolla held our convertible debentures related to our past financings. La Jolla claimed that we failed to honor its conversion notices resulting in damages. La Jolla filed a similar suit in 2004 and dismissed the suit after we transferred shares pursuant to conversion notices and an interim settlement agreement. In particular, we agreed to and did register 8,425,531 shares of our common stock to honor the

past conversion notice and an additional 8,425,531 shares pursuant to such interim settlement agreement. Part of the resolution of the first lawsuit restrained La Jolla from tendering additional conversion notices for a specified period of time. During that time period, La Jolla requested that we amend the terms of the outstanding debentures, but we refused to do so. We tendered back the outstanding debenture amounts to La Jolla on two occasions. We secured alternative financing and did not honor further conversion notices from La Jolla. The Action was thereafter commenced by La Jolla.

On January 6, 2006, La Jolla and the Company entered into a Settlement Agreement and Mutual Release (the "Settlement Agreement") in which La Jolla and we agreed to forever settle, resolve and dispose of all claims, demands and causes of action asserted, existing or claimed to exist between the parties because of or in any way related to the Action. Under the Settlement Agreement, La Jolla and the Company agreed that the parties shall bear their own costs and attorney's fees associated with the Action. In addition, we agreed to pay to La Jolla:

- 10,000,000 restricted shares of our common stock upon the execution of the Settlement Agreement;
- $300,000 was paid on May 5, 2006; and
- $400,000 was due on June 6, 2006. $50,000 was paid September 13, 2006

Interest accrued on the $400,000 unpaid balance at 8% per annum commencing on the date of the Settlement Agreement until paid in full. Because payment of $400,000 was not made within 30 days of its due date (June 6, 2006), La Jolla is entitled to enter a judgment against us for the unpaid balance, plus accrued interest and $100,000, upon the filing of a declaration of default by La Jolla. We were unable to come to terms on a payment arrangement with La Jolla. La Jolla sought to enforce a $100,000 penalty provision for past late payments.

On January 23, 2007 La Jolla Cove Investors Inc, filed suit in the Superior Court Of California entitled La Jolla Cove Investors, Inc. ("La Jolla") vs. One Voice Technologies, Inc., Case No. GIC850038 for in reference to the settlement agreement mentioned above. The penalty by default of $100,000 was dismissed by the court.

Accordingly, $350,000 is accrued as a settlement liability along with accrued interest of $46,703 as of June 30, 2007.

Currently the Company is in the negotiation process of settling this dispute. Most likely the settlement will be in the form of both cash and equity.



ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES

The securities described below represent our securities sold by us for the period starting January 1, 2007 and ending June 30, 2007 that were not registered under the Securities Act of 1933, as amended, all of which were issued by us pursuant to exemptions under the Securities Act.

SALES OF WARRANTS FOR CASH

During the period ended June 30, 2007 a total of 20,578,616 warrants were exercised at an average price of $0.0064. As a result the Company received cash proceeds of $132,240.

ISSUANCE OF WARRANTS ON A CASHLESS BASIS

From time to time warrants can be exercised on a cashless basis if certain conditions exist. If warrants are held for a certain period of time and there is no effective registration statement for these warrants, the holder of these warrants may exercise them on a cashless basis. The result is the Company issuing restricted shares pursuant to rule 144 or 144K, no cash is received by the Company. The number of shares issued are discounted according the subscription agreement formula. EX: The Company issues 1,000,000 restricted shares and the holder forfeits 1,500,000 of their warrants.

During the period ended June 30, 2007 approximately 6,470,621 warrants were issued on a cashless basis and 7,796,190 warrants were forfeited.

ISSUANCES OF STOCK FOR SERVICES OR IN SATISFACTION OF OBLIGATIONS

On January 5, 2007, the Company issued an aggregate of 400,000 shares of restricted common stock to in exchange for services rendered. The services are related to monthly licensing fees. The services were valued at approximately $5,200.

On January 24, 2007, the Company issued an aggregate of 5,000,000 shares of restricted common stock to in exchange for services rendered. The services are related to financial advisor services. The services were valued at approximately $91,000 and will be provided for over a 3 year period.

On April 27, 2007 the Company issued an aggregate of 1,500,000 shares of restricted common stock to in exchange for services rendered. The services were related to the fiscal year ended 2006 audit. The shares were valued at approximately $45,000.

On June 1, 2007, the Company issued an aggregate of 200,000 shares of restricted common stock to in exchange for services rendered. The services are related to monthly licensing fees. The services were valued at approximately $6,000.

All proceeds from the above transactions were used to fund normal operating expenses incurred by the Company.

* All of the above offerings and sales were deemed to be exempt under Rule 506 of Regulation D and Section 4(2) of the Securities Act of 1933, as amended. No advertising or general solicitation was employed in offering the securities. The offerings and sales were made to a limited number of persons, all of whom were accredited investors, business associates of One Voice or executive officers of One Voice, and transfer was restricted by One Voice in accordance with the requirements of the Securities Act of 1933. In addition to representations by the above-referenced persons, we have made independent determinations that all of the above-referenced persons were accredited or sophisticated investors, and that they were capable of analyzing the merits and risks of their investment, and that they understood the speculative nature of their investment. Furthermore, all of the above-referenced persons were provided with access to our Securities and Exchange Commission filings.



ITEM 3. DEFAULTS UPON SENIOR SECURITIES
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Not Applicable.

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

Not Applicable.

ITEM 5. OTHER INFORMATION

Not Applicable.

ITEM 6. EXHIBITS:

31.1 Certification of the Chief Executive Officer and Interim Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.1 Certification Chief Executive Officer and Interim Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.



SIGNATURES

In accordance with the requirements of the Exchange Act of 1933, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ONE VOICE TECHNOLOGIES, INC.,
A NEVADA CORPORATION

DATE: August 20, 2007

BY: /S/ DEAN WEBER

DEAN WEBER, CHAIRMAN, CHIEF EXECUTIVE OFFICER (PRINCIPAL EXECUTIVE OFFICER) AND INTERIM CHIEF FINANCIAL OFFICER (PRINCIPAL ACCOUNTING AND FINANCIAL OFFICER)