

Edgar Filing: ONE VOICE TECHNOLOGIES INC - Form 10QSB/A

ONE VOICE TECHNOLOGIES INC

Form 10QSB/A

July 27, 2007

AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON JULY 27, 2007

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

FORM 10-QSB/A
(AMENDMENT NO. 3)

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

FOR THE PERIOD ENDED JUNE 30, 2006

COMMISSION FILE NO. 0-27589

ONE VOICE TECHNOLOGIES, INC.

(Name of Small Business Issuer in Its Charter)

NEVADA
(State or other jurisdiction of
incorporation or organization)

95-4714338
(I.R.S. Employer
Identification No.)

4275 EXECUTIVE SQUARE, STE. 200, LA JOLLA, CA 92037
(Address of Principal Executive Offices)

(858) 552-4466
(Issuer's Telephone Number)

(858) 552-4474
(Issuer's Facsimile Number)

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

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

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

As of August 17, 2006, the registrant had 513,568,601 shares of common stock, \$.001 par value, issued and outstanding.

Transitional small business disclosure format (check one): Yes ☐ No ☒

Edgar Filing: ONE VOICE TECHNOLOGIES INC - Form 10QSB/A

EXPLANATORY NOTE

One Voice Technologies, Inc. is filing this amended Quarterly Report on Form 10-QSB/A to amend the Quarterly Report on Form 10-QSB initially filed with the Securities and Exchange Commission on August 21, 2006 to update the Controls and Procedures section with disclosure as to why certain material weaknesses identified by our former auditor did not have effect on our financial results or any restatements that occurred.

TABLE OF CONTENTS

| | PAGE |
|---|------------|
| | ---- |
| PART I - FINANCIAL INFORMATION | |
| Item 1. Financial Statements (Unaudited) | F-1 - F-13 |
| Item 2. Management's Discussion and Analysis or Plan of Operation | 14 |
| Item 3. Controls and Procedures | 17 |
| PART II - OTHER INFORMATION | |
| Item 1. Legal Proceedings | 20 |
| Item 2. Unregistered Sales of Equity Securities and Use of Proceeds | 21 |
| Item 3. Defaults Upon Senior Securities | 21 |
| Item 4. Submission of Matters to a Vote of Security Holders | 21 |
| Item 5. Other Information | 21 |
| Item 6. Exhibits | 21 |
| SIGNATURES | 21 |

PART I FINANCIAL INFORMATION

| ITEM 1. FINANCIAL STATEMENTS (UNAUDITED) | Page No. |
|--|----------|
| | ----- |
| Balance Sheets as of June 30, 2006 and December 31, 2005 | F-2 |
| Statements of Operations for the three and six months ended June 30, 2006 and 2005 | F-3 |
| Statements of Cash Flows for the three and six months ended June 30, 2006 and 2005 | F-4 |

Edgar Filing: ONE VOICE TECHNOLOGIES INC - Form 10QSB/A

Notes to Financial Statements

F-6

F-1

ONE VOICE TECHNOLOGIES, INC. BALANCE SHEETS (UNAUDITED)

| | June 30, 2006 | December 31, 2005 |
|---|------------------|----------------------|
| | ----- | ----- |
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$ 32,376 | \$ 338,811 |
| Accounts receivable | 70,897 | 42,696 |
| Inventories | 11,538 | 5,254 |
| Other current assets | 45,330 | 40,574 |
| | ----- | ----- |
| Total current assets | 160,141 | 427,335 |
| PROPERTY AND EQUIPMENT, net | 74,435 | 84,703 |
| | | |
| Software development and Licensing, net | 26,151 | 40,552 |
| Trademarks, net | 3,462 | 5,517 |
| Patents, net | 91,853 | 94,200 |
| Deposits | 18,665 | 18,665 |
| Deferred debt issue costs | 84,992 | 69,970 |
| | ----- | ----- |
| Total assets | \$ 459,699 | \$ 740,942 |
| | ===== | ===== |
| LIABILITIES AND STOCKHOLDERS' DEFICIT | | |
| CURRENT LIABILITIES: | | |
| Accounts payable | 325,755 | 128,630 |
| Accrued expenses | 246,839 | 147,305 |
| Settlement agreement liability | 500,000 | 920,000 |
| License agreement liability | 930,000 | 930,000 |
| Warrant derivative liability | 2,325,695 | 2,032,299 |
| | ----- | ----- |
| Total current liabilities | 4,328,289 | 4,158,234 |
| LONG TERM DEBT: | | |
| Long term portion of notes payable | 100,000 | 100,000 |
| Long term portion of convertible debt, net | 420,666 | 221,850 |
| Deferred rent | 6,721 | -- |
| | ----- | ----- |
| Total liabilities | 4,855,676 | 4,480,084 |
| STOCKHOLDERS' DEFICIT: | | |
| Preferred stock; \$.001 par value, 10,000,000 shares authorized, no shares issued and outstanding | -- | -- |
| Common stock; \$.001 par value, 990,000,000 shares authorized, 474,533,757 and 363,590,152 shares issued | | |

Edgar Filing: ONE VOICE TECHNOLOGIES INC - Form 10QSB/A

| | | |
|--|--------------|--------------|
| and outstanding at June 30, 2006 and December 31, 2005, respectively | 474,550 | 363,590 |
| Shares to be issued | 52,000 | -- |
| Additional paid-in capital | 40,650,563 | 38,561,381 |
| Accumulated deficit | (45,573,090) | (42,664,113) |
| | ----- | ----- |
| Total stockholders' deficit | (4,395,977) | (3,739,142) |
| | ----- | ----- |
| Total liabilities and stockholders' deficit | \$ 459,699 | \$ 740,942 |
| | ===== | ===== |

See accompanying notes

F-2

ONE VOICE TECHNOLOGIES, INC. STATEMENTS OF OPERATIONS (UNAUDITED)

| | Three Months Ended | | Six Months Ended |
|---|--------------------|----------------|------------------|
| | June 30, 2006 | June 30, 2005 | June 30, 2006 |
| | ----- | ----- | ----- |
| REVENUE | \$ 109,851 | \$ 23,937 | \$ 171,149 |
| COST OF REVENUE | 16,552 | 3,725 | 37,061 |
| | ----- | ----- | ----- |
| GROSS PROFIT | 93,299 | 20,212 | 134,088 |
| GENERAL AND ADMINISTRATIVE EXPENSES | 962,475 | 620,438 | 1,953,450 |
| | ----- | ----- | ----- |
| NET LOSS FROM OPERATIONS | (869,176) | (600,226) | (1,819,362) |
| OTHER INCOME (EXPENSES) | | | |
| Interest expense | (221,742) | (568,182) | (1,115,047) |
| Settlement expense | (100,000) | -- | (200,500) |
| Gain on warrant derivative | 4,098,311 | -- | 220,802 |
| Other, net | 247 | 1,039 | 5,130 |
| | ----- | ----- | ----- |
| NET INCOME (LOSS) | \$ 2,907,640 | \$ (1,167,369) | \$ (2,908,977) |
| | ===== | ===== | ===== |
| BASIC EARNINGS (LOSS) PER SHARE | \$.01 | \$ (0.01) | \$ (0.01) |
| | ===== | ===== | ===== |
| BASIC WEIGHTED AVERAGE SHARES OUTSTANDING | 471,037,000 | 280,726,000 | 440,249,000 |
| | ===== | ===== | ===== |
| DILUTED EARNINGS (LOSS) PER SHARE | \$.01 | \$ (0.01) | \$ (0.01) |
| | ===== | ===== | ===== |
| DILUTED WEIGHTED-AVERAGE SHARES OUTSTANDING | 824,275,000 | 280,726,000 | 440,249,000 |
| | ===== | ===== | ===== |

Edgar Filing: ONE VOICE TECHNOLOGIES INC - Form 10QSB/A

See accompanying notes.

F-3

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

| | Six Months Ended | |
|---|------------------|------------------|
| | June 30, 2006 | June 30, 2005 |
| | ----- | ----- |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net loss | \$ (2,908,977) | \$ (3,232,185) |
| ADJUSTMENTS TO RECONCILE NET LOSS TO NET CASH USED IN OPERATING ACTIVITIES | | |
| Depreciation and amortization | 62,896 | 95,746 |
| Amortization of debt discount and debt issue costs | 1,032,232 | 1,782,253 |
| Gain on warrant derivative liability | (220,802) | -- |
| Share based compensation expense | 194,636 | -- |
| CHANGES IN OPERATING ASSETS AND LIABILITIES: | | |
| (INCREASE) DECREASE IN ASSETS: | | |
| Accounts receivable | (28,202) | (4,263) |
| Inventories | (6,284) | 4,469 |
| Prepaid expenses and other assets | (4,756) | (9,383) |
| Deposits | -- | (14,025) |
| Deferred debt issue costs | -- | 35,763 |
| Deferred rent | 6,721 | -- |
| INCREASE (DECREASE) IN LIABILITIES: | | |
| Accounts payable | 197,125 | (7,353) |
| Accrued expenses | 151,100 | 36,617 |
| Settlement agreement liability | (99,500) | -- |
| License agreement liability | -- | (60,000) |
| Deposit | -- | (7,292) |
| | ----- | ----- |
| Net cash used in operating activities | (1,623,811) | (1,379,653) |
| | ----- | ----- |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchase of property and equipment | (15,810) | (23,316) |
| Additions to patent costs | (18,014) | (7,523) |
| | ----- | ----- |
| Net cash used in investing activities | (33,824) | (30,839) |
| | ----- | ----- |

F-4

(Continued)

Six Months Ended
June 30, June 30,
2006 2005

Edgar Filing: ONE VOICE TECHNOLOGIES INC - Form 10QSB/A

| | | |
|---|--------------|--------------|
| | ----- | ----- |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Proceeds from issuance of common stock | 60,000 | -- |
| Proceeds from convertible debt | 1,024,000 | 919,988 |
| Payments for debt issue costs | (85,000) | -- |
| Proceeds from shares to be issued | 52,000 | -- |
| Proceeds from warrant exercise | 300,200 | 108,960 |
| | ----- | ----- |
| Net cash provided by financing activities | 1,351,200 | 1,028,948 |
| | ----- | ----- |
| NET DECREASE IN CASH | (306,435) | (381,544) |
| CASH AND CASH EQUIVALENTS, beginning of period | 338,811 | 535,642 |
| | ----- | ----- |
| CASH AND CASH EQUIVALENTS, end of period | \$ 32,376 | \$ 154,098 |
| | ===== | ===== |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION: | | |
| Interest paid | \$ 10,000 | \$ 44,727 |
| | ===== | ===== |
| Income taxes paid | \$ 800 | \$ 800 |
| | ===== | ===== |
| SUPPLEMENTAL DISCLOSURE OF NON-CASH FINANCING ACTIVITIES | | |
| Issuance of warrant derivative in connection with private placement and debt financing | \$ 514,198 | \$ 724,305 |
| | ===== | ===== |
| Beneficial conversion feature of debt | \$ 353,316 | \$ 275,695 |
| | ===== | ===== |
| Common Stock issued upon conversion of debt | \$ 1,028,635 | \$ 1,410,266 |
| | ===== | ===== |
| Common Stock issued in connection with reduction of settlement liability | \$ 320,500 | \$ -- |
| | ===== | ===== |

See accompanying notes.

F-5

ONE VOICE TECHNOLOGIES, INC. NOTES TO FINANCIAL STATEMENTS

(1) DESCRIPTION OF BUSINESS

One Voice Technologies, Inc. is incorporated under the laws of the State of Nevada. The Company develops voice recognition software.

Prior to the fourth quarter of 2005, the Company's financial statements had been prepared and presented as those of a development stage enterprise. Based on the commercialization of its Mobile Voice product during 2005, the Company believes that such presentation is no long necessary.

Located in La Jolla, California, the Company has 12 full-time employees and 5 consultant/part-time employees. The Company is traded on the NASD OTC Electronic Bulletin Board ("OTCBB") under the symbol

Edgar Filing: ONE VOICE TECHNOLOGIES INC - Form 10QSB/A

ONEV.OB. One Voice commenced operations on July 14, 1999.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

INTERIM FINANCIAL STATEMENTS:

The accompanying financial statements include all adjustments which are, in the opinion of management, necessary for a fair presentation of the results of operations for the periods presented. Interim results are not necessarily indicative of the results to be expected for the full year ending December 31, 2006. The financial statements should be read in conjunction with the financial statements included in the Company's annual report on Form 10-KSB for the year ended December 31, 2005.

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 \$45,573,000 and used cash for operations of \$1,624,000 during the 6 months ended June 30, 2006. The Company also has a working capital deficit of \$4,168,000 and a stockholders' deficit of \$4,396,000 as of June 30, 2006. These factors raise substantial doubt about the Company's ability to continue as a going concern. Management is currently seeking additional equity or debt financing and is 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.

RECENT ACCOUNTING PRONOUNCEMENTS:

In February 2006, the Financial Accounting Standards Board ("FASB") released Statement No. 155, Accounting for Certain Hybrid Financial Instruments, ("SFAS No. 155") was released. SFAS No.155 is an amendment of Statement No. 133, Accounting for Derivative Instruments and Hedging Activities , and Statement No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities. SFAS No. 155 establishes, among other items, the accounting for certain derivative instruments embedded within other types of financial instruments; and, eliminates a restriction on the passive derivative instruments that a qualifying special-purpose entity may hold. Effective for the Company beginning January 1, 2007, SFAS No. 155 is not expected to have any impact on the Company's financial position, results of operations or cash flows.

In March 2006, the FASB released Statement No. 156, Accounting for Servicing of Financial Assets, an amendment of FASB Statement No. 140, ("SFAS No. 156") was released. SFAS No. 156 amends SFAS No. 140 to require that all separately recognized servicing assets and liabilities in accordance with SFAS No. 140 be initially measured at fair value, if practicable. Furthermore, this standard permits, but does not require, fair value measurement for separately recognized servicing assets and liabilities in subsequent reporting periods. SFAS No. 156 is also effective for the Company beginning January 1, 2007; however, the standard is not expected to have an impact on the Company's financial position, results of operation or cash flows.

Edgar Filing: ONE VOICE TECHNOLOGIES INC - Form 10QSB/A

ONE VOICE TECHNOLOGIES, INC. NOTES TO FINANCIAL STATEMENTS (Continued)

In the first quarter of 2006, the Company adopted Statement No. 154, Accounting for Changes and Error Corrections--a replacement of APB Opinion No. 20 and FASB Statement No. 3, ("SFAS No. 154") which changed the requirements for the accounting for and reporting of a voluntary change in accounting principle. The Company also adopted Statement No. 151, Inventory Costs--an amendment of ARB No. 43, Chapter 4 ("SFAS No. 151") which, among other changes, requires certain abnormal expenditures to be recognized as expenses in the current period versus capitalized as a component of inventory. The adoption of SFAS No. 154 did not impact the results presented and the impact on any future periods will depend on the nature and significance of any future accounting changes subject to the provisions of the statement. The adoption of SFAS No. 151 did not have any impact on the Company's financial position, results of operations or cash flows.

In June 2006, the FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes--an interpretation of FASB Statement No. 109" (FIN 48). FIN 48 clarifies the accounting for uncertainty in tax positions and requires that a Company recognizes in its financial statements the impact of a tax position, if that position is more likely than not of being sustained on audit, based on the technical merits of the position. The provisions of FIN 48 are effective for fiscal years beginning after December 15, 2006. The adoption of FIN 48 is not expected to have any impact on The Company's financial position.

Note 3 Earnings (Loss) Per Share

The following table illustrates the calculation of basic and diluted earnings (loss) per common share:

| | THREE MONTHS ENDED JUNE 30, | | SIX MONTHS ENDED JUNE 30, |
|--|--------------------------------|----------------|------------------------------|
| | 2006 | 2005 | 2006 |
| BASIC | | | |
| Net income (loss) | \$ 2,908,000 | \$ (1,167,000) | \$ (2,909,000) |
| Basic weighted-average common shares outstanding | 471,037,000 | 280,726,000 | 440,249,000 |
| Basic earnings (loss) per common share | \$ 0.01 | \$ (0.01) | \$ (0.01) |
| DILUTED | | | |
| Net income (loss) | \$ 2,908,000 | \$ (1,167,000) | \$ (2,909,000) |
| Weighted-average common shares outstanding | 471,037,000 | 280,726,000 | 440,249,000 |
| Add: | | | |

Edgar Filing: ONE VOICE TECHNOLOGIES INC - Form 10QSB/A

| | | | |
|---|-------------|-------------|-------------|
| Exercise of warrants | 250,218,000 | -- | |
| Conversion of debt | 103,964,000 | -- | |
| | ----- | ----- | ----- |
| Diluted weighted-average shares outstanding | 824,275,000 | 280,726,000 | 440,249,000 |
| | ===== | ===== | ===== |
| Diluted earnings (loss) per common share | \$ 0.01 | \$ (0.01) | \$ (0.01) |
| | ===== | ===== | ===== |

Due to the net losses for the three months ended June 30, 2005 and six month ended June 30, 2006 and 2005, potentially dilutive securities have been excluded in the calculation of diluted loss per share because their inclusion would be anti-dilutive. Accordingly, basic and diluted loss per share for the three month period ended June 30, 2005 and six month periods presented are the same. Additionally, there were no dividends paid during these reporting periods. Potentially dilutive securities excluded in the calculation of diluted loss per common share include options to purchase 1,846,500 shares of common stock outstanding for the three months ended June 30, 2005 and for the six-month period ended June 30, 2006 and 2005, respectively, which had an exercise price greater than the average market price for the common shares.

Options to purchase 59,621,500 shares of common stock were outstanding during the three months ended June 30, 2006 but were not included in the computation of diluted earnings per share because the option exercise price was greater than the average market price of the common shares and therefore, the effect would be anti-dilutive.

F-7

ONE VOICE TECHNOLOGIES, INC. NOTES TO FINANCIAL STATEMENTS (Continued)

(4) 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 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:

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

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

Edgar Filing: ONE VOICE TECHNOLOGIES INC - Form 10QSB/A

(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 are currently negotiating with La Jolla to restructure that payment obligation and avoid entry of a judgment. Accordingly, \$500,000 is accrued as a settlement liability as of June 30, 2006.

(5) 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, through December 31, 2004 (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 against interest.

Under an amendment to the License Agreement entered into in January 2006, the term of the License Agreement was extended for five (5) years through December 31, 2010, and the monthly minimum royalty payment was set at \$17,500. The amendment also granted the Company a five (5) year interest-free period to repay the \$930,000 currently outstanding. In addition to minimum monthly royalty payments, the company is required to make additional payments to Philips once it has become operationally break-even. The additional monthly payments are capped at \$200,000 per calendar year. As of June 30, 2006 and December 31, 2005, the outstanding minimum royalty obligations pursuant to the License Agreement was \$930,000.

F-8

ONE VOICE TECHNOLOGIES, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)

(6) WARRANT DERIVATIVE LIABILITY

Edgar Filing: ONE VOICE TECHNOLOGIES INC - Form 10QSB/A

Emerging Issues Task Force ("EITF") Issue No. 00-19, "Accounting for Derivative Financial Instruments Indexed to and Potentially Settled in a Company's Own Stock ("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 should be 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, 2006 using a Black-Scholes option pricing model using the following assumptions: expected dividend yield of 0.0%, expected stock price volatility of 118%, risk free interest rate of 5.13% and a remaining contractual life ranging from 1.78 years to 3.70 years. The Company valued all warrant derivative liabilities as of December 31, 2005 using a Black-Scholes option pricing model using the following assumptions: expected dividend yield of 0.0%, expected stock price volatility of 100%, risk free interest rate of 4.35% and a remaining contractual life ranging from 0.30 years to 4.00 years. The valuation conducted as of June 30, 2006 resulted in a non-cash gain of \$221,000 with a corresponding decrease in the warrant derivative liability. As of June 30, 2006, the fair value of the warrant derivative liability was \$2,325,695 respectively.

(7) NOTES PAYABLE:

On August 8, 2003 the Company issued a promissory note in the aggregate principal amount of \$100,000, paying interest at 8.0% per annum, due on August 8, 2008. At June 30, 2006 the balance on the note payable was \$100,000.

(8) CONVERTIBLE NOTES PAYABLE:

On March 17, 2006, we 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

Edgar Filing: ONE VOICE TECHNOLOGIES INC - Form 10QSB/A

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.

We 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.

F-9

ONE VOICE TECHNOLOGIES, INC. NOTES TO FINANCIAL STATEMENTS (Continued)

On May 5, 2006 we 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.

During the six months ended June 30, 2006, \$1,029,000 of notes payable was converted into approximately 74,410,000 shares of the Company's common stock at an average conversion price of \$0.014 per share.

Convertible notes payable at June 30, 2006 consists of the following:

| Due Date | Principal Amount | Unamortized Discount |
|-------------|---------------------|-------------------------|
| ----- | ----- | ----- |

Edgar Filing: ONE VOICE TECHNOLOGIES INC - Form 10QSB/A

LONG-TERM PORTION

| | | | |
|----------------------------------|-------------------|--------------|--------------|
| Stonestreet Limited Partnership | December 23, 2007 | \$ 10,000 | \$ (5,206) |
| Alpha Capital Aktiengesellschaft | March 18, 2008 | \$ 25,000 | \$ (14,987) |
| Alpha Capital Aktiengesellschaft | July 13, 2008 | \$ 275,000 | \$ (186,537) |
| Alpha Capital Aktiengesellschaft | March 17, 2008 | \$ 250,000 | \$ (214,046) |
| Ellis International Limited | March 17, 2008 | \$ 73,665 | \$ (63,073) |
| Whalehaven Capital Fund Limited | March 17, 2008 | \$ 250,000 | \$ (214,046) |
| Momona Capital Corp. | March 17, 2008 | \$ 90,000 | \$ (77,056) |
| Alpha Capital Aktiengesellschaft | May 5, 2008 | \$ 108,000 | \$ (34,016) |
| Whalehaven Capital Fund Limited | May 5, 2008 | \$ 108,000 | \$ (34,016) |
| Omega Capital Small Cap Fund | May 5, 2008 | \$ 108,000 | \$ (34,016) |
| TOTAL LONG TERM PORTION | | \$ 1,297,665 | \$ (876,999) |

F-10

ONE VOICE TECHNOLOGIES, INC. NOTES TO FINANCIAL STATEMENTS (Continued)

(9) COMMON STOCK:

During the six months ended June 30, 2006, Alpha Capital Akteingesellschaft converted approximately \$291,000 of notes payable 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

Edgar Filing: ONE VOICE TECHNOLOGIES INC - Form 10QSB/A

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 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, Momona Capital Corp. converted approximately \$10,000 of notes payable into approximately 846,500 shares of the Company's common stock at an average conversion price of \$0.012.

During the six months ended June 30, 2006, Ellis International Ltd. converted approximately \$101,000 of notes payable 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 \$28,000 of notes payable 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 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, an accredited investor purchased an aggregate of 3,000,000 shares of restricted common stock for a total purchase price of \$60,000. 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.

During the six months ended June 30, 2006, an accredited investor agreed to purchase an aggregate of 4,000,000 shares of restricted common stock for a total purchase price of \$52,000. The shares were issued subsequent to June 30, 2006.

(10) ACCOUNTING FOR STOCK-BASED COMPENSATION

On January 1, 2006 the Company adopted Statement of Financial Accounting Standards ("SFAS") No.123 (Revised 2004), "Share Based Payment," ("SFAS 123"), using the modified prospective method. In accordance with SFAS No. 123, 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.

Under the modified prospective approach, SFAS 123 applies to new awards and to awards that were outstanding on January 1, 2006 that are subsequently modified, repurchased or cancelled. Under the modified prospective approach, compensation cost recognized for the first quarter of fiscal 2006 includes compensation cost for all share-based payments granted prior to, but not yet vested on, January 1, 2006, based on the grant-date fair value estimated in accordance with the pro forma provisions of SFAS 123, and compensation cost for all share-based

Edgar Filing: ONE VOICE TECHNOLOGIES INC - Form 10QSB/A

payments granted subsequent to January 1, 2006, based on the grant-date fair value estimated in accordance with the provisions of SFAS 123R. Prior periods were not restated to reflect the impact of adopting the new standard. During the six months ended June 30, 2006, the Company recorded \$194,636 in non-cash charges for the implementation of SFAS 123R. As of June 30, 2006, there was approximately \$277,700 of total unrecognized compensation costs related to unvested options.

F-11

ONE VOICE TECHNOLOGIES, INC. NOTES TO FINANCIAL STATEMENTS (Continued)

The fair value of stock options at date of grant was estimated using the Back-Scholes model with the following assumptions: expected volatility of 90.9%, expected term of 2.0 years, risk-free interest rate of 5.27%, 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 historical data of employee exercises and represents the period of time that stock options are expected to be outstanding. The risk free interest rate is based on the U.S. Treasury Moody AAA for the expected life of the stock option.

The following table summarizes the stock option transactions during the six months ended June 30, 2006:

| | | June 30, 2006 |
|-------------------------------|------------|--|
| | Shares | Weighted average exercise price |
| Options outstanding 1/1/2006 | 1,921,500 | \$ 1.47 |
| Options granted | 57,700,000 | \$ 0.016 |
| Options exercised | -- | -- |
| Options terminated | -- | -- |
| Options outstanding 6/30/2006 | 59,621,500 | \$.06 |
| Options exercisable 6/30/2006 | 20,911,083 | \$.15 |

Prior to January 1, 2006, the Company accounted for stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations. Had compensation cost for the plan been determined based on the fair value of the options at the grant dates consistent with the method of SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure - an Amendment of SFAS No. 123," the Company's net earnings and earnings per share would have been:

| | |
|--------------------|------------------|
| Three Months Ended | Six Months Ended |
| June 30, 2005 | June 30, 2005 |
| ----- | ----- |

Edgar Filing: ONE VOICE TECHNOLOGIES INC - Form 10QSB/A

| | | |
|---|----------------|----------------|
| Net loss, as reported | \$ (1,167,369) | \$ (3,232,185) |
| Deduct: total stock based employee compensation expense determined under fair value based methods for all options, net of related tax effects | (200) -- | (300) -- |

| | | |
|--------------------|-------------|-------------|
| Pro forma net loss | (1,167,569) | (3,232,485) |
|--------------------|-------------|-------------|

Earnings per share:

| | | |
|--------------------|-----------|-----------|
| Basic- as reported | \$ (0.01) | \$ (0.01) |
| | ===== | ===== |
| Basic- pro forma | \$ (0.01) | \$ (0.01) |
| | ===== | ===== |

Weighted average

| | | |
|--|-------------|-------------|
| common equivalent shares outstanding basic and diluted | 280,726,000 | 270,987,000 |
| | ===== | ===== |

The pro forma compensation costs presented above were determined using the weighted average fair values of options granted under the Company's stock option plans. The fair value of the grants was estimated using the Black-Scholes option pricing model with the following weighted-average assumptions. See the 2005 assumptions below:

| | |
|-------------------------|---------|
| Expected life | 3 Years |
| Risk-free interest rate | 5.0% |
| Dividend yield | - |
| Volatility | 100% |

F-12

ONE VOICE TECHNOLOGIES, INC. NOTES TO FINANCIAL STATEMENTS (Continued)

(11) SUBSEQUENT EVENTS:

On July 6, 2006, we completed a private placement pursuant to a Subscription Agreement which we entered into with several accredited and/or qualified institutional investors, pursuant to which the investors subscribed to purchase an aggregate principal amount of \$550,000 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 upon each conversion, 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, at the election of the investor into fully paid and nonassessable shares of our common stock. The conversion price per share shall be the lower of (i) \$0.015 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

Edgar Filing: ONE VOICE TECHNOLOGIES INC - Form 10QSB/A

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.

We issued an aggregate of 48,530,839 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 \$0.015 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.

F-13

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

WITH THE EXCEPTION OF HISTORICAL MATTERS, THE MATTERS DISCUSSED HEREIN ARE FORWARD LOOKING STATEMENTS THAT INVOLVE RISKS AND UNCERTAINTIES. FORWARD LOOKING STATEMENTS INCLUDE, BUT ARE NOT LIMITED TO STATEMENTS CONCERNING ANTICIPATED TRENDS IN REVENUES. OUR ACTUAL RESULTS COULD DIFFER MATERIALLY FROM THE RESULTS DISCUSSED IN SUCH FORWARD LOOKING STATEMENTS. THERE IS ABSOLUTELY NO ASSURANCE THAT WE WILL ACHIEVE THE RESULTS EXPRESSED OR IMPLIED IN FORWARD LOOKING STATEMENTS.

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. 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 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 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.

We believe 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 products mobile, 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.

Edgar Filing: ONE VOICE TECHNOLOGIES INC - Form 10QSB/A

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. Billions of text messages are sent globally every year, and messaging has also shown the consistent ability to generate significant revenue for carriers. One Voice solutions enable users to send, intelligently 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(TM) Alternative to Directory Assistance(TM).

The Company recently signed an agreement with Tata Consultancy Services (TCS) in which TCS will begin selling and hosting One Voice's MobileVoice services in India and the rest of Asia. The Telecom Group within TCS, with annual revenues of \$490M USD, has existing carrier customers throughout these regions and our goal is to jointly win carrier contracts and have our MobileVoice solution hosted and managed by TCS in India.

The Company recently signed an agreement with VeriSign, Inc. in which VeriSign has begun testing One Voice's MobileVoice services at a select VeriSign carrier customer. Our goal is to jointly win contracts for MobileVoice services and eventually have our MobileVoice service managed and hosted by VeriSign in the United States and Latin America.

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 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 is scheduled to have its Media Center Communicator bundled with a

Edgar Filing: ONE VOICE TECHNOLOGIES INC - Form 10QSB/A

tier-one PC manufacturer potentially this January, 2007 to coincide with the Windows Vista launch for new PC purchases.

The Company recently gained certification by Microsoft to produce a Windows XP Media Center 2005 remote control device. This One Voice remote contains the standard Media Center remote buttons, such as Play, Pause, etc., with the addition of a unique TALK button which allows users to control the Media Center functionality using One Voice's voice recognition technology. In addition, this TALK button allows users to place VoIP (Voice-Over-IP) phone calls as if they were using a regular telephone. One Voice has a patent pending on this remote.

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 and fair value 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.

RESULTS OF OPERATIONS

The following table sets forth selected information from the statements of operations for the three months ended June 30, 2006 and 2005.

SELECTED STATEMENT OF OPERATIONS INFORMATION

| | Three Months Ended June 30, | |
|-------------------------------------|--------------------------------|----------------|
| | 2006 | 2005 |
| | ----- | ----- |
| Gross revenues | \$ 109,851 | \$ 23,937 |
| Cost of sales | (16,552) | (3,725) |
| General and administrative expenses | (962,475) | (620,438) |
| Other income (expenses) | 3,776,816 | (567,143) |
| | ----- | ----- |
| Net Income (loss) | \$ 2,907,640 | \$ (1,167,369) |
| | ===== | ===== |

DISCUSSION OF THE THREE MONTHS ENDED JUNE 30, 2006 COMPARED WITH THE THREE MONTHS ENDED JUNE 30, 2005.

Gross revenues amounted to \$110,000 and \$24,000 for the three months ended June 30, 2006 and 2005, respectively. The increase in revenues compared with the prior year period resulted from the addition of three MobileVoice customers and one Alternative to Directory Assistance customer.

General and administrative expenses increased to \$962,000 for the three months

Edgar Filing: ONE VOICE TECHNOLOGIES INC - Form 10QSB/A

ended June 30, 2006 from \$620,000 for the same period in 2005. Salary and wage expense was \$367,000 for the three months ended June 30, 2006 as compared to \$346,000 for the same period in 2005. Depreciation and amortization expenses decreased to \$31,000 for the three months ended June 30, 2006 from \$45,000 for the same period in the prior year, primarily due to the retirement of fixed assets. Amortization and Depreciation expenses consisted of patent and trademarks, computer equipment and software development fees. Interest expense decreased to \$222,000 in 2006, as compared to \$568,000 in 2005

We had a net income of \$2,908,000, or basic and diluted net income per share of \$0.01, for the three months ended June 30, 2006 compared to a net loss of \$1,167,000, or basic and diluted net loss per share of \$0.01, for the same period in 2005.

SIX MONTH PERIOD IN 2006 COMPARED WITH SIX MONTH PERIOD IN 2005

Net revenue totaled \$171,000 for the six months ended June 30, 2006. Net revenues totaled \$34,000 for the six months ended June 30, 2005.

15

General and administrative expenses increased to \$1,953,000 for the six months ended June 30, 2006 ("2006 Period") from \$1,637,000 for the six months ended June 30, 2005 ("2005 Period"). The net increase in operating expenses over the 2005 Period was a result of the increase in stock option/Compensation expense and an increase in License fee expense. Additionally, salary and wage expense increased to \$749,000 for the 2006 Period as compared to \$674,000 for the 2005 Period. Depreciation and amortization decreased to \$63,000 for the 2006 Period from \$96,000 for the 2005 Period.

Other income/(expense) decreased to \$1,090,000 for the six months ended June 30, 2006 ("2006 Period") from \$1,625,000 for the six months ended June 30, 2005 ("2005 Period"). The net decrease in other income/(expense) over the 2005 Period was a direct result of a non-cash interest expense associated with debt financing. Non-cash interest expense associated with debt financing decreased to \$1,115,000 for the 2006 Period, as compared to \$1,625,000 for the 2005 Period.

We had a net loss of \$2,909,000 or basic and diluted net loss per share of \$0.01 For the six months ended June 30, 2006 compared to a net loss of \$3,232,000 or basic and diluted net loss per share of \$0.01 for the six months ended June 30, 2005.

LIQUIDITY AND CAPITAL RESOURCES

At June 30, 2006, we had a negative working capital of \$4,168,000 as compared to a negative working capital of \$3,731,000 at December 31, 2005.

On May 5, 2006, we completed a private placement pursuant to a Subscription Agreement which we entered into with several accredited and/or qualified 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 upon each conversion, 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 at any time, until paid in full, at the election of the investor into fully paid and nonassessable shares of our common stock. The conversion price per share shall be the lower of (i)

Edgar Filing: ONE VOICE TECHNOLOGIES INC - Form 10QSB/A

\$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 as of February 16, 2006, which also secures the remaining principal amount of our convertible notes in the aggregate amount of \$1,815,000 which we issued on March 18, 2005, July 13, 2005 and March 20, 2006 to certain of the investors participating in this new private placement.

Net cash used in operating activities was \$1,624,000 for the 2006 Period compared to \$1,380,000 for the 2005 Period. We believe that our average monthly cash requirements approximate \$270,000.

Net cash used in investing activities was \$34,000 for the 2006 Period compared to \$31,000 for the 2005 Period. During the six months ended June 30, 2006, cash was primarily used for capitalized computer equipment and patents.

Net cash provided by financing activities was \$1,351,000 for the 2006 Period compared to \$1,029,000 for 2005 Period.

We incurred a net loss of \$2,909,000 during the 2006 Period and had an accumulated deficit of \$45,573,000. Our losses through June 30, 2006 included interest and amortization expenses, development costs and operational and promotional expenses.

16

We anticipate maintaining a cash balance through our financial partners that will sustain operations through December 2006. We continue to rely heavily on our current method of convertible debt and equity funding, which has financed us since 2001, until we are operationally cash flow positive. The losses through the quarter ended June 30, 2006 were due to minimal revenue and our operating expenses, with the majority of expenses in the areas of: salaries, legal fees, consulting fees, as well as amortization expense relating to software development, debt issue costs and beneficial conversion features. We face 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 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

Edgar Filing: ONE VOICE TECHNOLOGIES INC - Form 10QSB/A

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.

Item 3. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure 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, as of the end of the period covered by this report, the Company's disclosure controls and procedures were 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.

Subsequent to the original evaluation, 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.

Edgar Filing: ONE VOICE TECHNOLOGIES INC - Form 10QSB/A

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

Edgar Filing: ONE VOICE TECHNOLOGIES INC - Form 10QSB/A

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:

18

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.

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

Edgar Filing: ONE VOICE TECHNOLOGIES INC - Form 10QSB/A

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.

19

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

There has been no bankruptcy, receivership or similar proceedings.

There have been no material reclassifications, mergers, consolidations, or purchase or sale of a significant amount of assets not in the ordinary course of business.

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

Edgar Filing: ONE VOICE TECHNOLOGIES INC - Form 10QSB/A

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:

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

20

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 are currently negotiating with La Jolla to restructure that payment obligation and avoid entry of a judgment.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The securities described below represent our securities sold by us for the period starting April 1, 2006 and ending June 30, 2006 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. Underwriters were involved in none of these transactions.

PRIVATE PLACEMENTS OF COMMON STOCK AND WARRANTS FOR CASH

During the six months ended June 30, 2006, an accredited investor agreed to purchase an aggregate of 4,000,000 shares of restricted common stock for a total purchase price of \$52,000. The shares were issued subsequent to June 30, 2006.

SALES OF DEBT AND WARRANTS FOR CASH

On May 5, 2006, we 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.

OPTION GRANTS

Edgar Filing: ONE VOICE TECHNOLOGIES INC - Form 10QSB/A

There were no options granted during the second quarter.

ISSUANCES OF STOCK FOR SERVICES OR IN SATISFACTION OF OBLIGATIONS

On April 20, 2006, the Company issued 3,000,000 restricted common shares in exchange for an agreement to provide consulting services and a release on potential claims.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not Applicable.

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

Not Applicable.

ITEM 5. OTHER INFORMATION

Not Applicable.

ITEM 6. EXHIBITS:

| Exhibit Number | Description |
|----------------|--|
| ----- | ----- |
| 31.1 | Certification of the Chief Executive Officer and Interim Chief Financial Officer of One Voice Technologies, Inc. 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: JULY 27, 2007

BY: /S/ DEAN WEBER

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

