

U. S. Securities and Exchange Commission  
Washington, D. C. 20549

FORM 10-QSB

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

For the quarter ended June 30, 2005  
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TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File No. 000-33381  
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WIZZARD SOFTWARE CORPORATION  
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(Name of Small Business Issuer in its Charter)

COLORADO  
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(State or Other Jurisdiction of  
incorporation or organization)

87-0575577  
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(I.R.S. Employer  
Identification No.)

5001 Baum Boulevard, Suite 770  
Pittsburgh, Pennsylvania 15213  
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(Address of Principal Executive Offices)

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

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

N/A  
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(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:

August 09, 2005

Common 27,873,617 shares

Transitional Small Business Issuer Format Yes X No  
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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 CONDENSED CONSOLIDATED BALANCE SHEET

ASSETS

	June 30, 2005
CURRENT ASSETS:	
Cash	\$ 1,289,596
Accounts receivable, net	29,141
Inventories	82,533
Prepaid expenses	24,083
Total Current Assets	<u>1,425,353</u>
PROPERTY & EQUIPMENT, net	<u>97,414</u>
DEPOSITS	<u>8,124</u>
Total Other Assets	<u>8,124</u>
	<u>\$ 1,530,891</u>
LIABILITIES AND STOCKHOLDERS' DEFICIT	
CURRENT LIABILITIES:	
Accounts payable	\$ 220,467
Accrued expenses	40,804
Total Current Liabilities	<u>261,271</u>
CONVERTIBLE NOTES PAYABLE	<u>1,425,000</u>
Total Liabilities	<u>1,686,271</u>
STOCKHOLDERS' DEFICIT:	
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, 27,364,867 shares issued and outstanding, respectively	27,365
Additional paid-in capital	17,195,982
Accumulated deficit	(17,378,727)
Total Stockholders' Deficit	<u>(155,380)</u>

\$ 1,530,891

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

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WIZZARD SOFTWARE CORPORATION AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2005	2004	2005	2004
NET SALES	\$ 291,523	\$ 111,021	\$ 515,084	\$ 208,085
COST OF GOOD SOLD	140,655	114,738	283,661	193,350
Gross Profit (Loss)	150,868	(3,717)	231,423	14,735
EXPENSES:				
General and administrative	638,397	941,990	1,281,451	1,172,323
Selling	135,869	67,353	179,509	136,834
Investor relations consulting	-	-	-	825,000
Compensation for re-pricing warrants	-	-	-	160,420
Research and development	28,803	33,000	33,289	33,000
Impairment of goodwill	-	-	1,191,967	-
Total Expenses	803,069	1,042,343	2,686,216	2,327,577
LOSS FROM OPERATIONS				
(652,201)(1,046,060)(2,454,793)(2,312,842)				
OTHER EXPENSE				
Interest Expense	38,860	4,217	1,452,065	14,375
Loss on abandoned leaseholds	-	30,869	-	30,869
Total Other Expense	38,860	35,086	1,452,065	45,244
LOSS BEFORE INCOME TAXES				
(691,061)(1,081,146)(3,906,858)(2,358,086)				
CURRENT TAX EXPENSE	-	-	-	-
DEFERRED TAX EXPENSE	-	-	-	-
NET LOSS				
\$(691,061)\$(1,081,146)\$(3,906,858)\$(2,358,086)				
BASIC AND DILUTED LOSS				
PER COMMON SHARE	\$ (.03)	\$ (.04)	\$ (.14)	\$ (.10)

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

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WIZZARD SOFTWARE CORPORATION AND SUBSIDIARIES  
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Six Months Ended June 30,	
	2005	2004
<b>Cash Flows from Operating Activities:</b>		
Net loss	\$(3,906,858)	\$(2,358,086)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization expense	17,542	74,496
Common Stock issued for consulting and Investor relations services	497,297	1,649,509
Impairment of goodwill	1,191,967	-
Amortization of discount on notes payable	1,400,000	-
Loss on abandoned leasehold improvements	-	30,869
Changes in assets and liabilities:		
Restricted cash	-	(58,671)
Accounts receivable	(10,442)	5,390
Inventories	4,161	5,001
Prepaid expense	44,654	(8,362)
Other assets	-	-
Accounts payable and accrued expense	100,051	(23,070)
<b>Net Cash Used in Operating Activities</b>	<b>(661,628)</b>	<b>(682,924)</b>
<b>Cash Flows from Investing Activities:</b>		
Purchase of property & equipment	(15,630)	(21,144)
<b>Net Cash Used in Investing Activities</b>	<b>(15,630)</b>	<b>(21,144)</b>
<b>Cash Flows from Financing Activities:</b>		
Proceeds from issuance of common stock	146,228	1,935,959
Payment of stock offering cost	-	(127,283)
Proceeds from long-term obligation	1,400,000	-
Payments on note payable - related party	(25,076)	-
<b>Net Cash Provided by Financing Activities</b>	<b>1,521,152</b>	<b>1,808,676</b>
<b>Net Increase in Cash</b>	<b>843,894</b>	<b>1,104,608</b>
Cash at Beginning of Period	445,702	53,544
Cash at End of Period	<b>\$1,289,596</b>	<b>\$1,158,152</b>
<b>Supplemental Disclosures of Cash Flow Information:</b>		
Cash paid during the periods for:		
Interest	\$ -	\$ -
Income taxes	\$ -	\$ -

(Continued)

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WIZZARD SOFTWARE CORPORATION AND SUBSIDIARIES  
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Continued)

Supplemental Schedule of Noncash Investing and Financing Activities:

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 upon the exercise of options for consulting services valued at \$64,900.

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 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 the purchase of the remaining 5% minority shares of WSC. The resulting goodwill of \$1,191,967 was impaired immediately.

For the six months ended June 30, 2004:

The Company recorded \$160,420 in compensation for the re-pricing of 408,076 warrants from \$1.50 to \$1.00 per share and extending the expiration date from January 1, 2004 to February 29, 2004.

The Company issued 250,000 shares of common stock for consulting services valued at \$825,000.

On April 23, 2004, the Company acquired MediVoxRx Technologies, Inc. through a triangular purchase wherein the Company's newly formed wholly owned subsidiary acquired the operations MediVoxRx Technologies through the Company issuing 150,035 common shares to acquire all of the issued and outstanding shares of MediVoxRx Technolgies, Inc. As a result of the purchase, the Company recorded goodwill of \$435,594 as the purchase price exceed of \$537,125 exceed the \$101,531 net book value of the assets.

The Company issued 19,286 common shares in payment of \$67,500 in penalties related to the delay in the registering shares underlying the 8% convertible note payable.

The Company issued 139,286 common shares upon conversion of \$60,000 of the 8% convertible note payable and payment of related accrued interest payable of \$47,837.

The Company issued 18,117 common shares in payment of \$63,408 in accrued interest.

The Company issued 184,167 common shares for consulting services valued at \$585,651.

The Company issued 27,999 common shares in payment of a \$10,016 note payable and \$614 in related accrued interest and \$78,438 in consulting services.

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

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#### WIZZARD SOFTWARE CORPORATION AND SUBSIDIARY

#### NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

##### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Unaudited Condensed 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, 2005 and 2004 and for all the periods presented 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 condensed financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's December 31, 2004 audited financial statements. The results of operations for the periods ended June 30, 2005 and 2004 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. On January 19, 2005, Parent acquired the remaining 5% minority interest of Wizzard Software Corp. ["Subsidiary"], wherein Wizzard Software Corp. was merged into Parent. The Company engages primarily in the development, sale, and service of custom and packaged computer software products. On May 22, 2001 the Company purchased all of the issued and outstanding shares of Speech Systems, Inc. in a transaction accounted for as a purchase. On April 9, 2004,

the

Parent organized Wizzard Merger Corp. ("WMC") a New York corporation to acquire and dissolve into, the operations of MedivoxRx Technologies, Inc., a New York Corporation, in a transaction accounted for as a purchase. WMC engages primarily in the development, sale, and service of a talking prescription pill bottle.

Consolidation - The financial statements presented reflects the accounts of Wizzard Software Corporation, , Wizzard Merger Corp, and Speech Systems, Inc. as of June 30, 2005. On January 19, 2005 Wizzard Software Corp. was merged into the parent upon the parent acquiring the remaining 5% minority interest. The Company recorded no liability for the approximate 5% non-controlling interest prior to the acquisition by Parent as Wizzard Software Corp. had a stockholders deficit at the time of original merger. Further the net loss for Wizzard Software Corp. for the period from January 1, 2005 through January 19, 2005 and the six months ended June 30, 2004 applicable to the 5% non-controlling interest was not allocated to the non-controlling interest as there is no obligation of the non-controlling interest to share in such losses. All significant inter-company transactions between the Parent and Subsidiary have been eliminated in consolidation.

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WIZZARD SOFTWARE CORPORATION AND SUBSIDIARY

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents - For purposes of the financial statements, the Company considers all highly liquid debt investments purchased with a maturity of three months or less to be cash equivalents. The Company maintains its cash balance at one financial institution located in Pittsburgh, Pennsylvania. At June 30, 2005, the Company had cash deposits of \$1,189,596 in excess of federally insured amounts.

Accounts Receivable - Accounts receivable consist of trade receivables arising in the normal course of business. At June 30, 2005, the Company has established an allowance for doubtful accounts of zero 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. Amounts written off for the periods presented are insignificant for disclosure.

Inventories - Inventories consist of \$82,533 in raw materials at June 30, 2005 and are carried at the lower of cost or market as determined on the first-in first-out method.

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

Definite life intangible assets In 2004, the company had definite Intangible assets consisting of the rights, interest, title patents, trademarks, a purchased website and trade secrets of the speech recognition software ActiveX Voice Tools, purchased in the acquisition of Speech Systems, Inc., purchased rights to a Merchant Operating Understanding for the distribution of the Company's products

and domain name registration and were being amortized over two to five years on a straight-line basis. These intangible assets were impaired in full during 2004.

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 requires 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 assets at June 30, 2005.

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.

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WIZZARD SOFTWARE CORPORATION AND SUBSIDIARY  
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition - Revenue is recognized when earned. 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. 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 December 31, 2004 amounted to \$0, respectively. 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. Revenue from non-recurring programming, engineering fees, consulting service, support

arrangements and training programs are recognized when the services are provided. Such items are included in net revenues and amounted to \$21,000 and \$37,950 for the six months ended June 30, 2005 and 2004, respectively.

Loss Per Share - The Company computes loss per share in accordance with (SFAS) No. 128 "Earnings Per Share," which requires the Company to present basic earnings per share and dilutive earnings per share when the effect is dilutive [See Note 6].

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America 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.

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WIZZARD SOFTWARE CORPORATION AND SUBSIDIARY  
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently Enacted Accounting Standards - Statement of Financial Accounting Standards ("SFAS") No. 152, "Accounting for Real Estate Time-Sharing Transactions - an amendment of FASB Statements No. 66 and 67", SFAS No. 153, "Exchanges of Nonmonetary Assets - an amendment of APB Opinion No. 29", and SFAS No. 123 (revised 2004), "Share-Based Payment", which replaces SFAS No. 123, "Accounting for Stock-Based Compensation", and supersedes APB Opinion No. 25, "Accounting for stock Issued to Employees" and Emerging Issues Task Force ("EITF") Issue No. 03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments," were recently issued. SFAS No. 152, 153, and EITF 03-1 have no current applicability to the Company or their effect on the financial statements would not have been significant.

In November 2004, the FASB issued SFAS No. 151, "Inventory Costs". SFAS No. 151 requires abnormal amounts of inventory costs related to idle facility, freight handling and wasted material (spoilage) to be recognized as current-period charges. In addition, SFAS No. 151 requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. The Company will be required to adopt the provisions of SFAS No. 151 for fiscal years beginning after June 15, 2005. Management believes the provisions of this Standard will not have a significant effect on our financial position or results of operations.

SFAS No. 123(R) requires that the compensation cost relating to share-based payment transactions be recognized in financial statements. The cost will be measured based on the fair value of the instruments issued. The Company will be required to apply SFAS No. 123(R) as of the first interim reporting period that begins after June 15, 2005. Accordingly, The Company will adopt SFAS No. 123(R) in the third quarter of fiscal 2005 using the modified-prospective method. Management is currently evaluating the impact SFAS No. 123(R) will have on the Company's results of operations as a result of adopting this new Standard.

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WIZZARD SOFTWARE CORPORATION AND SUBSIDIARY  
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Stock Based Compensation - The Company accounts for the stock option plans in accordance with the recognition and measurement principles of APB Opinion No. 25, "Accounting for Stock Issued to Employees", and Related Interpretations. Under this method, compensation expense is recorded on the date of grant only if the current market price of the underlying stock exceeds the exercise price. The Corporation has adopted the disclosure-only provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation." Accordingly, no compensation cost under SFAS No. 123 has been recognized for the stock option plans or other agreements in the accompanying statement of operations. 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 the six months ended June 30, 2005 and 2004 consistent with the provisions of SFAS No. 123, the Company's net earnings net of taxes and earnings per share would have been reduced to the pro forma amounts indicated below:

		2005	2004
Net (Loss)	As reported	<u>\$(3,906,858)</u>	<u>\$(2,358,086)</u>
Add: Stock-based employee compensation expense included in reported net income		-	-
Deduct: Total stock-based employee compensation expense determined under fair value based method		-	-
Net (Loss)	Proforma	<u>\$(3,906,858)</u>	<u>\$(2,358,086)</u>
Basic and diluted loss per share			
	As reported	\$ (.14)	\$ (.10)
	Proforma	\$ (.14)	\$ (.10)

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 since inception, 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 consolidated financial statements do not include any adjustments that might result from the outcome of these uncertainties.

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WIZZARD SOFTWARE CORPORATION AND SUBSIDIARIES  
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3 PROPERTY & EQUIPMENT

The following is a summary of property and equipment:

	June 30, 2004
Furniture, fixtures and equipment	\$ 105,291
Production molds	47,710
Software	11,565
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	164,566
Accumulated Depreciation	(67,152)
	<hr/>
Property & Equipment, net	\$ 97,414
	<hr/>

Depreciation expense for the six months ended June 30, 2005 and 2004 totaled \$17,542 and \$15,794, respectively.

During 2004, The Company terminated its lease agreement and recorded a loss of \$30,869 in abandoned leasehold improvements.

NOTE 4 CONVERTIBLE NOTES PAYABLE

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 notes mature June 22, 2006. As of June 30, 2005, the balance of the note is \$1,400,000 with related accrued interest payable of \$28,740.

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 and warrants are immediately exercisable in accordance with EITF 98-5 and EITF 00-27.

The Company was required to file a Registration Statement registering all shares issuable upon conversion of the promissory notes and the warrants. The Registration Statement must be declared effective not later than 120 days after the closing date. For every 30 day period that either of these deadlines have not been met, the Company is to pay to the subscribers liquidated damages equal to two percent of the purchase price of the promissory notes remaining unconverted and the purchase price of the shares issued upon conversion of the notes.

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WIZZARD SOFTWARE CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4 NOTES PAYABLE (Continued)

8% Convertible Note Payable - On September 14, 2001, the Company issued a Series 2001-A 8% convertible note payable of the Company in the amount of \$250,000, with a maturity date of August 1, 2011. The Note is convertible in to the Company's common stock at the lower of \$.50 per share or 75% of the closing bid price. As the conversion price was below the fair value of the common stock on the date issued the Company has recorded the beneficial conversion feature of the note in accordance with the provisions found in EITF 98-5 and 00-27 by recording a \$250,000 discount on the note. The discount was recorded as interest expense on September 14, 2001 as the note is immediately convertible. The note further calls for the Company to register the underlying shares into which the note can be converted and if said share are not registered as of March 15, 2003 the Company will owe a penalty of \$7,500 and \$10,000 for every month thereafter, accordingly the Company paid \$67,500 on May 3, 2004 through the issuance of 19,286 common shares. During the six months ended June 30, 2005 the holder converted \$75,000 into 150,000 common Shares. During the six months ended June 30, 2004, the Company issued 139,286 common shares upon conversion of \$60,000 of the note and payment of related accrued interest payable of \$47,837. As of June 30, 2005, the balance of the note is \$25,000 with related accrued interest payable of \$11,136.

Related Party Notes Payable - During the year ended December 31, 2001, a shareholder loaned the Company \$46,076. The demand note is unsecured and accrues interest at 5% per annum. On March 31, 2005, the \$25,076 note with related accrued interest of \$4,830 were paid.

The Company also had a demand note payable to a shareholder in 2004. The note accrued interest at a rate of prime plus 1% or approximately 5.75%. On May 3, 2004, the Company issued 27,999 of its restricted common shares in payment of the note balance of \$10,016 and accrued interest of \$614 and \$78,408 in consulting fees.

On January 8, 2004, a shareholder loaned an additional \$50,000 to the Company. The note was repaid with interest of \$5,000 on January 24, 2004.

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WIZZARD SOFTWARE CORPORATION AND SUBSIDIARY

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5 CAPITAL STOCK

Preferred Stock - The Company has authorized 10,000,000 shares of preferred stock, \$.001 par value. As of June 30, 2004, 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, 2004, the Company had 25,290,187

common shares issued and outstanding.

During January 2004, the Company raised an additional \$1,071,733 net of stock offering cost of \$127,283 through the issuance of 1,648,352 common shares and 824,174 warrants to purchase common shares at \$1.55 per share, expiring January 23, 2007. The Company has registered the common shares issued and all of the shares of common stock underlying the Warrants (the "Warrant Shares").

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.

During January to March, 2004, the Company issued 588,076 common shares upon the exercise of warrants outstanding to purchase common stock of the Company at \$.25 to \$1.25 per share.

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

During the six months ended June 30, 2004, the Company issued 139,286 common shares upon conversion of \$60,000 of the 8% convertible note payable and payment of related accrued interest payable of \$47,837.

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

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.

On March 25, 2004, the Company issued 250,000 common shares valued at \$825,000 for investor relations services.

Stock for Consulting and Employee 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 employee Services valued at \$19,000.

During the six months ended June 30, 2004, the Company further issued 90,210 common shares upon exercise of 90,210 options issued for \$162,846 in employee compensation during 2004.

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WIZZARD SOFTWARE CORPORATION AND SUBSIDIARY  
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5 CAPITAL STOCK (Continued)

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.

On April 23, 2004, the Company acquired MediVoxRx Technologies, Inc. through a triangular purchase wherein the Company's newly formed wholly owned subsidiary acquired the operations MediVoxRx Technologies through the Company issuing 150,035 common shares to acquire all of the issued and outstanding shares of MediVoxRx Technologies, Inc. Additionally, the Company has agreed to issue as many as additional 1,550,000 common shares to the former shareholders of MediVoxRx Technologies, Inc. if certain development, acceptance and profitability milestones are met (See Note 9).

Other Stock Issuances - On May 3, 2004, the Company issued 19,286 common shares in payment of \$67,500 in penalties related to the delay in the registering shares underlying the 8% convertible note payable.

On May 3, 2004, the Company issued 18,117 common shares in payment of \$63,408 in accrued interest.

On May 3, 2004, the Company issued 184,167 common shares for consulting services valued at \$585,651.

On May 3, 2004, the Company issued 27,999 common shares in payment of a \$10,016 note payable and \$614 in related accrued interest and \$78,408 in Consulting services.

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 will record 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.

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WIZZARD SOFTWARE CORPORATION AND SUBSIDIARY  
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5 CAPITAL STOCK (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 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 (Section 422 provides certain tax advantages to the employee recipients). The total number of shares of common stock available under the Plan may not exceed 200,000. At June 30, 2005 total options available to be granted under the Plan totaled 9,950, respectively. During the six months ended March 31, 2005, the Company granted 40,084 options which were immediately exercised for services valued at \$113,272.

2002 Stock Option Plan - During 2002, the Board of Directors adopted a Stock Option Plan (the Plan). Under the terms and conditions of the 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 (Section 422 provides certain tax advantages to the employee recipients). The total number of shares of common stock available under the Plan may not exceed 1,000,000. At June 30, 2005, total options available to be granted under the Plan totaled 14,259. During the Quarter ended March 31, 2004 the Company issued 90,210 options to purchase common stock at \$1.38 to \$2.09 per share that were immediately exercised for \$162,846 in salaries.

Warrants - A summary of the status of the warrants granted at June 30, 2005 and 2004 and changes during the six months then ended is presented below:

	June 30, 2005		June 30, 2004	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	786,174	\$1.55	608,076	\$1.28
Granted	1,400,000	\$1.83	824,174	\$1.55
Exercised	(94,339)	\$1.55	(588,076)	\$1.32
Forfeited	-	-	-	-
Expired	-	-	-	-
Outstanding and exercisable at end of period	2,091,835	\$1.73	844,174	\$1.52

On January 1, 2004, the Company recorded a \$160,420 expense for the repricing of 408,076 warrants to purchase common stock from \$1.50 per share to \$1.00 per share and extending the expiration date of the warrants from January 1, 2004 to February 29, 2004.

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WIZZARD SOFTWARE CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6 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	For the Six Months Ended
--	----------------------------	--------------------------

	June 30,		June 30,	
	2005	2004	2005	2004
Loss from continuing operations available to common shareholders (numerator)	\$(691,061)	\$(1,081,146)	\$(3,906,858)	\$(2,358,086)
Weighted average number of common shares outstanding during the period used in loss per share (denominator)	27,253,338	24,604,503	27,045,817	23,881,646

At June 30, 2005, the Company had 2,091,835 warrants outstanding to purchase common stock of the Company at \$.25 to \$1.55 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 4], which were not included in the loss per share computation because their effect would be anti-dilutive.

At June 30, 2004, the Company had 844,174 warrants outstanding to purchase common stock of the Company at \$.25 to \$1.55 per share and a convertible note payable wherein the holder could convert the note into a minimum of 350,000 shares of common stock, [See Note 4], which were not included in the loss per share computation because their effect would be anti-dilutive.

#### NOTE 7 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, 2005 operating loss carryforwards of approximately \$15,400,000 which may be applied against future taxable income and which expires in various years through 2025.

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WIZZARD SOFTWARE CORPORATION AND SUBSIDIARIES

#### NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

#### NOTE 7 INCOME TAXES (Continued)

The amount of and ultimate realization of the benefits from the operating loss carryforward 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 carryforward and significant changes in the ownership of the Company, a valuation allowance has been established equal to the tax effect of the

loss carryforward and, therefore, no deferred tax asset has been recorded for the loss carryforward. The net deferred tax assets are approximately \$5,200,000 as of June 30, 2005, with an offsetting valuation allowance of the same amount. The change in the valuation allowance for the period ended March 31, 2004 is approximately \$300,000.

NOTE 8 GOODWILL

As a result of the acquisition of the remaining 5% minority interest of Wizzard Software Corp. (Subsidiary), the Company recorded Goodwill of \$1,191,967, which was immediately impaired.

NOTE 9 COMMITMENTS AND CONTINGENCIES

Contingent Consideration for the Acquisition of MedivoxRX - In connection with the acquisition of assets of MedivoxRx Technologies The Parent will issue an additional 100,000 restricted common shares to the former stockholders if the 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.

The Parent will also issue an additional 50,000 restricted common shares to the former stockholders of MediVoxRX if the Wizzard Merger Corp. pill bottle simultaneously loads the prescription while the label is being printed and is upon approval and acceptance by any Veterans Administration Hospital.

The Parent will further issue an additional 625,000 restricted common shares to the former stockholders of MediVoxRX if the Wizzard Merger Corp. meets revenue and profit projections for the second year of operations forward from the April 23, 2004 acquisition date.

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 2003 through June 2005.

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.

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WIZZARD SOFTWARE CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9 COMMITMENTS AND CONTINGENCIES (Continued)

Letter of Intent to Acquire - On March 18, 2005, we executed a Letter of Intent with Interim Health Care of Wyoming Inc., a Wyoming corporation ("Interim"). Under the Letter of Intent, we agreed to acquire all of Interim's assets in consideration of \$868,000 in cash and \$384,000 in "unregistered" and "restricted" shares of the Company's

common stock, based on the average closing price of the Company's common stock on the OTC Bulletin Board of the National Association of Securities Dealers, Inc. for the five business days following the date of the Letter of Intent. Seventy five percent of this additional payment will be in the form of "unregistered" and "restricted" shares of the Company's common stock and 25% will be in cash. In addition, Interim will receive additional payments of two times its earnings before interest, taxes, depreciation and amortization ("EBITDA") for: (i) any EBITDA during the calendar year ended December 31, 2005, which exceeds Interim's EBITDA of \$288,000 for the calendar year ended December 31, 2004; and (ii) any EBITDA during the calendar year ended December 31, 2006, which exceeds Interim's EBITDA during the calendar year ended December 31, 2005.

NOTE 10 SUBSEQUENT EVENTS

On August 1, 2005 the Company Issued 8,750 common shares for Consulting services valued at \$17,325.

On August 1, 2005 the Company issued 500,000 common shares for investor Relations services valued at \$990,000.

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

Highlights of 2nd quarter, 2005.

In the second quarter of 2005, Wizzard had several significant accomplishments and successfully moved forward on many aspects of our business plan. Some of these accomplishments broken down by internal business group include:

2005 Q2 Technology & Services Group Accomplishments

The Technology & Services Group strategy is to increase market share and brand awareness so as to be the preferred supplier of speech technologies. The Group plans to increase overall revenue by significantly expanding customer base, product portfolio and customer reach through a continued focus on three imperatives: Best technologies, best pricing, responsive support.

The Technology & Services Group recorded its best revenue generating quarter in Company history, for the second quarter in a row. This growth was due to the continued growth in sales of AT&T's and IBM product lines in conjunction with the solid execution of our marketing plan by the entire Technology & Services Group. The Technology & Services Group exceeded internal expectations of year over year revenue growth as well as quarter over quarter revenue growth.

In continuous cost cutting efforts, the Technology and Services Group increased the quality and efficiency of the sales/fulfillment process, fully implemented highly efficient quote/contract process and significantly increased the percentage of customers using our lower cost download

fulfillment process.

In the second quarter, the Technology and Services Group extended agreements with our two most prominent technology suppliers. Wizzard entered into a new agreement with AT&T for the distribution of AT&T Natural Voices products for an additional five years. Wizzard also signed an agreement with IBM extending the relationship for an additional two years. Management believes that these two agreements are extremely important to Wizzard's business plan and is pleased that both were extended on favorable terms for several years to come.

The Technology and Services Group announced the upcoming release of Natural Voices for the Macintosh platform to much interest and demand. The Group was able to send a representative to the World Wide Apple Developers Conference held in California in May. Wizzard, using the theme of "Good to the Core", distributed a promotional package designed to spread the word to Apple developers about Wizzard and this exciting new technology available. Much press was generated about this new product, and Wizzard was featured in several top publications for Mac developers.

The Technology & Services Group added new assistive application and alert/broadcast customers in the second quarter of 2005. Alert/broadcasting is a customer trend which was identified several months prior in the accessibility, education and government fields. In addition, the Technology and Services Group continues to focus on our core ATM, simulator and medical dictation markets, and is expanding the protocol supportive attributes of our TTS telephony offerings based on customer requests for larger IVR type applications.

#### 2005 Q2 New Products Group Accomplishments

The New Products Group objective is to constantly explore, test and facilitate the use of speech technologies successfully predicting how new consumer and business products can be created with a strong focus on future profit potential. The New Products Group had no major announcements or releases in the second quarter as a result of working closely with the Technology & Services Group, AT&T and IBM on several new world-class technologies. The resulting products using this new speech recognition and other technologies should position Wizzard for significant and potentially explosive long term growth, management believes.

#### 2005 Q2 Solutions & Channels Group Accomplishments

The objectives for the Solutions & Channels Group is to establish successful sales channels for select speech technology products offered directly by the Company. At this time the main focus for our Solutions and Channels Group is our Rex-The Talking Pill Bottle product line.

In the second quarter of 2005, the number of pharmacies offering The Talking Pill Bottle grew to 26. The Group made significant progress on its efforts to have several nationwide pharmacy chains carry the Talking Pill Bottle and remains confident that it will be successful in the near future of securing this form of distribution.

In the second quarter, a major university agreed to do a third party

clinical evaluation on our Talking Pill Bottle product. They will provide physicians, patients and students to conduct the study. Management believes the resulting data will be comprehensive enough to submit to Medicare and private insurance companies to facilitate the reimbursement on a portion of the cost of the bottle to patients.

During the second quarter, MedivoxRx was the successful bidder of a sports sponsorship for Adam Nelson, an Olympic silver medalist shot putter. Mr. Nelson appeared on three nationally televised sporting events in the second quarter wearing the MedivoxRx logo. Mr. Nelson also promoted Rex - The Talking Pill Bottle, during press conferences and at other media events. As a result, we were able to generate positive press for the Talking Pill bottle with stories about the auction and MedivoxRx appearing in local and national publications including USA Today, Sports Illustrated, The Washington Post and T.V. Guide. Also, several television stations showed interest in the bottle and featured Rex during various newscasts. Rex was featured in a story published in The Economist, a well-respected a weekly news and international affairs publication.

#### 2005 Q2 General & Administrative Accomplishments

On April 4, 2005, the Board of Directors unanimously consented to appoint William F. McLay as its Chief Financial Officer, to serve until the next annual meeting of the Company's stockholders or his prior resignation or termination. Mr. McLay is 58 years of age. He graduated from the University of Steubenville, Steubenville, Ohio, in 1970, with a B.S. degree in business administration. From 1993 to 1998, Mr. McLay was Senior Vice President and Chief Operating Officer of Sulcus Hospitality Technologies Corp. In 1999 and 2000, he was Vice President and Chief Financial Officer of the Gustine Company of Pittsburgh, Pennsylvania. Mr. McLay has been an independent business consultant from 2001 until his appointment as the Company's Chief Financial Officer.

In the second quarter of 2005 Wizzard entered into a Letter of Intent to acquire Interim Health Care of Wyoming, a home health care agency. Phase I and II of our due diligence investigation were completed in the second quarter and management believes that the transaction will close in the third quarter. The slight delay was a result of waiting for Interim to finalize and conclude an administrative issue with the federal government. It is the collective parties' belief that, in general terms, everything has been agreed to and is ready to be signed and we are just waiting on this final matter to be resolved. However, the closing of this transaction is not assured.

#### Results of Operations.

-----  
Three Months Ended June 30, 2005 and 2004.  
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During the second quarterly period ended June 30, 2005, Wizzard recorded revenues of \$291,523, a 163% increase from revenues of \$111,021 in the second quarter of 2004 and a 23% increase over revenues in the first quarter of 2005

(\$223,561). The increase for the second quarter of 2005 was due primarily to increased sales of AT&T and IBM speech technology runtimes.

Cost of goods sold totaled \$140,655 in the second quarter of 2005, versus \$114,738 in the second quarter of 2004. This increase of 23% is attributed primarily royalty payments related to the increased volume of speech technology sales. Wizzard posted a gross profit of \$150,868 during the second quarter of 2005, versus a gross (loss) of \$3,717 in the second quarter of 2004.

In the second quarter ended June 30, 2005, operating expenses totaled \$803,069 which was a 23% decrease from operating expenses of \$1,042,343 in the second quarter of 2004. Broken down by line item our operating expenses were:

General and administrative expenses were \$638,397 (including the \$185,000 investor relations expense) in 2005 versus \$941,990 in 2004. The 32% decrease

in G&A expenses were primarily due to a 57% reduction in consulting fees from \$585,000 in 2004 to 252,000 in 2005. Selling expenses in the second quarter of 2005 were \$135,869 versus \$67,353 in 2004. This 102% increase was due significantly to the addition of MedivoxRx sales personnel and increased marketing expense related to the emphasis on introducing Rex the Talking Pill Bottle to the market. Research and Development expenses in the second quarter

were \$28,803 versus \$33,000 in 2004. Other expenses consisted of an interest expense of \$38,860 versus \$4,217 in the second quarter of 2004. This increase

relates to the issuance of a \$1,400,000 unsecured convertible note payable during the first quarter of 2005 and penalties on the delay in registering the underlying securities.

Wizzard's net loss was \$691,061, or \$0.03 per share, in the quarter ended June 30, 2005. This represents a 36% decrease from our net loss of \$1,081,146, or \$0.04 per share, in the second quarter of 2004. This decrease in net loss is due to a 32% decrease in G&A expenses.

Six months ended June 30, 2005, and 2004.

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During the six month period ended June 30 2005, Wizzard recorded revenues of \$515,084, a 148% increase over revenues of \$208,085 for the same period in 2004. The increase in revenues in the six months ended June 30, 2004, was due to a significant increase in sales of AT&T and IBM speech technology runtimes.

In the six months ended June 30, 2005, cost of goods sold totaled \$283,661, a 47% increase as compared to \$193,950 in the six months ended June 30, 2004. The increase in cost of goods sold is attributed primarily to royalties on the increased volume of sales.

Wizzard recorded total operating expenses of \$2,686,216 during the six months ended June 30, 2005, a 16% increase as compared to operating expenses of \$2,327,577 in the same period of 2004. General and administrative expenses totaled \$1,281,451 in the first six months of 2005 versus 1,172,323 in the first six months of 2004, an increase of approximately 9%. This increase is due primarily to an increase in employee and payroll related expense of approximately \$94,000 in excess of the comparable six month period. Selling expenses rose by 31%, from \$136,834 in the first six months of 2004 to \$179,509 in the first six months of 2005 due to an increase in the marketing expense and sales personnel compensation and marketing efforts related to Rex the Talking Pill Bottle. Research and Development expenses were relatively flat with \$33,000 in expenses in the first six months of 2004 versus \$33,289 in R&D expenses in the first six months of 2005. 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 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 \$14,375 interest expense in the first six months of 2004.

Wizzard's net loss was \$3,906,858, or \$0.14 per share, in the six months ended June 30, 2005. This represents a 66% increase from our net loss of \$2,358,086, or \$0.10 per share, in the first six months of 2004. Total non-cash expenses for the first six months of 2005 was \$3,117,004, an 89% increase from non-cash expenses of \$1,649,509 in the first six months of 2004, 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 \$1,289,596 at June 30, 2005, an increase of \$131,444 over the \$1,158,152 on hand at June 30, 2004. Cash used in operations for the six months ended June 30, 2005, was \$661,628, a decrease of 3% over the \$682,924 cash used in operations for the six months ended June 30, 2004. Cash used in investing activities was \$15,630 for the purchase of needed equipment and software upgrades.

In the first six months of 2005, Wizzard received proceeds from long term obligations of \$1,400,000. The Company received \$146,228 from the issuance of common stock. The Company used common stock to pay \$497,297 in consulting, investor relations and employee services during the six months ended June 30, 2005. 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. The Company has been successful over the past nine 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.  
-----

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, 2004, Gregory & Eldredge, 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;

- \* 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

- \* segregation of duties, in that we had only one person performing all accounting-related duties.

We believe that each of these material weaknesses existed at June 30, 2005. The following changes in our internal controls over financial reporting occurred during the second quarter of 2005 (unless indicated otherwise):

- \* In the first quarter of 2005, we updated and added 10 new modules to our internal workflow system to cover e-commerce credit card processing, purchase order streamlining, order entry and customer payment scheduling. During the second quarter, we added two new modules to this system for a total of twelve through June 30, 2005. This system has already made our workers more efficient and management believes that as we continue to improve the processes and procedures of the system our employees will continue to increase their productivity while at the same time the Company's controls and oversights will improve for better compliance with Sarbanes-Oxley regulations.

This system provides a platform for us to determine where we should undertake additional segregation of duties among our employees and for determining how we can otherwise improve our disclosure controls and procedures; and

- \* the hiring of William F. McLay as our Chief Financial Officer on April 4, 2005, 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. McLay. 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 material weakness identified above. Under the supervision of Mr. McLay, we are actively working on implementing written policies and procedures that will fully address the second material weakness, which we 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.

The principal cost associated with our remediation of these material weaknesses has been the hiring of Mr. McLay, whose annual compensation totals approximately \$100,000. The other remedial actions are being undertaken as part of Mr. McLay's job description, or the job descriptions of other already existing employees, which has not resulted in any additional increased costs. During the next 9-12 months, we expect to retain outside consultants to advise us and test our Sarbanes-Oxley compliance. We expect that the cost of these consultants will be approximately \$50,000.

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 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, 2005. Based on this evaluation, our President/Treasurer has concluded that the Company's controls and procedures as of June 30, 2005, 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 the Chief Executive 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 outside accounting professional was engaged during the first quarter of 2005 to advise the Company in the preparation of its financial statements and Form 10-KSB for the calendar year ended December 31, 2004. This outside professional has significant expertise in the application of US GAAP and Securities and Exchange Commission requirements, which has compensated for the lack of such expertise within the Company prior to the hiring of our new Chief Financial Officer, as discussed below. The fees for the outside professional's services have totaled approximately \$825. This professional is

not associated with our independent public accounting firm.

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 three month period ended June 30, 2005, which were not registered under the Securities Act of 1933, as amended (the "Securities Act"):

Name ----	Date ----	Shares -----	Amount -----
Bruce Phifer	4/11/05	10,000	\$19,000
Arthur Douglas	5/25/05	100,000	\$185,000
Innsearch	5/25/05	12,000	\$22,200
Patrick Grumbar	5/25/05	2,500	\$4,625

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.

(a) Exhibits.

31.1 - 302 Certification of Christopher J. Spencer

31.2 - 302 Certification of William F. McLay

32 - 906 Certification.

(b) Reports on Form 8-K.

8-K Current Report dated March 18, 2005, and filed with the Securities and Exchange Commission on March 22, 2005, regarding Letter of Intent with Interim.\*

8-K Current Report dated April 4, 2005, and filed with the Securities and Exchange Commission on May 4, 2005, regarding the appointment of William F. McLay as our Chief Financial Officer.\*

\* Summaries of these Current Reports are modified in their entirety by reference thereto. These documents and related exhibits have previously been filed with the Commission and are incorporated herein by reference.

SIGNATURES

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

WIZZARD SOFTWARE CORPORATION

Date: 8/15/05  
-----

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

Date: 8/15/05  
-----

-----  
William F. McLay, Chief Financial  
Officer

Date: 8/15/05  
-----

-----  
Armen Geronian, Director  
Secretary

Date: 8/15/05  
-----

-----  
Gordon Berry, Director

Date: 8/15/05  
-----

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Alan Costilo, Director

Exhibit 31.1

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

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

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

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

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

4. The small business issuer's other certifying officer(s) 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 under my supervision, 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 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:

Signature:

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Christopher J. Spencer  
President, CEO and Treasurer

Exhibit 31.2

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

I, William F. McLay, Chief Financial Officer 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 report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

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

4. The small business issuer's other certifying officer(s) 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 under my supervision, 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 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:

Signature:

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William F. McLay  
Chief Financial Officer

Exhibit 32

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, 2005, as filed with the Securities and Exchange Commission on the date hereof (the "Quarterly Report"), we, Christopher J. Spencer, President, CEO and Treasurer and William F. McLay, 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.

Date:

Christopher J. Spencer  
President, CEO, Treasurer and  
director

Date:

William F. McLay, Chief Financial  
Officer