

CORP /CO COMPANY CONFORMED NAME: WIZZARD SOFTWARE  
CENTRAL INDEX KEY: 0001074909  
SOFTWARE [7372] STANDARD INDUSTRIAL CLASSIFICATION: SERVICES-PREPACKAGED  
IRS NUMBER: 870575577  
STATE OF INCORPORATION: CO  
FISCAL YEAR END: 1231

FILING VALUES:

FORM TYPE: 10QSB  
SEC ACT: 1934 Act  
SEC FILE NUMBER: 000-33381  
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BUSINESS ADDRESS:

STREET 1: 5001 BAUM BOULEVARD  
STREET 2: SUITE 770  
CITY: PITTSBURGH  
STATE: PA  
ZIP: 15213  
BUSINESS PHONE: 4126210902

MAIL ADDRESS:

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STREET 2: SUITE 770  
CITY: PITTSBURGH  
STATE: PA  
ZIP: 84121

FORMER COMPANY:

FORMER CONFORMED NAME: BALANCED LIVING INC  
DATE OF NAME CHANGE: 19981208

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<DESCRIPTION>QUARTERLY REPORT ON FORM 10QSB FOR THE QUARTER ENDED JUNE 30, 2006  
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U. S. Securities and Exchange Commission  
Washington, D. C. 20549

FORM 10-QSB

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

For the quarter ended June 30, 2006

[ ] TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT

For the transition period from to

Commission File No. 000-33381

WIZZARD SOFTWARE CORPORATION

-----  
(Name of Small Business Issuer in its Charter)

COLORADO  
-----

87-0609860  
-----

(State or Other Jurisdiction of  
incorporation or organization)

(I.R.S. Employer  
Identification No.)

5001 Baum Boulevard, Suite 770  
Pittsburgh, Pennsylvania 15213

-----  
(Address of Principal Executive Offices)

Issuer's Telephone Number: (412) 621-0902

Check whether the Issuer (1) has filed all reports required to be filed by Sections 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the Issuer was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

(1) Yes  No (2) Yes  No

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

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE  
PRECEDING FIVE YEARS

N/A  
---

(APPLICABLE ONLY TO CORPORATE ISSUERS)

State the number of shares outstanding of each of the Issuer's classes of common equity, as of the latest practicable date:

June 30, 2006

Common 30,155,230 shares

Transitional Small Business Issuer Format Yes No

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.  
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The Consolidated Financial Statements of the Company required to be filed with this 10-QSB Quarterly Report were prepared by management and commence on the following page, together with related Notes. In the opinion of management, the Consolidated Financial Statements fairly present the financial condition of the Company.

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WIZZARD SOFTWARE CORPORATION AND SUBSIDIARIES

UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2006

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WIZZARD SOFTWARE CORPORATION AND SUBSIDIARIES

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WIZZARD SOFTWARE CORPORATION AND SUBSIDIARIES  
UNAUDITED CONSOLIDATED BALANCE SHEET

## ASSETS

	June 30, 2006
	-----
CURRENT ASSETS:	
Cash	\$ 593,959
Accounts receivable, net of \$61,738 allowance	324,293
Inventory, net of \$59,606 allowance	15,823
Prepaid expenses	167,718
	-----
Total current assets	1,101,793
LEASED EQUIPMENT, net	123,862
PROPERTY AND EQUIPMENT, net	90,156
GOODWILL	896,570
OTHER ASSETS	5,582
	-----
Total asset	\$2,217,963 =====

## LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES:	
Accounts payable	\$ 233,945
Accrued expenses	125,907
Capital Lease current portion	35,250
Notes payable	674,999
	-----
Total current liabilities	1,070,101
CAPITAL LEASE, less current portion	101,908
	-----
Total liabilities	\$ 1,172,009 -----
COMMITMENT & CONTINGENCIES	-
STOCKHOLDERS' EQUITY:	
Preferred stock, \$.001 par value, 10,000,000 shares authorized, no shares issued and outstanding	-
Common stock, \$.001 par value, 100,000,000 shares	-

authorized, 30,155,230 shares issued and outstanding	30,155
Additional paid-in capital	21,919,360
Accumulated deficit	(20,903,561)
	-----
Total stockholders' equity	1,045,954
	-----
Total liabilities and stockholders' equity	\$ 2,217,963
	=====

The accompanying notes are an integral part of this unaudited consolidated financial statement.

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WIZZARD SOFTWARE CORPORATION AND SUBSIDIARIES  
UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2006	2005 RESTATED	2006	2005 RESTATED
NET SALES	\$ 782,046	\$ 291,519	\$1,384,437	\$ 515,080
COST OF GOODS SOLD	447,700	153,380	825,238	278,719
	-----	-----	-----	-----
Gross Profit	334,346	138,139	559,199	236,361
OPERATING EXPENSES				
Selling expenses	134,891	124,884	225,058	220,796
General and administrative	674,610	654,153	1,346,758	1,245,278
Research and development	11,850	11,303	23,168	41,329
Compensation for re-pricing warrants	140,000	-	140,000	-
Impairment of goodwill	-	-	-	1,191,967
	-----	-----	-----	-----
Total Expenses	961,351	790,340	1,734,984	2,699,370
	-----	-----	-----	-----
LOSS FROM OPERATIONS	(627,005)	(652,201)	(1,175,785)	(2,463,009)
OTHER INCOME (EXPENSE):				
(Loss) on disposal of assets	-	-	(9)	-
Interest expense	(392,066)	(38,860)	(407,505)	(1,452,065)
Other income	97,484	-	103,513	-
	-----	-----	-----	-----
Total Other Income (Expense)	(294,582)	(38,860)	(304,001)	(1,452,065)
	-----	-----	-----	-----
LOSS BEFORE INCOME TAXES	(921,587)	(691,061)	(1,479,786)	(3,915,074)
CURRENT INCOME TAX EXPENSE	-	-	-	-
DEFERRED INCOME TAX EXPENSE	-	-	-	-
	-----	-----	-----	-----
NET LOSS	\$(921,587)	\$(691,061)	\$(1,479,786)	\$(3,915,074)
	-----	-----	-----	-----
BASIC AND DILUTED LOSS PER COMMON SHARE:	\$ (0.03)	\$ (0.03)	\$ (0.05)	\$ (0.14)
	-----	-----	-----	-----

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

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WIZZARD SOFTWARE CORPORATION AND SUBSIDIARIES  
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Six Months Ended June 30,	
	2006	2005
Cash Flows from Operating Activities:		RESTATED
Net loss	\$(1,479,786)	\$(3,915,074)
Adjustments to reconcile net loss to net cash used in operating activities:		
Amortization of discount on notes payable	-	1,400,000
Compensation for extension of debt	382,500	-
Compensation for re-pricing warrants	140,000	-
Stock for non cash expenses	427,167	497,297
Impairment of goodwill	-	1,191,967
Non-cash compensation options issued	51,600	-
Depreciation and amortization expense	36,017	17,542
Change in allowance for bad debt	(13,000)	-
Change in allowance for slow moving inventory	(2,083)	-
Change in assets and liabilities:		
Accounts receivable	(11,914)	(10,442)
Inventory	3,138	4,161
Prepaid expenses	(143,205)	44,654
Accounts payable	18,992	100,051
Accrued expense	29,541	8,216
Deferred revenue	(13,311)	-
Net Cash Used in Operating Activities	(574,344)	(661,628)
Cash Flows from Investing Activities:		
Purchase of property & equipment	(4,086)	(15,630)
Net Cash Used in Investing Activities	(4,086)	(15,630)
Cash Flows from Financing Activities:		
Proceeds from the issuance of common stock	560,004	146,228
Proceeds from issuance of convertible note payable	-	1,400,000
Payments on capital lease	(17,316)	-
Payments on note payable	(239,576)	(25,076)
Net Cash Provided by Financing Activities	303,112	1,521,152
Net Increase (Decrease) in Cash	(275,318)	843,894
Cash at Beginning of Period	869,277	445,702
Cash at End of Period	\$ 593,959	\$1,289,596
Supplemental Disclosures of Cash Flow Information:		
Cash paid during the periods for:		
Interest	\$ 6,415	\$ 4,830
Income taxes	\$ -	\$ -

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WIZZARD SOFTWARE CORPORATION AND SUBSIDIARIES  
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

Supplemental Schedule of Non-cash Investing and Financing Activities:

For the six months ended June 30, 2006:

On January 19, 2006, the Company issued 100,000 restricted common shares valued at \$180,000 for consulting services.

On January 23, 2006, the Company issued 45,755 common shares upon the exercise of options valued at \$84,189 to employees and non-employees for services rendered.

On March 23, 2006, the Company issued 50,569 common shares in payment of a \$75,000 note payable and \$854 of accrued interest.

On March 29, 2006, the Company issued 50,611 common shares in payment of a \$75,000 note payable and \$917 of accrued interest.

On April 20, 2006, the Company issued 88,321 common shares in payment of a \$125,000 note payable and \$7,482 of accrued interest.

On April 20, 2006, the Company issued 41,000 common shares valued at \$75,850 to employees and non-employees for services rendered.

On May 12, 2006, the Company recorded a \$140,000 expense for the re-pricing of 466,668 warrants to purchase common stock from an exercise price of \$1.50 per share reduced to \$1.20 per share. The warrants were immediately exercised.

On May 18, 2006, the Company issued 200,000 shares of common stock to the holders of the 5% notes payables to extend the maturity date of the 5% notes payable to December 28, 2006.

On May 18, 2006, the Company issued 1,750 common shares upon the exercise of options valued at \$2,975 to non-employees for services rendered.

During May, 2006, the Company issued 49,980 restricted common shares valued at \$84,150 for consulting services.

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WIZZARD SOFTWARE CORPORATION AND SUBSIDIARIES  
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the six months ended June 30, 2005:

The Company issued 29,500 common shares valued at \$58,025 for consulting services.

The Company issued 29,500 common shares valued at \$64,900 for consulting services.

The Company issued 160,000 common shares valued at \$326,000 for investor relations services.

The Company issued 20,584 common shares valued at \$48,372 to 18 employees and non-employees for the exercise of options.

The Company issued 150,000 common shares upon conversion of \$75,000 of the 8% convertible note payable.

The Company issued 787,176 common shares for the purchase of the remaining 5% minority shares of WSC. The resulting goodwill of \$1,191,967 was impaired immediately.

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WIZZARD SOFTWARE CORPORATION AND SUBSIDIARIES  
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Unaudited Consolidated Financial Statements - The accompanying financial statements have been prepared by the Company without audit. In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position, results of operations and cash flows at June 30, 2006 and 2005 and for the periods then ended have been made. The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions for Form 10-QSB of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles in the United States of America have been condensed or omitted. These consolidated financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's December 31, 2005 audited financial statements. The results of operations for the three months and six months ended June 30, 2006 and 2005 are not necessarily indicative of the operating results for the full year.

Organization Wizzard Software Corporation ["Parent"], a Colorado corporation, was organized on July 1, 1998. The Company has, at the present time, not paid any dividends and any dividends that may be paid in the future will depend upon the financial requirements of the Company and other relevant factors. The Company engages primarily in the development, sale, and service of custom and packaged computer software products. On September 8, 2005, Parent purchased all of the issued and outstanding shares of Interim Healthcare of Wyoming, Inc. ["Interim"], a Wyoming corporation, in a transaction accounted for as a purchase. Interim engages primarily in providing healthcare services in Wyoming.

Consolidation - The financial statements presented reflect the accounts of Parent, MedivoxRx and Interim. All significant inter-company transactions have been eliminated in consolidation.

Accounting Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimated by management.

Reclassification The financial statements for the period ended prior to June 30, 2006 have been reclassified to conform to the headings and classifications used in the June 30, 2006 financial statements.

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WIZZARD SOFTWARE CORPORATION AND SUBSIDIARIES  
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents - At June 30, 2006, the Company had cash balances of \$393,959 in excess of federally insured limits.

Accounts Receivable - Accounts receivable consist of trade receivables arising

in the normal course of business. At June 30, 2006, the Company has an allowance for doubtful accounts of \$61,738 which reflects the Company's best estimate of probable losses inherent in the accounts receivable balance. The Company determines the allowance based on known troubled accounts, historical experience, and other currently available evidence. During the six months ended June 30, 2006 and 2005, the Company decreased the allowance for bad debt by \$13,000 and \$0, respectively.

Inventory - Inventory consists of software, health care products and supplies and is carried at the lower of cost or market on a first in first out basis. During the six months ended June 30, 2006 and 2005, the Company decreased the allowance for slow moving inventory by \$2,083 and \$0, respectively.

Depreciation - Depreciation of property and equipment is provided on the straight-line method over the estimated useful lives of the assets of two to ten years.

Goodwill and Definite-life intangible assets - The Company accounts for Goodwill and definite-life intangible assets in accordance with provisions of Statement of Financial Accounting Standards "SFAS" No. 142, "Goodwill and Other Intangible Assets". Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but instead are tested for impairment at least annually in accordance with the provisions of SFAS No. 142. Impairment losses arising from this impairment test, if any, are included in operating expenses in the period of impairment. SFAS No. 142 requires that definite intangible assets with estimable useful lives be amortized over their respective estimated useful lives, and reviewed for impairment in accordance with SFAS No. 144, Accounting for Impairment or Disposal of Long-Lived Assets.

Software Development Costs - Statement of Financial Accounting Standards ("SFAS") No. 86 "Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed" requires software development costs to be capitalized upon the establishment of technological feasibility. The establishment of technological feasibility and the ongoing assessment of the recoverability of these costs require considerable judgment by management with respect to certain external factors such as anticipated future revenue, estimated economic life, and changes in software and hardware technologies. Capitalizable software development costs have not been significant and accordingly no amounts are shown as capitalized at June 30, 2006.

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WIZZARD SOFTWARE CORPORATION AND SUBSIDIARIES  
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loss Per Share - The Company computes loss per share in accordance with Statement of Financial Accounting Standards "SFAS" No. 128 "Earnings Per Share," which requires the Company to present basic earnings per share and diluted earnings per share when the effect is dilutive (see Note 10).

Income Taxes - The Company accounts for income taxes in accordance with Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes." This statement requires an asset and liability approach for accounting for income taxes.

Advertising Costs - Advertising costs are expensed as incurred and amounted to \$45,282 and \$67,028 for the six months ended June 30, 2006 and 2005, respectively.

Fair Value of Financial Instruments - The fair value of cash, accounts receivable, accounts payable and notes payable are determined by reference to



market data and by other valuation techniques as appropriate. Unless otherwise disclosed, the fair value of financial instruments approximates their recorded values due to their short-term maturities.

Revenue Recognition - The Company's revenue recognition policies are in compliance with the American Institute of Certified Public Accountants Statement of Position ("SOP") 97-2 (as amended by SOP 98-4 and SOP 98-9) and related interpretations, "Software Revenue Recognition" and the Securities and Exchange Commission Staff Accounting Bulletin No. 101 and 104.

Software - The Company sells packaged and custom software products and related voice recognition product development consulting.

Software product revenues are recognized upon shipment of the software product only if no significant Company obligations remain, the fee is fixed or determinable, and collection is received or the resulting receivable is deemed probable. Revenue from package software products are recorded when the payment has been received and the software has been shipped. Revenue is recognized, net of discount and allowances, at the time of product shipment. For packaged software products the Company offers a 30 day right of return. Provisions are recorded for returns, concessions, and bad debts and at June 30, 2006 and 2005 amounted to \$0. Revenue related to obligations, which include telephone support for certain packaged products, are based on the relative fair value of each of the deliverables determined based on vendor-specific objective evidence ("VSOE") when significant. The Company VSOE is determined by the price charged when each element is sold separately. Revenue from packaged software product sales to and through distributors and resellers is recorded when payment is received and the related products are shipped. The Company's distributors or resellers do not carry packaged software product inventory and thus the Company does not offer any price protections or stock balancing rights.

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WIZZARD SOFTWARE CORPORATION AND SUBSIDIARIES  
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Healthcare - The Company recognizes revenue from the providing of healthcare services when the services are provided and collection is probable. Revenues for the talking pill bottle are recognized when the product is shipped and collections are probable.

Stock Options - The Company has stock option plans that provide for stock-based employee compensation, including the granting of stock options, to certain key employees. The plans are more fully described in Note 9. Prior to January 1, 2006, the Company applied APB Opinion No. 25, "Accounting for Stock Issued to Employees", and related Interpretations in accounting for awards made under the Company's stock-based compensation plans. Under this method, compensation expense was recorded on the date of grant only if the current market price of the underlying stock exceeded the exercise price.

During the periods presented in the accompanying financial statements, the Company has granted options under its 2004, 2005 and 2006 defined stock options plans. The Company has adopted the provisions of SFAS No. 123R using the modified-prospective transition method and the disclosures that follow are based on applying SFAS No. 123R. Under this transition method, compensation expense recognized during the six months ended June 30, 2005 included: (a) compensation expense for all share-based awards granted prior to, but not yet vested as of January 1, 2006, and (b) compensation expense for all share-based awards granted on or after January 1, 2006. Accordingly, compensation cost of \$51,600 has been recognized for grants of options to employees and directors in the accompanying statements of operations with an associated recognized tax

benefit of \$0 of which \$0 was capitalized as an asset for the period ended June 30, 2006. In accordance with the modified-prospective transition method, the Company's financial statements for the prior year have not been restated to reflect, and do not include, the impact of SFAS 123R. Had compensation cost for the Company's stock option plans and agreements been determined based on the fair value at the grant date for awards in 2005 consistent with the provisions of SFAS No. 123R, the Company's net loss and basic net loss per common share would not have changed.

Research and Development Cost - The Company expenses the cost of developing new products as incurred as research and product development costs. Included in general and administrative expense for the six months ended June 30, 2006 and 2005 are \$23,168 and \$41,329, respectively, of research and development costs associated with the development of new products.

Restatement - The financial statements have been restated to record \$44,861 in payroll liabilities associated with stock issued to employees during 2005 and 2004. The effect on the financial statements increased accrued expense and the accumulated deficit by \$44,861 and increased general and administrative from \$1,237,062 to \$1,245,278 and increased the net loss from \$3,906,858 to \$3,915,074 for the six months ended June 30, 2005. The restatement had no effect on the stated net loss per share for the six months ended June 30, 2005.

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WIZZARD SOFTWARE CORPORATION AND SUBSIDIARIES  
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - GOING CONCERN

The accompanying consolidated financial statements have been prepared in conformity with generally accepted accounting principles of the United States of America, which contemplate continuation of the Company as a going concern. However, the Company has incurred significant losses and has not yet been successful in establishing profitable operations. These factors raise substantial doubt about the ability of the Company to continue as a going concern. In this regard, management plans to mitigate this doubt by raising additional funds through debt and/or equity offerings and by substantially increasing sales. There is no assurance that the Company will be successful in achieving profitable operations. The financial statements do not include any adjustments that might result from the outcome of these uncertainties.

NOTE 3 - INVENTORIES

The following is a summary of inventories:

	June 30, 2006	
Raw materials	\$	66,303
Finished goods		9,126
Less: Allowance for obsolete inventory		(59,606)
		-----
	\$	15,823
		-----

NOTE 4 - PROPERTY & EQUIPMENT

The following is a summary of property and equipment at:

	Life	June 30 2006
Furniture, fixtures and equipment	2 - 10 yrs	\$ 172,109
Production molds	3 yrs	47,710
Software	2 - 5 yrs	11,964
		-----
		231,783
(Less) Accumulated Depreciation		(141,627)

Property & Equipment, net

-----  
\$ 90,156  
-----

Depreciation expense for the six months ended June 30, 2006 and 2005 was \$20,035 and \$17,542, respectively.

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WIZZARD SOFTWARE CORPORATION AND SUBSIDIARIES  
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4 - PROPERTY & EQUIPMENT (Continued)

The following is a summary of leased equipment at:

	Life	June 30 2006
Leased Equipment	5.25 Yrs	223,750
Less: Accumulated Depreciation		(99,888)
		-----
Leased Equipment, net		\$123,862
		-----

Depreciation expense for the six months ended June 30, 2006 and 2005 was \$15,982 and \$0, respectively.

NOTE 5 GOODWILL / DEFINITE-LIFE INTANGIBLE ASSETS

Intangible Assets - The Company classifies its intangible assets as definite-life intangible assets and amortizes them on a straight-line basis over their estimated useful lives. Amortization expense of \$0 was recorded for the six months ended June 30, 2006 and 2005.

Goodwill - On September 8, 2005, the Company recorded goodwill of \$896,570 in connection with the acquisition of Interim Health Care of Wyoming as the purchase price of \$904,006 exceeded the \$7,436 net book value of the assets acquired.

NOTE 6 - NOTES PAYABLE

On February 8, 2005, the Company closed a Subscription Agreement by which three institutional investors purchased promissory notes having a total principal amount of \$1,400,000, convertible into shares of the Company's common stock at a price of \$1.50 per share, and bearing an annual interest rate of five percent; Class A Warrants to purchase a total of 466,667 shares of common stock at a price of \$2.50 per share, exercisable for three years; and Class B Warrants to purchase a total of 933,334 shares of common stock at a price of \$1.50 per share, exercisable until 150 days after the effective date of the Registration Statement. In December 2005, the Company repriced 466,667 of the Class B warrants from \$1.50 to \$1.15 exercise price and were immediately exercised. Also in December 2005, the remaining 466,667 Class B warrants had their life extended one year. In May 2006, the Company re-priced 466,668 of the Class A warrants from \$1.50 to \$1.20 exercise price and were immediately exercised, and the Company issued Class D warrants to purchase a total of 466,668 shares of common stock at a price of \$2.50 per share, exercisable for three years. On May 4, 2006, the Company issued 225,000 shares of common stock to the holders of the 5% notes payable to extend the maturity date of the 5% notes payable to December 28, 2006.

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WIZZARD SOFTWARE CORPORATION AND SUBSIDIARIES  
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7 - CAPITAL LEASE OBLIGATION

The Company is leasing equipment on a 63-month capital lease terminating in August 2008. Monthly payments of \$3,750 began in June 2003 and a payment of \$54,688 is due at termination. During the six months ended June 30, 2006 and 2005, interest expense on capital lease obligation amounted to \$5,184 and \$0, respectively.

Future minimum capital lease payments are as follows for the twelve-month periods ended:

June 30, 2007	\$	45,000
June 30, 2008		45,000
June 30, 2009		61,188
		-----
Total minimum lease payments		152,188
Less amount representing interest		(15,030)
		-----
Present value of minimum lease payments		137,158
Less current portion		(35,250)
		-----
	\$	101,908
		=====

NOTE 8 - CAPITAL STOCK

**Preferred Stock** The Company has authorized 10,000,000 shares of preferred stock, \$.001 par value. As of June 30, 2006, no shares were issued and outstanding.

**Common Stock** The Company has authorized 100,000,000 shares of common stock, \$.001 par value. As of June 30, 2006, the Company had 30,155,230 common shares issued and outstanding.

**Stock for Services** On January 19, 2006, the Company issued 100,000 common shares valued at \$180,000 for consulting services.

On January 23, 2006, the Company issued 45,755 common shares upon the exercise of options valued at \$84,189 to employees and non-employees for services rendered.

On April 20, 2006, the Company issued 41,000 common shares valued at \$75,850 to employees and non-employees for services rendered.

On May 18, 2006, the Company issued 1,750 common shares upon the exercise of options valued at \$2,975 for consulting services.

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WIZZARD SOFTWARE CORPORATION AND SUBSIDIARIES  
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8 - CAPITAL STOCK (Continued)

During May, 2006, the Company issued 49,980 restricted common shares valued at \$84,150 for consulting services.

**Conversion of Notes Payable** On March 23, 2006, the Company issued 50,569 common shares in payment of a \$75,000 note payable and \$854 of accrued interest.

On March 29, 2006, the Company issued 50,611 common shares in payment of a \$75,000 note payable and \$917 of accrued interest.

On April 20, 2006, the Company issued 88,321 common shares in payment of a \$125,000 note payable and \$7,482 of accrued interest.

**Exercise of Warrants** On May 12, 2006, the Company issued 466,668 common shares upon exercise of warrants at \$1.20.

On May 18, 2006, the Company issued 225,000 shares of common stock to the holders of the 5% notes payables to extend the maturity date of the 5% notes payables to December 28, 2006.

**Exercise of Warrants** On January 6, 2005, March 18, 2005, and March 28, 2005, the Company issued 4,339, 40,000, and 50,000 common shares, respectively, upon the exercise of warrants at \$1.55 per share.

**Conversion of Notes Payable** During 2005, the Company issued 150,000 common shares upon conversion of \$75,000 of the 8% convertible note payable.

**Stock for Services** - During 2005, the Company issued 19,500 common shares for consulting services valued at \$39,025

During 2005, the Company issued 29,500 common shares upon the exercise of options for consulting services valued at \$64,900 and the company issued an additional 160,000 common shares valued at \$326,000 for investor relations services.

**Stock for Consulting Services** - On February 15, 2005, the Company issued 20,584 common shares upon the exercise of options for consulting services valued at \$48,166. On April 11, 2005, the Company issued 10,000 common shares for Consulting Services valued at \$19,000.

**Acquisition of Minority Interest** - On January 19, 2005, the Company shareholders approved the acquisition of the 5% minority interest of Wizzard Software Corp ("WSC") wherein WSC was merged with and into the Parent through the issuance of 787,176 common shares of the Parent for the 787,176 minority shares of WSC.

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WIZZARD SOFTWARE CORPORATION AND SUBSIDIARIES  
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8 - CAPITAL STOCK (Continued)

**5% Convertible Notes Payable** - On February 8, 2005, the Company closed a Subscription Agreement by which three institutional investors ("Subscribers") purchased: 5% convertible promissory notes having a total principal amount of \$1,400,000, convertible into 933,333 shares of the Company's common stock at a price of \$1.50 per share, plus Class A Warrants to purchase a total of 466,667 shares of common stock at a price of \$2.50 per share, exercisable for three years; and Class B Warrants to purchase a total of 933,334 shares of common stock at a price of \$1.50 per share, exercisable until 150 days after the effective date of the Registration Statement described below.

The \$1,400,000 in proceeds has been recorded as paid in capital based on their relative fair value of \$574,184, \$308,989 and \$516,827, for the beneficial conversion feature of the Convertible Notes Payable, Class A Warrants and Class B Warrants, respectfully. The Company upon issuance recorded interest expense of \$1,400,000 for the discount on the note as the note is immediately convertible.

The relative fair values of the warrants and beneficial conversion feature were estimated using the black-scholes pricing model using the following variable volatility of 104%, risk free interest rate of 3%, expected yield of 0% and estimated lives of one to three years.

NOTE 9 STOCK OPTIONS AND WARRANTS

2006 Stock Option Plan During 2006, the Board of Directors adopted a Stock Option Plan ("2006 Plan"). Under the terms and conditions of the 2006 Plan, the Board is empowered to grant stock options to employees and officers of the Company. Additionally, the Board will determine at the time of granting the vesting provisions and whether the options will qualify as Incentive Stock Options under Section 422 of the Internal Revenue Code. The total number of shares of common stock available under the 2006 Plan may not exceed 125,000. At June 30, 2006, no options were available to be granted under the 2006 Plan. During the six months ended June 30, 2006, the Company granted 125,000 options.

2005 Stock Option Plan During 2005, the Board of Directors adopted a Stock Option Plan ("2005 Plan"). Under the terms and conditions of the 2005 Plan, the Board is empowered to grant stock options to employees, officers, directors, and consultants of the Company. Additionally, the Board will determine at the time of granting the vesting provisions and whether the options will qualify as Incentive Stock Options under Section 422 of the Internal Revenue Code. The total number of shares of common stock available under the 2005 Plan may not exceed 200,000. At June 30, 2006, total options available to be granted under the 2005 Plan totaled 77,895. During the six months ended June 30, 2006, the Company granted 38,255 options, respectively, which were immediately exercised for service valued at \$70,389 and \$0, respectively.

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WIZZARD SOFTWARE CORPORATION AND SUBSIDIARIES  
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8 STOCK OPTIONS AND WARRANTS (Continued)

2004 Stock Option Plan During 2004, the Board of Directors adopted a Stock Option Plan ("2004 Plan"). Under the terms and conditions of the 2004 Plan, the Board is empowered to grant stock options to employees, officers, directors, and consultants of the Company. Additionally, the Board will determine at the time of granting the vesting provisions and whether the options will qualify as Incentive Stock Options under Section 422 of the Internal Revenue Code. The total number of shares of common stock available under the 2004 Plan may not exceed 200,000. At June 30, 2006, total options available to be granted under the 2004 Plan totaled 1,000. During the six months ended June 30, 2005, the Company granted 55,084 options.

The significant weighted average assumptions relating to the valuation of the Company's Stock Options for the six months ended June 30, 2006 were as follows:

	2006
Dividend yield	0%
Expected life	10 yrs
Expected volatility	94.9%
Risk-free interest rate	4.86%

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WIZZARD SOFTWARE CORPORATION AND SUBSIDIARIES  
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9 STOCK OPTIONS AND WARRANTS (Continued)

A summary of the status of options granted at June 30, 2006, and changes during the period then ended are as follows:

For the Six Months Ended  
June 30, 2006

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at beginning of period	-	\$ -	-	-
Granted	206,005	1.79	6.1 years	\$6,250
Exercised	(81,005)	1.84	-	-
Forfeited	-	-	-	-
Expired	-	-	-	-
	-----			
Outstanding at end of period	125,000	1.75	9.9 years	\$6,250
	-----			
Vested and expected to vest in the future	125,000	1.75	9.9 years	\$6,250
	-----			
Exercisable at end of period	20,000	1.75	9.9 years	\$1,000
	-----			
Weighted average fair value of options granted	125,000	\$ 1.75	9.9 years	\$6,250
	-----			

The Company had no non vested options at the beginning of the period. At June 30, 2006 the Company had 105,000 non vested options.

The total intrinsic value of options exercised during the six months ended June 30, 2006 and 2005 was \$0 and \$0 respectively. Intrinsic value is measured using the fair market value at the date of exercise (for shares exercised) or at June 30, 2006 and 2005 (for outstanding options), less the applicable exercise price.

During the six month period ended June 30, 2006 and 2005, the Company expensed \$149,214 and \$113,272 upon the exercise of awards. The Company realized no tax benefit due to the exercise of options as the Company had a loss for the period and historical net operating loss carry forwards.

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WIZZARD SOFTWARE CORPORATION AND SUBSIDIARIES  
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9 STOCK OPTIONS AND WARRANTS (Continued)

Warrants A summary of the status of the warrants granted is presented below for the six months ended:

	June 30, 2006		June 30, 2005	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of period	1,748,280	\$1.97	786,174	\$1.55
Granted	466,668	2.50	1,400,000	\$1.83
Exercised	(466,667)	1.50	(114,339)	\$1.55
Forfeited	-	-	-	-
Expired	-	-	-	-
	-----	-----	-----	-----
Outstanding at end of period	1,748,281	\$2.24	2,071,835	\$1.81
	-----	-----	-----	-----

NOTE 10 - LOSS PER COMMON SHARE

The following data show the amounts used in computing loss per share and the weighted average number of shares of common stock outstanding for the periods presented:

	For the Three Months Ended June 30, 2006		For the Six Months Ended June 30, 2006	
		2005 RESTATE		2005 RESTATE
Loss from continuing operations available to common shareholders (numerator)	\$ (921,587)	\$ (691,061)	\$ (1,479,786)	\$ (3,915,074)
Weighted average number of common shares outstanding during the period (denominator)	29,751,849	27,253,338	29,462,767	27,045,817

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WIZZARD SOFTWARE CORPORATION AND SUBSIDIARIES  
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 10 - LOSS PER COMMON SHARE (Continued)

At June 30, 2006, the Company had 1,748,281 warrants outstanding to purchase common stock of the Company at \$1.50 to \$3.75 per share, and a 5% convertible note payable wherein the holder could convert the note into a minimum of 449,999 shares of common stock, See Note 6], which were not included in the loss per share computation because their effect would be anti-dilutive.

At June 30, 2005, the Company had 2,071,835 warrants outstanding to purchase common stock of the Company at \$1.50 to \$2.50 per share, a 8% convertible note payable wherein the holder could convert the note into a minimum of 50,000 shares of common stock and a 5% convertible note payable wherein the holder could convert the note into 933,333 shares, [See Note 6], which were not included in the loss per share computation because their effect would be anti-dilutive.

The Company has various performance agreement that if achieve would result in the issuance of addition Common Stock, see footnote 12, Commitment and Contingencies.

NOTE 11 - INCOME TAXES

The Company accounts for income taxes in accordance with Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes". SFAS No. 109 requires the Company to provide a net deferred tax asset/liability equal to the expected future tax benefit/expense of temporary reporting differences between book and tax accounting methods and any available operating loss or tax credit carryforwards. The Company has available at June 30, 2006 operating loss carryforwards of approximately \$19,900,000 which may be applied against future taxable income and which expires in various years through 2025.

The amount of and ultimate realization of the benefits from the operating loss carryforwards for income tax purposes is dependent, in part, upon the tax laws in effect, the future earnings of the Company, and other future events, the effects of which cannot be determined.



Because of the uncertainty surrounding the realization of the loss carryforwards and significant changes in the ownership of the Company, a valuation allowance has been established equal to the tax effect of the loss carryforwards and, therefore, no deferred tax asset has been recognized for the loss carryforwards. The net deferred tax assets are approximately \$6,760,000 as of June 30, 2006, with an offsetting valuation allowance of the same amount. The change in the valuation allowance for the six months ended June 30, 2006 approximated \$470,000.

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WIZZARD SOFTWARE CORPORATION AND SUBSIDIARIES  
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 12 - COMMITMENTS AND CONTINGENCIES

The Company is from time to time involved in routine legal and administrative proceedings and claims of various types. While any proceedings or claim contains an element of uncertainty, Management does not expect on our results of operations or financial position.

Contingent Consideration for the Acquisition of MedivoxRx In connection with the acquisition of MedivoxRx, Parent will issue an additional 100,000 restricted common shares to the former stockholders of MedivoxRx if Wizzard Merger Corp. achieves repeat sales of at least 250 units per month from at least 15 VA sites for three consecutive months with a specified gross margin. Parent will also issue an additional 50,000 restricted common shares to the former stockholders of MedivoxRx if Wizzard Merger Corp. pill bottle simultaneously loads the prescription while the label is being printed and is approved and accepted by any Veterans Administration Hospital. Parent will further issue an additional 625,000 restricted common shares to the former stockholders of MedivoxRx if Wizzard Merger Corp. meets revenue and profit projections for the second year of operations forward from the April 23, 2004 acquisition date. To date no additional restricted common shares have been issued.

Agreements - In connection with the agreement with AT&T to sell to AT&T's OEM Natural Voices desktop product licenses the Company is required to make minimum purchase of \$125,000 per each six month period beginning July 2004 through June 2007.

In connection with the agreement with IBM to sell IBM's OEM ViaVoice desktop products licenses the Company is required to make minimum purchases of \$12,500 per quarter beginning July 2005 through June 2007.

Contingent Consideration for the Acquisition of Interim Health Care of Wyoming, Inc. As part of the Interim of Wyoming, Inc. acquisition, the Company agreed to issue additional shares of common stock upon Interim achieving certain financial results. Phase I incentives would include the seller to receive an additional payment of two (2) times the Interim EBITDA for the year ended September 30, 2006, based upon the amounts that exceeds the Interim EBITDA for the year ended December 31, 2004. Twenty-five percent of which will be paid in cash and seventy-five percent paid in stock.

Phase II incentives include the seller to receive an additional payment of two times the EBITDA for the year ended September 30, 2007, based upon the amount that exceeds the Interim EBITDA for the year ended September 30, 2006. Twenty-five percent of which will be paid in cash and seventy-five percent paid in stock.

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WIZZARD SOFTWARE CORPORATION AND SUBSIDIARIES  
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 13 - SEGMENT REPORTING

The Company's operations are divided into two independent segments software and healthcare. The Company does not have any inter-segment revenues and the Company uses the same accounting principles used to prepare the consolidated financial statements for both operating segments.

At June 30, 2006, all of the Company's assets, except approximately \$19,300 of inventory, are located within the United States of America.

Software - The Company attributes revenues from the development, sale, and service of custom and packaged computer software products at the time the product is shipped and collections are likely.

Healthcare - The Company attributes revenue from the development, sale, and service of talking prescription pill bottles and healthcare services at the time the services are rendered and collections are likely.

The following is a summary of the Company's operations by segment for the six months ended June 30, 2006 and 2005:

	2006			2005		
	Software	Healthcare	Total	Software	Healthcare	Total
Net revenues	\$ 401,900	\$ 982,537	\$ 1,384,437	\$ 506,969	\$ 8,111	\$ 515,080
Cost of sales	219,157	606,081	825,238	264,747	13,972	278,719
General and administrative	935,401	271,357	1,206,758	1,164,422	80,856	1,245,278
Selling	123,237	101,821	225,058	76,237	144,559	220,796
Research and development	23,152	16	23,168	36,720	4,609	41,329
Compensation for re-pricing warrants	140,000	-	140,000	-	-	-
Impairment of goodwill/Intangibles	-	-	-	1,191,967	-	1,191,967
Other income	73,919	29,594	103,513	-	-	-
Interest expense	542,767	4,738	547,505	1,452,065	-	1,452,065
Loss on disposal of assets	9	-	9	-	-	-
Income tax benefit (expense)	-	-	-	-	-	-
Net Income (loss)	\$(1,507,904)	28,118	(1,479,786)	(3,679,189)	(235,885)	(3,915,074)

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WIZZARD SOFTWARE CORPORATION AND SUBSIDIARIES  
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 13 - SEGMENT REPORTING (Continued)

The following is a summary of the Company's operations by segment for the three months ended June 30, 2006 and 2005:

	2006			2005		
	Software	Healthcare	Total	Software	Healthcare	Total
Net revenues	\$ 259,008	\$ 523,039	\$ 782,047	\$ 288,255	\$ 3,264	\$ 291,519
Cost of sales	134,464	313,236	447,700	146,535	6,847	153,382
General and administrative	400,232	134,378	534,610	604,472	49,680	654,152
Selling	77,141	57,750	134,891	38,600	86,284	124,884
Research and development	11,850	-	11,850	11,180	123	11,303
Compensation for re-pricing warrants	140,000	-	140,000	-	-	-

Other income	73,870	23,614	97,484	-	-	-
Interest expense	531,178	889	532,067	38,860	-	38,860
Loss on disposal of assets	-	-	-	-	-	-
Income tax benefit (expense)	-	-	-	-	-	-
Net Income (loss)	\$(961,987)	\$ 40,400	\$(921,587)	\$(551,392)	\$(139,670)	\$691,062

NOTE 14 - SUBSEQUENT EVENT

On July 5, 2006, the Company announced a special common stock dividend. For every ten (10) shares owned on the October 15, 2006, one (1) additional share of Wizzard's common stock will be distributed on October 30, 2006.

On July 12, 2006, the Company signed an agreement to purchase the assets of Switchpod Technology for 114,286 "unregistered" and "restricted" shares of Wizzard's common stock.

On July 20, 2006, the Company issued 500,000 common shares valued at \$855,000 for investor relations services.

On July 24, 2006, the Company issued 39,900 common shares valued at \$65,835 to employees and non-employees for services rendered.

On July 26, 2006, the Company issued 8,000 common shares to consultants valued at \$13,200 for services rendered.

Item 2. Management's Discussion and Analysis or Plan of Operation.

Highlights of First Quarter, 2006.

The first half of 2006 has been an exciting year of growth, team-building, identifying opportunities and capitalizing on ideas. Everyone on Wizzard's team has been hard at work and putting in long hours, resulting in solid progress toward our Company's goals. We are pleased to announce that for the sixth consecutive quarter our revenues have increased over the same period in the previous year. Our investments in key hires, marketing programs, product innovation and business development are starting to show results. Some of these accomplishments broken down by internal business groups include:

2006 Q2 Speech Technology & Services Group

Wizzard Software's Speech Technology & Services Group sells and licenses speech programming tools, related speech products and services and distributable speech engines in over 13 languages worldwide. Wizzard receives the majority of its sales leads through arrangements with IBM and AT&T as well as through internal internet marketing efforts with Google, Yahoo and other major internet search engines.

The Technology & Services Group (T&S Group) is a cross divisional team within Wizzard that consists of the Technology and Services Division (T&S), plus key members of Wizzard's development, MIS and marketing groups. Together, we are working to implement our strategy to increase market share and brand awareness and become the preferred supplier of speech technologies and services for both domestic and international business developers. The Group plans to increase overall revenue by significantly expanding its customer base, product portfolio and customer reach through a continued focus on three imperatives: best technologies; best pricing; and responsive support.

We continue to advance our speech recognition and text-to-speech licensing business through our relationships with IBM and AT&T. Recently, we announced the expansion of our territory to include the Asia-Pacific region for one of our product lines, and we are beginning to see interest in our offerings coming from this sector. The number of quarterly reporting customers is growing consistently, and we have several customers who have the potential to require large volume licenses in the coming quarters. We continue to meet our customers' needs from industry segments such as emergency telephone alerts, ATM's, video games, e-books, podcasting, telephony IVR and the healthcare market. In the third quarter, we will be launching a new platform by which multiple modes of input and output are supported for speech-based applications, including handhelds, tablets, servers and PCs. We expect a strong interest from the healthcare market, specifically, and several areas of the government as well.

In the second quarter, IBM added Wizzard Software to the IBM 306 accessibility site with direct links to the product pages of our website. This site should drive customers interested in purchasing ViaVoice to deploy in their applications, to our website.

In the third quarter, we plan to announce a significant update to our server based text-to-speech offering which will put us in a position for the first time to meet the needs of the large call center and other IVR specific markets. This is a result of almost a year of internal discussions and planning and is one of the most strategic updates to our product offerings we've ever made. Another announcement we expect to make is that of an extremely accurate, speaker-independent, server based speech recognition engine. With the rapid adoption of audio and video based content on the internet (Web 2.0), we see this new speech recognition engine as a critical component towards monetization for the audio/video businesses that are taking hold across the internet and around the world.

#### 2006 Q2 Speech Products Group

The objectives for the Speech Product Group is to establish successful sales channels for select products offered directly by Wizzard Software which incorporate speech technology offered through our Technology and Services Group.

WizzTones for Skype - The newest Wizzard offering, WizzTones for Skype, was released in mid-January and garnered a significant amount of press. To promote the product, we announced the release on Business Wire and placed the trial version on multiple download websites. We were also able to secure a listing on the Skype site. In March, we created a Google AdWords campaign for WizzTones and almost immediately the number of visitors to the site tripled. Management believes that once the Skype/Warner Brothers Music deal, previously announced by Skype, is finally launched, the number of Skype users (currently estimated at 100M) that want to have multiple music ring tones will grow exponentially. At this time, WizzTones is the only option for users that want to have specific ring tones designated for specific callers. Recently, we were able to secure a listing on CNet.com, a popular shareware website. In May, we were invited by Skype to participate in a partner CD for eBay's Developers Conference held in June 2006 in Las Vegas. This CD was distributed directly by Skype to over 800 participants at the show.

Talking Pill Bottle - Branded with the name "Rex," the Talking Prescription Bottle allows end-users to "hear" medication instructions when reading a medication label is not practical or possible. There are several billion prescriptions filled each year in the U.S. and pharmaceutical errors create billions of dollars in additional medical spending with the number one error being identified as labeling problems and education. Using unique microprocessor electronics and Wizzard's advanced text-to-speech technology, pharmacists automatically create a "talking" label while the traditional

instruction label is being printed. At the push of a button, the prescription bottle talks to the patient, telling him or her the name of the medication, the dosage the patient should consume, the frequency of administration, refill instructions, warnings and other important information necessary to educate and help people take their prescription medication properly.

Our MedivoxRx Talking Prescription Bottle business is making positive progress. The Speech Products Group is focusing its marketing efforts on retail pharmacies and caregivers and is working hard towards getting Medicare reimbursement and insurance coverage for our Talking Prescription Bottle customers. While there are no guarantees of approval, management believes reimbursement approval from Medicare and insurance companies is the key to large unit sales.

We continue to penetrate various sales channels for our speech enabled, Talking Pill Bottle products. We recently entered into a distribution agreement with MAVC in Canada and launched a pilot program with one of the top three retail pharmacy chains in the U.S. We expect to expand the pilot beyond the current locations in the very near future, targeting aging population sectors of the country. Initial reports from the new venture with this high profile pharmacy have been extremely positive. We expect to add another top national pharmacy chain to our distribution of the Talking Pill Bottle in the third quarter of 2006. We are also seeing increased interest in the Talking Pill Bottle from various state legislative bodies and feel we are well positioned to capitalize on a growing legislative movement as state officials look to make the taking of prescription medication safer for their elderly constituents. We are continually challenging our sales and marketing strategies and our delivery of product to achieve better customer satisfaction, market share and operating results. The ability for the elderly and visually impaired to fully comprehend their prescription medication instructions is as necessary as ever as new drugs are constantly introduced to the market and medication combinations make following dosage instructions critical.

#### 2006 Q2 Speech Services - Healthcare

Our acquisition of Interim Healthcare of Wyoming was completed in the third quarter of 2005, and we continue to be excited about the impact our speech technology can have on the home healthcare industry. Based in Casper, Wyoming, Interim Health Care of Wyoming has been serving its community for thirteen years and is part of the fast growing home health segment of the healthcare industry, providing a wide range of visiting nurse services to the elderly, wounded and sick. It is one of the 300 home health agencies that comprise Interim Health Care, the largest home healthcare franchise in the U.S.

We believe that our speech technology (Talking Prescription Bottle, WizzScribe transcription service, MedOasis InfoPath forms, ViaVoice speech medical recognition, etc.) can make a significant impact on the bottom line of HHC agencies, and we are aggressively working towards our first speech implementation. Both Wizzard's management and owners of our targeted home health care agencies believe that strong synergies exist among the services they offer, the compliances they must adhere to, the job functions of their workers and our Talking Prescription Bottle, various talking medical devices, WizzScribe transcription product, medical speech recognition dictation and form-fill applications. Currently, most nurses and health aides fill out mandatory paperwork by hand while owners of the home healthcare agencies continuously strive for timely and accurate data. With a 10% to 25% rejection rate, and 25% to 50% of a worker's time spent filling out paperwork, having the ability to quickly collect and submit accurate data for payment forms and other aspects of the home healthcare business is a compelling proposition. We believe that voice is the most efficient, accurate method for entering and retaining medical records in this thriving vertical market with almost no

competition for us in speech technology implementations. We're starting with the telephone as the interface device because everyone is comfortable with it and this allows us to accurately capture data at the point of care. We believe we are now in position to build the best, most affordable home health medical records solution.

Our home healthcare business continues to be a strong, strategic part of our businesses plan as our country's population ages and new methods of patient data capture become critical components for delivering high quality, affordable healthcare services in a patient's home. Although this has been a gradual process, we believe that we are building a strong business that will offer a complimentary package of new technology and traditional services. Our profits for the first half of 2006 in our home healthcare business are ahead of 2005 profits for the same period and ahead of our own internal projections for 2006. Our people are our strongest asset at Interim of Wyoming, and we will continue to invest in the development of our nurses, aids and staff while providing them with new, speech-based applications to assist them in offering the best possible service for our referrers and the highest quality of care to our patients. We are currently expanding our territory within the state of Wyoming as a result of the state's willingness to increase Medicaid payments by up to 30%, and we expect insurance providers within the state to follow suit this year. In the second quarter, we completed care for our first Medicare Part B patient and saw our staffing department grow 10% over the first quarter of this year. Traditionally, the medical industry is the largest user of speech recognition, and we continue to see huge potential in applying our speech technologies to the home healthcare market so that our people can deliver the most cost effective, personal care possible. Over time, we believe our business strategy will pay off, providing robust, balanced and steady growth.

#### Results of Operations.

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#### Three Months Ended June 30, 2006 and 2005.

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During the second quarter ended June 30, 2006, Wizzard recorded revenues of \$782,046, a 268% increase from revenues of \$291,519 in the second quarter of 2005 and a 30% increase over revenues in the first quarter of 2006 (\$602,391). The increase for the second quarter of 2006 was due primarily to the expansion of our healthcare operations.

Cost of goods sold totaled \$447,700 in the second quarter of 2006, versus \$153,380 in the second quarter of 2005. This increase of 192% is attributed primarily to the expansion of our healthcare operations. Wizzard posted a gross profit of \$334,346 during the second quarter of 2006, versus a gross profit of \$138,139 in the second quarter of 2005, an increase of 142%.

In the second quarter ended June 30, 2006, operating expenses totaled \$961,351 which was a 22% increase from operating expenses of \$790,340 in the second quarter of 2005. Broken down by line item our operating expenses were:

General and administrative expenses were \$674,610 in 2006 versus \$654,153 in 2005. Selling expenses in the second quarter of 2006 were \$134,891 versus \$124,884 in 2005. This 8% increase was due primarily to the expansion of our healthcare operations. Research and Development expenses in the second quarter were \$11,850 versus \$11,303 in 2005.

Other income (expenses) of \$294,582 versus \$38,860 in the second quarter of 2005, consisted primarily of interest expense. This increase relates to the issuance of a \$382,500 of restricted stock to extend the due date on the convertible notes payable to December 28, 2006, offset by other income of \$73,865, for penalties that were not claimed on the delay in registering the

underlying securities.

Wizzard's net loss was \$921,587, or \$0.03 per share, in the quarter ended June 30, 2006. This represents a 33% increase from our net loss of \$691,061, or \$0.03 per share, in the second quarter of 2005.

Six months ended June 30, 2006, and 2005.

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During the six month period ended June 30 2006, Wizzard recorded revenues of \$1,384,437, a 169% increase over revenues of \$515,080 for the same period in 2005. The increase in revenues in the six months ended June 30, 2006, was due to the expansion of our healthcare operations.

In the six months ended June 30, 2006, cost of goods sold totaled \$825,238, a 196% increase as compared to \$278,719 in the six months ended June 30, 2005. The increase in cost of goods sold was due to the expansion of our healthcare operations.

Wizzard recorded total operating expenses of \$1,734,984 during the six months ended June 30, 2006, a 36% decrease as compared to operating expenses of \$2,699,370 in the same period of 2005. General and administrative expenses totaled \$1,346,758 in the first six months of 2006 versus \$1,245,278 in the first six months of 2005, an increase of approximately 8%. This increase is due primarily to an increase in employee and payroll related expense in excess of the comparable six month period. Selling expenses were relatively flat with \$225,058 in expenses in the first six months of 2006 versus \$220,796 in the first six months of 2005. Research and Development expense fell by 44%, from \$41,329 in the first six months of 2005 to \$23,168 in the first six months of 2006. In the first six months of 2005, Wizzard had a \$1,191,967 expense for the impairment of goodwill as a result of the internal merger of the Wizzard Delaware and Wizzard Colorado companies.

In the first six months of 2006, Wizzard recorded \$140,000 of compensation for re-pricing of warrants. In the first six months of 2005, Wizzard incurred an interest expense of \$1,452,065, primarily due to \$1,400,000 interest expense for amortization of a discount in conjunction with the \$1,400,000 convertible note sold to investors versus a \$392,066 interest expense in the first six months of 2005.

Wizzard's net loss was \$1,479,786, or \$0.05 per share, in the six months ended June 30, 2006. This represents a 62% decrease from our net loss of \$3,915,074, or \$0.14 per share, in the first six months of 2005. Total non-cash expenses for the first six months of 2006 was \$1,037,284, a 67% decrease from non-cash expenses of \$3,117,004 in the first six months of 2005, primarily due to interest expense of \$1,400,000 for amortization of a discount in conjunction with our \$1,400,000 note we sold to three separate institutional investors.

Liquidity and Capital Resources.

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Cash on hand was \$593,959 at June 30, 2006, a decrease of \$695,637 over the \$1,289,596 on hand at June 30, 2005. Cash used in operations for the six months ended June 30, 2006, was \$574,344, a decrease of 13% over the \$661,628 cash used in operations for the six months ended June 30, 2005. Cash used in investing activities was \$4,086 for the purchase of equipment and software during the six months ended June 30, 2006.

In the first six months of 2006, the Company received \$560,004 from the issuance of common stock. The Company used common stock to pay \$427,167 in consulting, investor relations and employee services during the six months ended June 30, 2006. In doing so, management believes we have conserved

Wizzard's cash liquidity for operational purposes.

The Company believes it is still in the early stages of the new and developing speech technology market and estimates it will require approximately \$130,000 per month to maintain current operations. As mentioned in Note 2 to the accompanying unaudited financial statements, the Company has not yet been able to establish profitable operations and has not generated sufficient cashflows from operations, thus raising substantial doubt about its ability to continue as a going concern. The Company has been successful over the past ten years in obtaining working capital and will continue to seek to raise additional capital from time to time as needed and until profitable operations can be established.

Safe Harbor Statement.

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Statements made in this Form 10-QSB which are not purely historical are forward-looking statements with respect to the goals, plan objectives, intentions, expectations, financial condition, results of operations, future performance and business of the Company, including, without limitation, (i) our ability to gain a larger share of the speech recognition software industry, our ability to continue to develop products acceptable to that industry, our ability to retain our business relationships, and our ability to raise capital and the growth of the speech recognition software industry, and (ii) statements preceded by, followed by or that include the words "may", "would", "could", "should", "expects", "projects", "anticipates", "believes", "estimates", "plans", "intends", "targets", "tend" or similar expressions.

Forward-looking statements involve inherent risks and uncertainties, and important factors (many of which are beyond the Company's control) that could cause actual results to differ materially from those set forth in the forward-looking statements, including the following, in addition to those contained in the Company's reports on file with the Securities and Exchange Commission: general economic or industry conditions, nationally and/or in the communities in which the Company conducts business, changes in the interest rate environment, legislation or regulatory requirements, conditions of the securities markets, changes in the speech recognition technology industry, the development of products that may be superior to the products offered by the Company, competition, changes in the quality or composition of the Company's products, our ability to develop new products, our ability to raise capital, changes in accounting principals, policies or guidelines, financial or political instability, acts of war or terrorism, other economic, competitive, governmental, regulatory and technical factors affecting the Company's operations, products, services and prices.

Accordingly, results actually achieved may differ materially from expected results in these statements. Forward-looking statements speak only as of the date they are made. The Company does not undertake, and specifically disclaims, any obligation to update any forward-looking statements to reflect events or circumstances occurring after the date of such statements.

Item 3. Controls and Procedures.

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In connection with the completion of its audit of, and the issuance of its report on our consolidated financial statements for the year ended December 31, 2005, Gregory & Associates, LLC identified deficiencies that existed in the design or operation of our internal control over financial reporting that it considered to be "material weaknesses." The Public Company Accounting Oversight Board had 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 interim financial statements will not be prevented or detected."



The material weakness identified relate to:

- \* the lack of sufficient knowledge and experience among the internal accounting personnel regarding the application of US GAAP and SEC requirements;
- \* segregation of duties, in that we had only one person performing all accounting-related duties
- \* insufficient written policies and procedures for accounting and financial reporting with respect to the current requirements and application of US GAAP and SEC disclosure requirements; and

We believe that each of these material weaknesses existed at December 31, 2005. The following changes in our internal controls over financial reporting occurred during the first quarter of 2006 (unless indicated otherwise):

- \* the hiring of John L. Busshaus as our Controller on April 3, 2006, and the education of Christopher J. Spencer and Armen Geronian and our accounting staff about GAAP and Securities and Exchange Commission requirements;
- \* the segregation of accounting duties that had formerly been performed by one person among three persons, including Mr. Busshaus. As we continue to incorporate written policies and procedures for accounting and financial reporting, we will continue to implement additional segregation of duties.

We believe that these steps have fully addressed the first two material weakness identified above. We are actively working on implementing written policies and procedures that will fully address the second material weakness, which we also believe still exists. We expect that this process may take 9-12 months. As we continue to refine our internal workflow system and our written policies and procedures, we believe that we will identify other areas in which we can further segregate our employees' duties. Although we have taken significant steps to address this material weakness, we believe that it will continue to exist until we have fully addressed the written policies and procedures material weakness.

As required by Rule 13a-15(b) of the Securities and Exchange Commission, and as of the end of the period covered by this Report, we carried out an evaluation under the supervision and with the participation of our management, including our Chief Executive Officer and acting Chief Financial Officer, or the persons performing similar functions, of the effectiveness of the design and operation of our disclosure controls and procedures as of June 30, 2006. Based on this evaluation, our Chief Executive Officer has concluded that the Company's controls and procedures as of June 30, 2006, are not effective. This is management's conclusion, despite the compensating control provided by the significant day-to-day involvement of the Company's Chief Executive Officer in all aspects of the Company's operations in a small company atmosphere, and the Company's engagement of an outside professional with sufficient expertise in the application of US GAAP and SEC requirements.

The significant day-to-day involvement of our Chief Executive Officer includes:

- \* his approval of all new hires and all Company purchases over the amount of \$500;
- \* the requirement that all checks over the amount of \$2,500 bear two signatures, one of which must be an Officer's signature;
- \* his approval of all transactions requiring credit approval; and

\* his involvement in the analysis and approval of all acquisitions and dispositions of assets.

These policies have been in place since Wizzard's inception.

The Company will continue to monitor, assess and work to improve the effectiveness of our internal control procedures related to internal controls, financial reporting and certain entity-wide controls related to corporate governance in order to comply with Section 404 of the Sarbanes Oxley Act of 2002.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.  
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None; not applicable.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.  
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The following table provides information about all "unregistered" and "restricted" securities that Wizzard has sold during the six month period ended June 30, 2006, which were not registered under the Securities Act of 1933, as amended (the "Securities Act"):

Name	Date	Shares	Amount
Lane Ventures	1/9/06	100,000	Services valued at \$180,000
Bruce Phifer	1/23/06	7,500	Services valued at \$13,800
Mary Dvorsky	5/25/06	700	Services valued at \$1,177
J. David Cepicka	5/25/06	3,140	Services valued at \$5,297
Susan Sisk	5/25/06	3,140	Services valued at \$5,297
Lane Ventures	6/7/06	36,000	Services valued at \$60,480

We issued all of these securities to persons who were either "accredited investors," or "sophisticated investors" who, by reason of education, business acumen, experience or other factors, were fully capable of evaluating the risks and merits of an investment in our Company; and each had prior access to all material information about us. We believe that the offer and sale of these securities were exempt from the registration requirements of the Securities Act, pursuant to Sections 4(2) and 4(6) thereof, and Rule 506 of Regulation D of the Securities and Exchange Commission and from various similar state exemptions.

Item 3. Defaults Upon Senior Securities.  
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None; not applicable.

Item 4. Submission of Matters to a Vote of Security Holders.  
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None; not applicable.

Item 5. Other Information.  
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None; not applicable.

Item 6. Exhibits and Reports on Form 8-K.  
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(a) Exhibits.

31.1 - 302 Certification of Christopher J. Spencer

31.2 - 302 Certification of Gordon Berry

32 - 906 Certification.

(b) Reports on Form 8-K.

None; not applicable.

SIGNATURES

In accordance with the requirements of the Exchange Act, the Registrant caused this Quarterly Report to be signed on its behalf by the undersigned, thereunto duly authorized.

WIZZARD SOFTWARE CORPORATION

Date: 8/14/06  
-----

/s/ Christopher J. Spencer  
-----

Christopher J. Spencer, Director,  
CEO, President and Treasurer

Date: 8/14/06  
-----

/s/ Armen Geronian  
-----

Armen Geronian, Director  
Secretary

Date: 8/14/06  
-----

/s/ Gordon Berry  
-----

Gordon Berry, Director and Acting  
Chief Financial Officer

Date: 8/14/06  
-----

/s/ Alan Costilo  
-----

Alan Costilo, Director

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<DESCRIPTION>302 CERTIFICATION OF CHRISTOPHER J. SPENCER

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CERTIFICATION PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Christopher J. Spencer, CEO, President and Treasurer, of Wizzard Software Corporation (the "small business issuer"), certify that:

1. I have reviewed this Quarterly Report on Form 10-QSB of the small business issuer;

2. Based on my knowledge, this Quarterly Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Quarterly Report;

3. Based on my knowledge, the financial statements, and other financial information included in this Quarterly Report, fairly present in all material respects the financial condition, results of operations and cash flows of the small business issuer as of, and for, the periods presented in this Quarterly Report;

4. The small business issuer's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the small business issuer and have:

- a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed, to ensure that material information relating to the small business issuer, including its consolidated subsidiaries, is made known to me by others within those entities, particularly during the period in which this Quarterly Report is being prepared;
- b) evaluated the effectiveness of the small business issuer's disclosure controls and procedures and presented in this report my conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
- c) disclosed in this report any change in the small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter (the small business issuer's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting; and

5. The small business issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of the small business issuer's board of directors (or persons performing the equivalent functions);

- a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the small business issuer's ability to record, process, summarize and report financial information; and
- b) any fraud, whether or not material, that involves management or other employees who have a significant role in the small business issuer's internal control over financial reporting.

Dated: August 14, 2006

Signature:

/s/ Christopher J. Spencer

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Christopher J. Spencer  
President, CEO and Treasurer

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<FILENAME>ex31-2.txt

<DESCRIPTION>302 CERTIFICATION OF GORDON BERRY

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CERTIFICATION PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Gordon Berry, acting CFO of Wizzard Software Corporation (the "small business issuer"), certify that:

1. I have reviewed this Quarterly Report on Form 10-QSB of the small business issuer;

2. Based on my knowledge, this Quarterly Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Quarterly Report;

3. Based on my knowledge, the financial statements, and other financial information included in this Quarterly Report, fairly present in all material respects the financial condition, results of operations and cash flows of the small business issuer as of, and for, the periods presented in this Quarterly Report;

4. The small business issuer's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the small business issuer and have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed, to ensure that material information relating to the small business issuer, including its consolidated subsidiaries, is made known to me by others within those entities, particularly during the period in which this Quarterly Report is being prepared;

b) evaluated the effectiveness of the small business issuer's disclosure controls and procedures and presented in this report my conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c) disclosed in this report any change in the small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter (the small business issuer's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting; and

5. The small business issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of the small business issuer's board of directors (or persons performing the equivalent functions);

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the small business issuer's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the small business issuer's internal control over financial reporting.

Dated: August 14, 2006      Signature:      /s/ Gordon Berry  
-----  
Gordon Berry  
Acting CFO

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

In connection with the Quarterly Report of Wizzard Software Corporation (the "Registrant") on Form 10-QSB for the period ending June 30, 2006, as filed with the Securities and Exchange Commission on the date hereof (the "Quarterly Report"), we, Christopher J. Spencer, President, CEO and Treasurer and Gordon Berry, Acting Chief Financial Officer of the Registrant, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Quarterly Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Quarterly Report fairly presents, in all material respects, the financial condition and result of operations of the Registrant.

Dated: August 14, 2006      Signature:      /s/ Christopher J. Spencer  
-----  
Christopher J. Spencer  
President, CEO and Treasurer

Dated: August 14, 2006      Signature:      /s/ Gordon Berry  
-----  
Gordon Berry  
Acting Chief Financial Officer

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-----END PRIVACY-ENHANCED MESSAGE-----