

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

ONE VOICE TECHNOLOGIES INC  
Form 10QSB/A  
July 27, 2007

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-QSB/A  
(Amendment No. 1)

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

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2007

COMMISSION FILE NUMBER 0-27589  
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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.)

4275 Executive Square, Ste 200, 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  
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(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  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 March 31, 2007 the registrant had 619,342,244 shares of common stock, \$.001 par value, issued and outstanding.

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

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## 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 May 15, 2007 to update the Controls and Procedures section with (i) 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 and (ii) disclosure that the Company's Annual Report on Form 10-KSB for the fiscal year ended December 31, 2006 was filed late.

## PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)	Page No. -----
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ONE VOICE TECHNOLOGIES INC.  
BALANCE SHEETS  
(UNAUDITED)

	MARCH 31, 2007	DECEMBER 31, 2006
	-----	-----
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 42,303	\$ 34,585
Accounts Receivable	124,992	99,111
Inventories	4,661	4,841
Prepaid expenses	122,095	28,785
	-----	-----
TOTAL CURRENT ASSETS	294,051	167,322
PROPERTY AND EQUIPMENT, NET	172,307	164,389
Software development & licensing, net	7,400	12,618
Trademarks, net	2,408	2,452
Patents, net	69,098	77,580
Deposits	18,665	18,665
Deferred debt issue costs	262,121	344,835
	-----	-----
TOTAL ASSETS	\$ 826,050	\$ 787,861
	=====	=====
LIABILITIES AND STOCKHOLDERS' DEFICIT		
CURRENT LIABILITIES:		
Accounts payable	\$ 375,018	\$ 444,088
Accrued expenses	262,727	239,593
Settlement agreement liability	350,000	350,000
License agreement liability	1,014,500	930,000
Debt derivative liability	204,758	256,495
Warrant derivative liability	8,721,462	2,808,308
Revolving line of credit	666,280	240,000
	-----	-----
TOTAL CURRENT LIABILITIES	11,594,745	5,268,484
	-----	-----

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LONG TERM LIABILITIES:

Note payable	100,000	100,000
Convertible notes payable, net	996,515	982,972
Deferred rent	13,503	12,017
	-----	-----
TOTAL LIABILITIES	12,704,763	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, 619,342,244 and 584,513,637 shares issued and outstanding at March 31, 2007 and December 31, 2006, respectively	622,096	585,327
Additional paid-in capital	41,009,897	40,696,540
Accumulated deficit	(53,510,706)	(46,857,479)
	-----	-----
TOTAL STOCKHOLDERS' DEFICIT	(11,878,713)	(5,575,612)
	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	\$ 826,050	\$ 787,861
	=====	=====

SEE ACCOMPANYING NOTES TO THESE CONDENSED FINANCIAL STATEMENTS.

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ONE VOICE TECHNOLOGIES INC.  
STATEMENTS OF OPERATIONS  
(UNAUDITED)

	THREE MONTHS ENDED	
	MARCH 31, 2007	MARCH 31, 2006
	-----	-----
		(RESTATED)
Net Revenue	\$ 210,393	\$ 61,298
Cost of goods sold	99,222	20,509
	-----	-----
GROSS PROFIT	111,171	40,789
	-----	-----
General and administrative expenses	631,605	990,975
	-----	-----
NET LOSS FROM OPERATIONS	(520,434)	(950,186)
	-----	-----
OTHER INCOME / (EXPENSE)		
Interest expense	(270,622)	(744,345)
Settlement expense, net	--	(100,500)
Gain / (loss) on warrant and debt derivatives	(5,861,417)	(3,877,509)

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Other income (expense)	46	5,683
	-----	-----
TOTAL OTHER INCOME / (EXPENSE)	(6,131,993)	(4,716,671)
	-----	-----
NET LOSS BEFORE INCOME TAX	(6,652,427)	(5,666,857)
Income tax expense	800	800
	-----	-----
NET LOSS	\$ (6,653,227)	\$ (5,667,657)
	=====	=====
BASIC LOSS PER SHARE	\$ (0.01)	\$ (0.01)
	=====	=====
BASIC WEIGHTED AVERAGE SHARES OUTSTANDING	595,741,000	409,119,000
	=====	=====

SEE ACCOMPANYING NOTES TO THESE CONDENSED FINANCIAL STATEMENTS.

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

	THREE MONTHS MARCH 31, 2007
	-----
CASH FLOWS FROM OPERATING ACTIVITIES	
Net loss	\$ (6,653,227)
Adjustments to reconcile net loss to net cash used in operating activities	
Depreciation and amortization	25,240
Amortization of debt issue costs	82,714
Amortization of debt discount	148,543
(Gain) loss on debt derivative liability	(51,737)
(Gain) loss on warrant derivative liability	5,913,154
Common stock issued in exchange for services	117,200
Non cash interest expense	8,903
Share based compensation expense	36,783
CHANGES IN CERTAIN ASSETS AND LIABILITIES	
Accounts receivable	(25,882)
Inventories	180
Prepaid expenses	(93,311)
Accounts payable	(69,070)
Accrued expenses	23,135
Deferred rent	1,487
Settlement agreement liability	--
	-----
Net cash used in operating activities	(535,888)

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CASH FLOW FROM INVESTING ACTIVITIES	
Purchase of property and equipment	(19,414)
Purchase of intangible assets	--
	-----
Net cash used in investing activities	(19,414)
CASH FLOWS FROM FINANCING ACTIVITIES	
Issuance of common stock - convertible notes	--
Issuance of common stock - private funding	--
License agreement liability	84,500
Warrant exercise	52,240
Payment for debt issue cost	--
Issuance of notes payable, long-term debt and capital leases	426,280
	-----
Net cash provided by financing activities	563,020
Net increase (decrease) in cash	7,718
Cash and cash equivalents, beginning of period	34,585
	-----
Cash and cash equivalents, end of period	\$ 42,303
	=====
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION	
Interest paid	\$ --
	=====
Income taxes paid	\$ 800
	=====
SUPPLEMENTAL DISCLOSURE OF NON-CASH FINANCING ACTIVITIES	
Issuance of warrant derivative in connection with private placement and debt financing, initial valuation	\$ --
	=====
Common stock issued upon conversion of debt	\$ 135,000
	=====

SEE ACCOMPANYING NOTES TO THESE CONDENSED FINANCIAL STATEMENTS.

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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

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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:

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 March 31, 2007, results of operations for the three months ended March 31, 2007 and March 31, 2006. The results of operations for the three months ended March 31, 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.

#### BASIS OF PRESENTATION

The accompanying audited financial statements represent the financial activity of One Voice Technologies, Inc. The financial statements have been prepared in accordance with generally accepted accounting principles in the US. The Company's fiscal year ends on December 31 each year. The financial statements and notes are representations of the management and the Board of Directors, who are responsible for their integrity and objectivity.

#### GOING CONCERN

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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 \$53,511,000 and used cash from operations of \$ 535,888 during the three month period ended March 31, 2007. The Company also has a working capital deficit of \$11,301,000 of which \$8,926,000 represents a non-cash warrant and debt derivative liabilities. The Company also has a stockholders' deficit of \$11,879,000 as of March 31, 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

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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.

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

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

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#### USE OF ESTIMATES

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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

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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.



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### CASH AND CASH EQUIVALENTS

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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

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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

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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.

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.

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

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

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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

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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

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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 March 31, 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.

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

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

-----  
Convertible Notes and Financial Instruments with Embedded Features  
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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 Company's convertible notes do not have 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 three months ended March 31, 2007 and the year ended December 31, 2006, the estimated the estimated fair value of the Company's deferred debt issue cost were \$262,121 and \$344,835 respectively.

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

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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NET LOSS PER COMMON SHARE

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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 loss per common share for the three months ended March 31, 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.

The following table is a reconciliation of the numerator (net loss) and the denominator (number of shares) used in the basic and diluted EPS calculations and sets forth potential shares of common stock that are not included in the diluted net loss per share calculation as the effect is antidilutive:

	THREE MONTHS ENDED	
	MARCH 31, 2007	MARCH 31, 2006
		(RESTATED)
NUMERATOR - BASIC AND DILUTED	\$ (6,653,227)	\$ (5,667,657)
Denominator - basic or diluted		
Weighted average common shares Outstanding	595,741,000	409,119,000
TOTAL	595,741,000	409,119,000
NET LOSS PER SHARE - BASIC AND DILUTED	\$ (0.01)	\$ (0.01)

Antidilutive securities:

Convertible debentures	144,543,651	79,905,063
Options	55,459,000	59,121,500
Warrants	331,979,838	266,345,471

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TOTAL	531,982,489	405,372,034
	=====	=====

## INCOME TAXES

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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.

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

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

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#### ACCOUNTING FOR STOCK-BASED COMPENSATION

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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 three months ended March 31, 2007 and 2006, the Company recorded \$37,000 and \$155,000 respectively in non-cash charges for stock based compensation.

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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)

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#### STOCK WARRANT ACTIVITY

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During three months ended March 31, 2007 and 2006, the Company issued zero and 50,972,110 warrants to Stockholders, respectively.

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)

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

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### RESEARCH AND DEVELOPMENT

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Research and development expenses include internal and external costs. Internal costs include salaries and employment related expenses and allocated facility costs. External expenses consist of costs associated with outsourced software development activities. In accordance with SFAS No. 2, "Accounting for Research Development Costs", all such costs are charged to expense as incurred. Research and development expense were \$41,000 and \$225,000 for the three months ended March 31, 2007 and 2006 respectively.

### 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 three months ended March 31, 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

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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

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

### RECENT ACCOUNTING PRONOUNCEMENTS

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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

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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.

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

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#### RECENT ACCOUNTING PRONOUNCEMENTS (CONTINUED)

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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.

#### 3. PREPAID EXPENSES

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	THREE MONTHS ENDED MARCH 31, 2007	YEAR ENDED DECEMBER 31, 2006
	-----	-----
Financial advisor fees	\$ 83,400	\$ -
Rents	18,000	
Business and health insurance	20,000	24,000
Legal fees	-	4,000
Other	695	785
	-----	-----
TOTAL	\$ 122,095	\$ 28,785

4. PROPERTY AND EQUIPMENT  
-----

	THREE MONTHS ENDED MARCH 31, 2007	YEAR ENDED DECEMBER 31, 2006
	-----	-----
Computer equipment	\$ 716,135	\$ 703,099
Website development	38,523	38,524
Equipment	1,562	1,562
Furniture and fixtures	46,430	46,431
Telephone equipment	5,364	5,365
Molds and tooling	120,216	113,836
	-----	-----
TOTAL	928,230	908,816
	-----	-----
Less accumulated depreciation	(755,923)	(744,427)
	-----	-----
NET PROPERTY AND EQUIPMENT	\$ 172,307	\$ 164,389
	=====	=====

Depreciation expense totaled \$11,000 and \$13,000 for the three months ended March 31, 2007 and 2006, respectively.

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ONE VOICE TECHNOLOGIES INC.  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
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5. DEFERRED DEBT ISSUE COSTS  
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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 three months ended March 31, 2007. A balance of \$262,000 remains as of March 31, 2007.

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### 6. ACCRUED EXPENSES

	MARCH 31, 2007		DECEMBER 31, 2006
	-----		-----
Accrued salaries	\$ 4,970	\$	10,976
Accrued vacation	63,942		57,441
Accrued interest	147,652		118,842
Accrued audit fees	40,000		50,000
Insurance	3,500		-
Other	2,663		2,334
	-----		-----
TOTAL	\$ 262,727	\$	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:

- 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)
- o \$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 \$39,700 as of March 31, 2007

### 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

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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.

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

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#### 8. LICENSE AGREEMENT LIABILITY (CONTINUED)

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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.

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 March 31, 2007 the note payable balance due Philips Speech Processing was \$1,014,500.

#### 9. DERIVATIVE LIABILITY

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During the three months ended March 31, 2007 and the year ended December 31,

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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 derivatives include but are not limited to the following characteristics:

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

The valuation conducted as the three months ended March 31, 2007 and the year ended December 31, 2006 the fair value of the derivative liability was \$204,758 and \$256,495 respectively.

### 10. WARRANT DERIVATIVE LIABILITY

-----

During the three months ended March 31, 2006, the Company issued warrants in connection with convertible debt agreements and private placements that required analysis in accordance with EITF 00-19. There were no warrants issued during the period ended March 31, 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 March 31, 2006 using a Black-Scholes option pricing model using the following assumptions: expected dividend yield of 0.0%, expected stock price volatility of 110%, risk free interest rate of 4.83% and a remaining contractual life ranging from 0.30 years to 4.00 years. The Company valued all warrant derivative liabilities as of March 31, 2007 using a Black-Scholes option pricing model using the following assumptions: expected dividend yield of 0.0%, expected stock price volatility of 114%, risk free interest rate of 4.74% and a remaining contractual life ranging from .30 years to 3.75 years. The valuation conducted as of March 31, 2006 resulted in a non-cash loss of \$3,878,000 with a corresponding increase in the warrant derivative liability. The valuation conducted as of March 31, 2007 resulted in a non-cash loss of \$5,913,000 with a corresponding increase in the warrant derivative liability. As of March 31, 2007 and 2006, the fair value of the warrant derivative liability was \$8,721,000 and \$2,808,000, respectively.

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

### 11. 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 and shall be in full force and effect until the earliest to occur of (a) 12 months from December 21,

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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. On March 20, 2007 the original Revolving Credit Note Agreement was amended. The amendment increased the the maximum borrowing by the Company to an amount of \$740,000, an increase of \$100,000. All terms and agreements of the original note are still in full force and effect.

During the period of January 1, 2007 thru March 31, 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 March 31, 2007 these shares have not been issued.

During the Period of January 1, 2007 thru March 31, 2007 the Company borrowed \$426,280 from the revolving note.

As of March 31, 2007 the outstanding principal amount owed to the Investors is \$666,280.

### 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 March 31, 2006 and December 31, 2006 the principal balance on the note payable was \$100,000 with accrued interest of \$29,150 and \$27,178 respectively.

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

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### 13. CONVERTIBLE NOTES PAYABLE SUMMARY

-----

During the three months ended March 31, 2007 the Company did not enter into any convertible debt financing agreements.

During the three months ended March 31, 2007 and 2006, \$135,000 and \$992,000 of notes payable was converted into approximately 21,429,000

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and 71,383,000 shares of the Company's common stock at an average conversion price of \$ 0.0063 and \$0.014 per share.

On March 17, 2006, 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 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.

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

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The following as a summary of outstanding convertible debt financing agreements as of March 31, 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			

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DEBT DECEMBER 31, 2006

\$ 1,592,000

\$ (609,0

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

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

A SUMMARY OF CONVERTIBLE DEBT AT MARCH 31, 2007 IS AS FOLLOWS:

	DUE DATE	PRINCIPAL AMOUNT REMAINING	UNAMORTIZED DISCOUNT
STONESTREET LIMITED PARTNERSHIP	DECEMBER 23, 2007	\$ 10,000	\$ (2,5
ALPHA CAPITAL AKTIENGESELLSCHAFT	MARCH 17, 2008	250,000	(86,5
ALPHA CAPITAL AKTIENGESELLSCHAFT	MAY 5, 2008	108,000	(4,0
WHALEHAVEN CAPITAL FUND LIMITED	MAY 5, 2008	108,000	(4,0
ALPHA CAPITAL AKTIENGESELLSCHAFT	JULY 6, 2008	105,500	(38,5
BRISTOL INVESTMENT FUND LTD	JULY 6, 2008	250,000	(96,4
CENTURION MICROCAP L.P.	JULY 6, 2008	100,000	(38,5
WHALEHAVEN CAPITAL FUND LIMITED	JULY 6, 2008	105,500	(38,5
ALPHA CAPITAL AKTIENGESELLSCHAFT	AUGUST 29, 2008	105,000	(36,8



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ELLIS INTERNATIONAL LIMITED	AUGUST 29, 2008	150,000	(55,3
		-----	-----
OSHER CAPITAL	AUGUST 29, 2008	60,000	(22,1
		-----	-----
WHALEHAVEN CAPITAL FUND LIMITED	AUGUST 29, 2008	105,000	(36,8
		-----	-----
TOTAL LONG TERM CONVERTIBLE DEBT MARCH 31, 2007		\$ 1,457,000	\$ (460,4
		=====	=====

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

#### 14. COMMON STOCK

##### o CONVERTIBLE DEBT CONVERSION

During the three months ended March 31, 2007, Alpha Capital Akteingesellschaft converted approximately \$135,000 of notes payable into approximately 21,428,571 shares of the Company's common stock at an average conversion price of \$0.0063.

During the three months ended March 31, 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 shares of common stock for cash in the amount of \$200,200.

During the three months ended March 31, 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 three months ended March 31, 2006, Ellis International Ltd. converted approximately \$75,000 of notes payable into approximately 5,855,000 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 three months ended March 31, 2006, Omega Capital Small Cap Fund converted approximately \$27,500 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 three months ended March 31, 2006, Osher Capital Inc. converted approximately \$15,600 of notes payable into approximately

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1,134,000 shares of the Company's common stock at an average conversion price of \$0.014.

During the three months ended March 31, 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.

o REVOLVING CREDIT NOTE  
-----

On May 1, 2007 the original Revolving Credit Note Agreement was amended for the second time. The amendment increased the maximum borrowing by the Company to an amount of \$790,000, an increase of \$50,000. All terms and agreements of the original note are still in full force and effect.

o WARRANT EXERCISE  
-----

During the three months ended March 31, 2007 8,000,000 common stock warrants were exercised at a price of \$0.00653. The Company received approximately \$52,000

o ISSUANCE OF COMMON STOCK IN EXCHANGE OF SERVICES  
-----

During the three months ended March 31, 2007 the Company issued approximately 5,400,000 shares of its restricted common stock having a market value of \$117,200 in exchange for services rendered.

o SHARES TO BE ISSUED IN EXCHANGE FOR INTEREST OWED  
-----

During the period of January 1, 2007 thru March 31, 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 March 31, 2007 these shares have not been issued.

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ONE VOICE TECHNOLOGIES INC.  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
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15. OTHER INCOME (EXPENSE)  
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For the three months ended March 31, 2007 and 2006, other expense was approximately \$6,132,000 and \$4,717,000 respectively.

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

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INTEREST EXPENSE

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INTEREST EXPENSE SUMMARY

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	THREE MONTHS ENDED	
	MARCH 31, 2007	MARCH 31, 2006
	-----	-----
Debt issue cost	\$ 82,714	\$ 56,079
Discount amortization	148,541	662,478
Accrued interest	36,800	25,788
Other / penalties	2,567	-
	-----	-----
TOTAL	\$ 270,622	\$ 744,345

For three months ended March 31, 2007 and 2006, interest expense was approximately \$271,000 compared to \$744,000 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 three months ended March 31, 2007 and 2006, interest expense related to debt issue costs was approximately \$83,000 compared to \$56,000, respectively.

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

This represents a non-cash transaction.

For the three months ended March 31, 2007, and 2006, interest expense related to the amortization of discount was approximately \$149,000 compared to \$662,000 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 was paid in cash during the three months ended March 31, 2007 and 2006.

For the three months ended March 31, 2007 and 2006, interest expense related to notes payable and convertible notes payable was approximately \$37,000 compared to \$26,000, respectively.

4. Other / misc. for the three months ended March 31, 2007 and 2006, was approximately \$3,000 compared to \$0 respectively.

SETTLEMENT EXPENSE

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For the three months ended March 31, 2007 and 2006, settlement expense was

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approximately \$0 compared to \$101,000 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 Company's restricted common stock.

### GAIN / (LOSS) ON WARRANT DERIVATIVES

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For the three months ended March 31, 2007 and 2006, losses recorded on warrant derivatives and debt derivatives were approximately \$5,861,000 compared to \$3,878,000 respectively. See Note 9 in the accompanying notes to the financial statements.

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

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### OTHER INCOME (EXPENSE)

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For the three months ended March 31, 2007 and 2006, other / net was approximately a loss of \$0 compared to a gain of \$6,000 respectively.

### 16. COMMITMENTS AND CONTINGENCIES

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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 March 31, 2007:

Three months ended March 31, 2007	
2007	145,695
2008	199,886
2009	206,081
2010	193,515
	-----
	\$ 745,177
	=====

Rent expense, net of sublease income, amounted to \$54,723 and \$51,718 for the Three months ended March 31, 2007 and 2006 respectively.

### 17. INCENTIVE AND NONQUALIFIED STOCK OPTION PLAN

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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

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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.

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

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

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During the period ended December 31, 2005, the Company issued 225,000 stock options to employees, directors for compensation at an average price of \$.04.

During the period ended December 31, 2006, the Company issued 57,700,000 stock options to employees for compensation at an average price of \$.016, a total of 1,062,500 options were terminated.

No stock options were granted to employees during the period ended March 31, 2007. A total of 2,600,000 options were terminated during the period ended March 31, 2007.

The total intrinsic value of options relating to employee and director compensation exercised during the year ended for the period ended March 31, 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 March 31, 2007 and year ended 2006, is \$608,783 and \$0 respectively, this consists of 35,861,111 vested options at an average exercise price of \$0.016 per share. The increase of \$608,783 from the prior period is due to the Company's closing stock price at March 31, 2007 of \$0.033 per share compared to \$0.0125 per share at December 31, 2006 (see

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footnote 17.a for details).

For the periods ended March 31, 2007 and 2006, there was approximately \$36,783 and \$155,209 of total compensation expense recorded by the Company related to share-based compensation. The decrease of \$118,426 from the prior period was due to the fact that the Company recorded 2005 stock compensation expenses during the period ended March 31, 2006 pursuant to the adoption of new accounting principles (see footnote 17.a for details).

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

As of March 31, 2007, there was approximately \$127,218 of total unrecognized compensation cost related to non-vested share-based compensation arrangements with employees. Of this amount, \$31,911 is expected to be recognized each year throughout 2008.

As of March 31, 2007, there was approximately \$20,340 of total unrecognized compensation cost related to nonvested share-based compensation arrangements with directors and contractors. Of this amount, \$5,014 is expected to be recognized each year throughout 2008.

The Companys closing stock price reported by NASDAQ listed under symbol ONEV at March 31, 2007 was \$0.033 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 March 31, 2007.

THREE MONTHS ENDED  
MARCH 31, 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

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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

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follows for the period ending March 31, 2007 and 2006, respectively:

	MARCH 31, 2007		THREE MONTHS ENDED
	NUMBER	WEIGHTED AVERAGE EXERCISE PRICE	NU
Outstanding at beginning of year	58,059,000	\$ 0.06	5
Options granted	0	N/A	5
Options exercised	0	N/A	5
Options terminated	(2,600,000)	0.016	5
OPTIONS OUTSTANDING AT END OF 1ST QUARTER	55,459,000	0.065	5
OPTIONS EXERCISABLE AT END OF 1ST QUARTER	37,486,778	\$ 0.089	2

The following table summarizes the number of options authorized by the plan and available for distribution as of March 31, 2007 and 2006, respectively.

	PERIOD ENDING MARCH 31, 2007	PERIOD ENDING MARCH 31, 2006
	NUMBER OF SHARES	NUMBER OF SHARES
Beginning options available for grant	4,941,000	62,141,000
Add: Additional options authorized	--	--
Less: Options granted	--	(57,700,000)
Add: Options terminated	2,600,000	500,000
ENDING OPTIONS AVAILABLE FOR DISTRIBUTION	7,541,000	4,941,000

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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 March 31, 2007 and 2006, respectively:

FOR THE PERIOD ENDED MARCH 31, 2007

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PRICE RANGE	TOTAL OUTSTANDING			TOTAL EXERCISABLE		
	# OF SHARES	WEIGHTED AVERAGE EXERCISE PRICE	LIFE	# OF SHARES	WEIGHTED AVERAGE EXERCISE PRICE	LIFE
\$6.08 - \$ 12.80	270,000	\$ 7.170	3.44	270,000		
\$0.32 - \$2.00	839,000	0.911	4.28	839,000		
\$0.016 - \$0.19	54,350,000	0.017	8.78	36,377,778		
TOTAL	55,459,000	\$ 0.065	8.69	37,486,778		

FOR THE PERIOD ENDED MARCH 31, 2006

PRICE RANGE	TOTAL OUTSTANDING			TOTAL EXERCISABLE		
	# OF SHARES	WEIGHTED AVERAGE EXERCISE PRICE	LIFE	# OF SHARES	WEIGHTED AVERAGE EXERCISE PRICE	LIFE
\$6.08 - \$ 12.80	270,000	\$ 7.170	4.46	270,000	\$ 7.170	4.46
\$0.32 - \$2.00	876,500	0.912	5.31	876,500	0.912	5.31
\$0.016 - \$0.19	57,975,000	0.017	9.81	19,702,083	0.018	9.79
TOTAL	59,121,500	\$ 0.063	9.72	20,848,583	\$ 0.086	9.66

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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 March 31, 2007, and the intrinsic value related to the options:

OPTIONS RELATING TO EMPLOYEE, CONSULTANTS AND DIRECTOR COMPENSATION	THREE MONTHS ENDED MARCH 31, 2007		
	SHARES	WEIGHTED AVERAGE EXERCISE PRICE	LIFE



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Outstanding at beginning of year	58,059,000	\$ 0.060	8.69
Options granted	0	N/A	N/A
Options exercised	0	N/A	N/A
Options terminated	(2,600,000)	0.02	N/A
<hr/>			
OPTIONS OUTSTANDING AT END OF 1ST QUARTER	55,459,000	0.065	8.69
<hr/>			
OPTIONS EXERCISABLE AT END OF 1ST QUARTER	37,486,778	\$ 0.089	8.63

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 year then ended is presented below:

NON VESTED OPTIONS RELATING TO EMPLOYEE, CONSULTANTS AND DIRECTOR COMPENSATION	THREE MONTHS ENDED MARCH 31, 2007	
	SHARES	WEIGHTED AVERAGE GRANT-DATE FAIR VALUE
Outstanding at beginning of year	37,559,028	\$ 1.47
Options granted	0	N/A
Options exercised	0	N/A
Options vested	(16,986,806)	0.016
Options terminated	(2,600,000)	0.016
<hr/>		
NON VESTED AT END OF 1ST QUARTER	17,972,222	\$ 0.0132

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)	3.44 to 8.78

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.

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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

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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 for 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.

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

18. WARRANTS

At March 31, 2007, the Company had warrants outstanding that allow the holders to purchase up to 331,979,838 shares of common stock.

The number and weighted average exercise prices of the warrants for the period ended March 31, 2007 and 2005 are as follows:

	THREE MONTHS ENDED		
	MARCH 31, 2007		
	NUMBER	WEIGHTED AVERAGE EXERCISE PRICE	NU
Outstanding at beginning of year	339,979,838	\$ 0.02	21
Warrants granted	0	N/A	5
Warrants exercised	(8,000,000)	0.007	
Warrants terminated	0	N/A	
<b>WARRANTS OUTSTANDING AT END OF 1ST QUARTER</b>	<b>331,979,838</b>	<b>\$ 0.02</b>	<b>26</b>
<b>WARRANTS EXERCISABLE AT END OF 1ST QUARTER</b>	<b>331,979,838</b>	<b>\$ 0.02</b>	<b>23</b>

During the period ended March 31, 2007 a total of 8,000,000 warrants were exercised at an average price of \$0.00653. As a result the Company received cash proceeds of \$52,240.

At March 31, 2006, the weighted average remaining contractual life of the warrants was approximately 36 months.

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 in connection with the re-pricing of warrants to the investors.

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## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

### 19. RESTATEMENT OF FINANCIAL STATEMENTS

The Company has restated previously issued 10-QSB/A for period ended March 31, 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 have been restated to reflect the corrections. Accumulated deficit at March 31, 2006 was decreased by \$374,438 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 in 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
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THE EFFECT ON THE COMPANY'S PREVIOUSLY ISSUED MARCH 31, 2006 FINANCIAL STATEMENTS ARE SUMMARIZED AS FOLLOWS:

BALANCE SHEET	PREVIOUSLY REPORTED ----- (unaudited)	CHANGE -----
Derivative liability	-	156,350
TOTAL CURRENT LIABILITIES	-	156,350
Convertible notes payable, net	90,605	247,039
TOTAL LONG TERM LIABILITIES	90,605	247,039
TOTAL LIABILITIES	90,605	403,389

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Additional paid in capital	40,369,813	(777,827)
Accumulated deficit	(48,480,731)	374,438
	-----	-----
TOTAL STOCKHOLDERS EQUITY	(8,110,918)	(403,389)
	=====	=====

STATEMENT OF OPERATIONS

Interest expense	(893,305)	148,960
Loss on warrant and debt derivative	(3,877,509)	-
Other Income / (Expense)	-	-
	-----	-----
NET INCOME / (LOSS)	(4,770,814)	148,960
	=====	=====

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

20. SUBSEQUENT EVENTS

o FINANCING

During April 1, 2007 thru May 11, 2007, the Company received advances that were applied towards the Revolving Credit Note agreement dated December 21, 2006 totaling \$50,000. The advances were used for expenses relating to normal monthly operating expenses incurred by the Company.

o RESTRICTED COMMON STOCK GRANTED IN EXCHANGE FOR SERVICES RENDERED

On April 27, 2007 the Company granted a total of 1,500,000 shares of restricted common stock having a market value of \$45,000 as compensation to an independent contractor for services provided during the fiscal year ended December 31, 2006 audit.

o WARRANTS

On April 4, 2007 the company issued to an accredited investor a total of 4,001,838 restricted common stock purchase warrants at a price of \$.00653 per share pursuant to a cashless exercise.

On April 23, 2007 the company issued to an accredited investor a total of 12,578,616 restricted common stock purchase warrants at a price of \$.00636 per share. The company received cash proceeds of \$80,000.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION OR PLAN OF  
-----  
OPERATION  
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FORWARD-LOOKING STATEMENTS  
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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  
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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 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.

In order to reduce expenditures, the Company has aggressively reduced its

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operating expenses to a target of \$160,000 per month beginning in November 2006. 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 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.

### TELECOM SECTOR

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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)).

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The Company has recently begun a trial-testing phase for our voice solutions with Cingular Wireless. This trial is in joint cooperation with VeriSign. If successful, this opportunity could potentially lead to Cingular Wireless launching One Voice's services. This trial is still on-going. At this time, we do not know if this will ever come to any material fruition.

The Company was recently selected by Lucent Technologies to jointly offer One Voice's MobileVoice solutions in conjunction with Lucent services to national carriers. Due to reorganizations within Lucent these efforts have been put on hold until new management within Lucent is assigned to this effort.

The Company recently received a counter-proposal from a large carrier in India for MobileVoice services. We are currently negotiating terms with this carrier.

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

The Company recently signed a deployment contract with TELMEX for deployment of One Voice's MobileVoice solutions to the over 18 million TELMEX subscribers throughout Mexico. The anticipated launch is June 2007 beginning with TELMEX subsidiary TELNOR with over 750,000 subscribers in northern Mexico. National rollout throughout Mexico is anticipated to begin in Summer 2007 to the remaining 18 million TELMEX subscribers. 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

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In the PC sector, we believe that digital in-home entertainment is rapidly

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

The Company recently was awarded a contract from Intel Corporation to co-develop voice-enabled solutions for use with embedded and desktop devices. Intel has selected One Voice's technology to be used as an integral part of these devices. This contract is not anticipated generating material revenue for the Company given the narrow niche market for these devices. The Company will continue to offer our technology and services to Intel for additional contracts as they may come up from time to time.

The Company has completed the design and prototyping of its Media Center remote control and is now in discussions with retailers and distributors for purchasing commitments. We have produced several evaluation units that are now under evaluation by potential retailers and distributors. Given potential purchase commitments, the Company will produce our remotes to fulfill these orders. We anticipate the initial production run will cost approximately \$50,000 to create the machine tooling, plastics, electronics and assembly for the remotes. We will only go into production given committed purchase orders to cover these manufacturing costs. We anticipate this will happen in the second quarter 2007.

The Company recently was awarded a contract from AT&T/SBC to develop next generation voice activated remote controls for set-top box devices. This contract is initially to develop several prototype remote control devices with a potential production contract in 2007. This initial contract is a milestone for our company which we believe proves that our technology is in-demand by significant customers and in conjunction with our pending patent in this area of remote controls. Our goal is to create a market for voice enabled remote control devices used for voice commands and VoIP (Voice-over-IP) communications (example Skype and Vonage) that are covered in our pending patent and to license this technology to remote control device manufacturers for use with CE devices, cable and satellite set top boxes and Media Center computers.

In summary, since the beginning of 2006, the company has deployed services with telecom carriers and began recognizing recurring revenue. Management believes



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the company's transition into the revenue recognition phase was very important

as it signifies acceptance of our solutions and the value they deliver to the customer and their subscribers. For the year ending December 31, 2006, the Company has experienced revenue growth of 387 % over the same period ending December 31, 2005. The management team remains committed to generating near and long term revenues significant enough to fund daily operations, building shareholder value, expand the intellectual property portfolio and developing cutting edge solutions and applications for the emerging speech recognition market sector.

### CRITICAL ACCOUNTING POLICIES

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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.

### RESULTS OF OPERATION FOR THE THREE MONTHS ENDED MARCH 31, 2007 AND 2006.

#### ONE VOICE TECHNOLOGIES INC. SELECTED STATEMENT OF OPERATIONS INFORMATION

	THREE MONTHS ENDED MARCH 31, 2007	MARCH 31, 2006	CHANGE
		(RESTATED)	
Net Revenue	\$ 210,000	\$ 61,000	\$ 149,000
Cost of goods sold	98,000	21,000	77,000
GROSS PROFIT	112,000	40,000	72,000
General and administrative expenses	632,000	991,000	(359,000)
Other income (expense)	(6,132,000)	(4,717,000)	(1,415,000)
NET LOSS BEFORE INCOME TAX	(6,652,000)	(5,668,000)	(984,000)
Income tax expense	800	800	--
NET LOSS	\$ (6,652,800)	\$ (5,668,800)	\$ (984,000)

REVENUES

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Net revenues totaled \$210,000 and \$61,000 for the three months ended March 31, 2007 and 2006, respectively. Increased revenues of \$149,000 (244%) between the two periods was attributable to 4 new MobileVoice customers.

COST OF GOODS SOLD

-----

Cost of goods sold for the three months ended March 31, 2007 and 2006 totaled \$98,000 and \$21,000, respectively. The increase in cost of goods sold of \$77,000 (367%) 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 that allow the voice recognition products offered to be functional.

GENERAL AND ADMINISTRATIVE EXPENSE

-----

Operating expenses totaled \$632,000 and \$991,000 for the three months ended March 31, 2007 and 2006, respectively. The decrease of \$359,000 (36%) between the two periods was due to overall budget reductions and the reclassification of operating expenses to cost of goods sold.

SALARY AND COMPENSATION

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Salary and wage expenses totaled \$293,000 and \$409,000 for the three months ended March 31, 2007 and 2006, respectively. The decrease of \$116,000 (28%) between the two periods was due to headcount reductions, which increased the overall efficiency of the Company.

ACCOUNTING LEGAL AND CONSULTING

-----

Accounting, Legal and consulting totaled \$121,00 and \$56,000 for the three months ended March 31, 2007 and 2006, respectively. The increase of \$65,000 (116%) 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 (expense) totaled \$6,132,000 and \$4,717,000 for the three months ended March 31, 2007 and 2006, respectively. An increase of \$1,415,000 (30%).

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

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### INTEREST EXPENSE

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#### INTEREST EXPENSE SUMMARY

	THREE MONTHS ENDED	
	MARCH 31, 2007	MARCH 31, 2006
	-----	-----
Debt issue cost	\$ 82,714	\$ 56,079
Discount amortization	148,541	662,478
Accrued interest	36,800	25,788
Other / penalties	2,567	-
	-----	-----
TOTAL	\$ 270,622	\$ 744,345

For three months ended March 31, 2007 and 2006, interest expense was approximately \$271,000 compared to \$744,000 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 three months ended March 31, 2007 and 2006, interest expense related to debt issue costs was approximately \$83,000 compared to \$56,000, respectively.

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

This represents a non-cash transaction.

For the three months ended March 31, 2007, and 2006, interest expense related to the amortization of discount was approximately \$149,000 compared to \$662,000 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 was paid in cash during the three months ended March 31, 2007 and 2006.

For the three months ended March 31, 2007 and 2006, interest expense related to notes payable and convertible notes payable was approximately \$37,000 compared to \$26,000, respectively.

4. Other / misc. for the three months ended March 31, 2007 and 2006, was approximately \$3,000 compared to \$0 respectively.

### SETTLEMENT EXPENSE

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For the three months ended March 31, 2007 and 2006, settlement expense was approximately \$0 compared to \$101,000 respectively. The decrease between the two

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periods was attributable to a one time settlement for the exchange of services. Payment was in the form of the Companys restricted common stock.

### LOSS ON WARRANT DERIVATIVES

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For the three months ended March 31, 2007 and 2006, losses recorded on warrant derivatives was approximately \$5,913,000 compared to \$3,878,000 respectively. See Note 10 in the accompanying notes to the financial statements.

### GAIN / (LOSS) ON DEBT DERIVATIVES

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For the three months ended March 31, 2007 and 2006, gain recorded on debt derivatives were approximately \$52,000 compared to \$0 respectively. See Note 9 in the accompanying notes to the financial statements.

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### OTHER INCOME (EXPENSE)

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For the three months ended March 31, 2007 and 2006, other / net was approximately \$0 compared to a gain of \$6,000 respectively. The decrease between the two periods was attributable to a one time gain on the sale of fixed assets during the period ended March 31, 2006.

### LIQUIDITY AND CAPITAL RESOURCES

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### NON-CASH EXPENSES EFFECTING OPERATING ACTIVITIES

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Non-cash related expenses of \$6,143,000 are reflected in the period ended March 31, 2007 net loss of \$6,653,000 and consist of the following:

	THREE MONTHS ENDED MARCH 31, 2007
	-----
NET LOSS	(6,653,227)
NON-CASH RELATED EXPENSES	
Depreciation and amortization	25,240
Stock compensation expense	36,783
Stock issuance for exchange of debt	33,760
Amortization of note discount	148,541
Interest payable	36,800
Gain / (loss) on warrant and debt derivatives	5,861,417
	-----
TOTAL NON-CASH RELATED EXPENSE	6,142,541
	-----
ADJUSTED NON-CASH NET LOSS	\$ (510,686)

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- o Depreciation and amortization expense of \$25,000.
- o Compensation expense relating to the issuance of stock options of \$37,000.
- o Issuance of common stock in exchange for services and debt of \$34,000.
- o Amortization of embedded discount relating to convertible debt financing of \$149,000.
- o Accrued interest expense related to convertible debt financing transactions of \$37,000.
- o Re-pricing of the warrant derivative liability and debt derivative relating to convertible debt financing of \$5,861,000.

At March 31, 2007, the Company had a working capital deficit of \$11,301,000 as compared with a working capital deficit of \$5,101,000 at March 31, 2006. The increase of \$6,200,000 consists of \$8,926,000 of warrant and debt derivative liability as of March 31, 2007

Net cash used for operating activities is \$536,000 for the three months ended March 31, 2007 compared to \$765,000 for the three months ended March 31, 2006.

Net cash used for investing activities is \$19,000 for the three months ended March 31, 2007 compared to \$20,000 for the three months ended March 31, 2006.

Net cash used for financing activities is \$563,000 for the three months ended March 31, 2007 compared to \$518,000 for the three months ended March 31, 2006.

### FINANCING TRANSACTIONS

#### NET PROCEEDS RECEIVED DUE TO FINANCING ACTIVITY

	2007	2006
Private placement	\$ --	\$ 60,000
Warrant exercise	52,240	--
Convertible debt financing	--	639,500
Revolving line of credit	482,000	--
TOTAL PROCEEDS RECEIVED	\$ 534,240	\$ 699,500

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#### CONVERTIBLE NOTES PAYABLE SUMMARY

During the three months ended March 31, 2007 the Company did not enter into any convertible debt financing agreements.

During the three months ended March 31, 2007 and 2006, \$135,000 and \$992,000 of notes payable was converted into approximately 21,429,000 and

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71,383,000 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 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.

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The following is a summary of outstanding convertible debt financing agreements as of March 31, 2007:

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

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	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 =====

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A SUMMARY OF CONVERTIBLE DEBT AT MARCH 31, 2007 IS AS FOLLOWS:

	DUE DATE -----	PRINCIPAL AMOUNT REMAINING -----	UNAMORTIZED DISCOUNT -----
STONESTREET LIMITED PARTNERSHIP	DECEMBER 23, 2007	\$ 10,000	\$ (2,5
ALPHA CAPITAL AKTIENGESELLSCHAFT	MARCH 17, 2008	250,000	(86,5
ALPHA CAPITAL AKTIENGESELLSCHAFT	MAY 5, 2008	108,000	(4,0
WHALEHAVEN CAPITAL FUND LIMITED	MAY 5, 2008	108,000	(4,0
ALPHA CAPITAL AKTIENGESELLSCHAFT	JULY 6, 2008	105,500	(38,5
BRISTOL INVESTMENT FUND LTD	JULY 6, 2008	250,000	(96,4
CENTURION MICROCAP L.P.	JULY 6, 2008	100,000	(38,5
WHALEHAVEN CAPITAL FUND LIMITED	JULY 6, 2008	105,500	(38,5
ALPHA CAPITAL AKTIENGESELLSCHAFT	AUGUST 29, 2008	105,000	(36,8
ELLIS INTERNATIONAL LIMITED	AUGUST 29, 2008	150,000	(55,3
OSHER CAPITAL	AUGUST 29, 2008	60,000	(22,1
WHALEHAVEN CAPITAL FUND LIMITED	AUGUST 29, 2008	105,000	(36,8
TOTAL LONG TERM CONVERTIBLE DEBT MARCH 31, 2007		\$ 1,457,000 =====	\$ (460,4 =====



COMMON STOCK

-----  
CONVERTIBLE DEBT CONVERSION  
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During the three months ended March 31, 2007, Alpha Capital Akteingesellschaft converted approximately \$135,000 of notes payable into approximately 21,428,571 shares of the Company's common stock at an average conversion price of \$0.0063.

During the three months ended March 31, 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 shares of common stock for cash in the amount of \$200,200.

During the three months ended March 31, 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 three months ended March 31, 2006, Ellis International Ltd. converted approximately \$75,000 of notes payable into approximately 5,855,000 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 three months ended March 31, 2006, Omega Capital Small Cap Fund converted approximately \$27,500 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 three months ended March 31, 2006, Osher Capital Inc. converted approximately \$15,600 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 three months ended March 31, 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.

o WARRANT EXERCISE  
-----

During the three months ended March 31, 2007 approximately 8,000,000 common stock warrants were exercised at a price of \$0.00653. The Company received approximately \$52,000

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 with a term of 1 year ending December 20, 2007. On March 20, 2007 the original Revolving Credit Note Agreement was amended. The amendment increased the the maximum borrowing by the Company to an amount of \$740,000. All terms and agreements of the original note are still in full force and effect.

During the Period of January 1, 2007 thru March 31, 2007 the Company borrowed \$482,000 from the revolving note. During the same period the Company paid \$55,721 against the outstanding balance for a net borrowing of \$426,279.

As of March 31, 2007 the outstanding principal amount owed to the Investors is \$666,280.

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SUBSEQUENT EVENTS  
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o FINANCING  
-----

During April 1, 2007 thru May 11, 2007, the Company received advances that were applied towards the Revolving Credit Note agreement dated December 21, 2006 totaling \$50,000. The advances were used for expenses relating to normal monthly operating expenses incurred by the Company.

o RESTRICTED COMMON STOCK GRANTED IN EXCHANGE FOR SERVICES RENDERED  
-----

On April 27, 2007 the Company granted a total of 1,500,000 shares of restricted common stock as compensation to an independent contractor for services provided during the fiscal year ended December 31, 2006 audit.

o WARRANTS

On April 4, 2007 the company issued to an accredited investor a total of 4,001,838 restricted common stock purchase warrants at a price of \$.00653 per share pursuant to a cashless exercise.

On April 23, 2007 the company issued to an accredited investor a total of 12,578,616 restricted common stock purchase warrants at a price of \$.00636 per share. The company received cash proceeds of \$80,000.

FUTURE CAPITAL OUTLOOK  
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The Company will continue to rely heavily on our current method of convertible debt and equity funding, which have financed us since 2001. The losses through

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the three months ended March 31, 2007 are due to minimal revenue and operating expenses, with a majority of expenses in the areas of: salaries, accounting fees, legal fees, debt issue costs 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

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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 stock.

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WE HAVE A HISTORY OF LOSSES. WE MAY TO 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 years three months ended March 31, 2007 and 2006, the Company incurred a net loss of \$6,653,000 and \$5,668,000 respectively, an increase of \$985,000 (17%). A large part of the discrepancy between 2007 and 2006 is due to a non-cash loss differential of \$1,984,000 in 2007 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. This reduction has come from a series of measures including reduction in

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head-count by eliminating all part-time workers, placing some full-time employees on part-time status 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.

### 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 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.

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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

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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 f inancial 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 t o 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

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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

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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  
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>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:

- 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. \$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



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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 \$39,700 as of March 31, 2007

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### ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES

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The securities described below represent our securities sold by us for the period starting January 1, 2007 and ending March 31, 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 March 31, 2007 a total of 8,000,000 warrants were exercised at an average price of \$0.00653. As a result the Company received cash proceeds of \$52,240.

#### 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.

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.

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ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS  
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Not Applicable.

ITEM 5. OTHER INFORMATION  
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Not Applicable.

ITEM 6. EXHIBITS:  
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- 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.

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

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