

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

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended December 31, 2010

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File No. 001-33935

**WIZZARD SOFTWARE CORPORATION**

(Exact name of registrant as specified in its charter)

COLORADO  
(State or other jurisdiction of  
incorporation or organization)

87-0609860  
(I.R.S. Employer  
Identification No.)

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

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

Securities Registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, \$0.001 par value	NYSE AMEX

Securities Registered pursuant to Section 12(g) of the Act:  
Common Stock, \$0.001 par value

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by checkmark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act.

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files) Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer" and "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

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

The aggregate market value of the registrant's voting and nonvoting common equity held by non-affiliates of the registrant as of the last business day of June 30, 2010, the registrant's most recently completed second fiscal quarter, was \$12,486,12 based on the last sales price of the registrant's common stock reported on the NYSE Amex on that date. The determination of affiliate status for the purposes of this calculation is not necessarily a conclusive determination for other purposes. The calculation excludes shares held by directors, officers, and stockholders whose ownership exceeded 10% of the

Registrant's outstanding Common Stock. Exclusion of these shares should not be construed to indicate that any such person controls, is controlled by or is under common control with the Registrant.

As of March 4, 2011, there were 89,776,359 shares of common stock, par value \$0.001, of the registrant issued and outstanding.

## **DOCUMENTS INCORPORATED BY REFERENCE**

A description of "Documents Incorporated by Reference" is contained in Part IV, Item 15.

### **PART I**

Item 1. Business.

#### **OVERVIEW**

Founded in 1995, the business of Wizzard Software Corporation, a Colorado corporation ("Wizzard," "we," "our" or "us" or words of similar import), includes Media, Software and Healthcare. Wizzard's core focus is on our Media business, which consists of providing podcasting hosting, distribution, audience analysis, advertising, content subscriptions and App sales for podcast producers worldwide. Our legacy Software business focuses on selling and supporting speech recognition and text-to-speech technology from IBM and AT&T. Our legacy Healthcare business focuses on providing home health services and nurse staffing in the Western part of the United States.

Our products and services include:

**Podcasting Hosting and Media Services** - Wizzard Media provides a web based podcast distribution platform for podcast producers wanting to broadcast their audio or video show to people worldwide, in most cases through RSS distribution. Wizzard Media hosts over 1 million podcast episodes for over 14,913 podcast shows and distributes them to over 18 million unique monthly audience members. In 2010, Wizzard distributed over 1.6 billion podcast episodes. Wizzard's service accumulates and provides audience statistics as well as provides advertising sales, ad insertion and App creation and sales to help podcasters generate revenue. Wizzard receives all publishing revenues generated and at least 50% of advertising and App sales revenues.

**Speech Tools & Engine** - Wizzard markets IBM and AT&T developer tools through agreements with those companies and receives a portion of the licensing fees collected. Wizzard offers Text-To-Speech Engines from IBM and AT&T to software developers and businesses around the world, as well as speech recognition engines from IBM. Wizzard receives payments for each copy/license distributed by its customers and in turn, pays a percentage of that payment to IBM or AT&T.

**Home Healthcare Services** - Interim HealthCare of Wyoming is a state licensed and Medicare certified home health agency. In addition, Interim HealthCare of Wyoming provides temporary staffing of healthcare professionals to facilities across the states of Wyoming and Montana.

Our principal executive offices consist of approximately 3,100 square feet of office space located at 5001 Baum Boulevard, Suite 770, Pittsburgh, Pennsylvania 15213. Our telephone number is (412) 621-0902. We also maintain offices in Casper, Wyoming and Billings, Montana.

#### **BUSINESS**

Our core business is broken into three departments including Media, Software and Healthcare.

##### **MEDIA – Podcasting & Apps**

Podcasts are audio and video "shows" created by all types of people on standard personal computers. Currently, 80% of podcasts are audio and 20% video and are similar in format to a radio or TV show. These shows average twenty minutes in length and range in topics from comedy to sports to fashion. Due to the thousands of different niche topics, podcasting's ability to reach highly targeted audiences is a very appealing proposition for advertisers. They can be subscribed to for free and accessed through new media aggregators such as Apple's popular iTunes. Podcasts are listened to or watched on Apple's iPods, iPads and iPhones along with almost any MP3 player, Sony's PlayStation Portable, Blackberry, Android, Tivo units,

and can also be played online using a computer. Every time a new episode is released from the podcast creator (approximately three times per month), it can be automatically downloaded to a subscriber's computer and can be transferred over to an iPod or MP3 player with ease. Now, using iPods, iPhones and Android Phones with Apps, audiences can download or stream a podcast and watch it directly on their device. Podcasts provide a new and exciting medium for information and entertainment distribution. Podcasts are enjoyed by consumers around the world while at their computer, exercising, on flights, at the beach, in their cars, or on the subway and with the Apple TV, sitting at home in their living room. One of the biggest reasons for the success of podcasting is due to the fact that, unlike traditional radio and television, consumers can enjoy podcast shows where they want, when they want, putting the control of media consumption into the consumer's hands.

When one creates a podcast, they upload it on the internet to a host, who creates an individual RSS feed and then continuously broadcasts the show out to anyone who subscribes. Podcast hosts also maintain viewer statistics, blogs, web pages and a host of other tools and services for podcasters to broadcast, manage and promote their shows.

Wizzard Media is the media division for our business. As the world's largest podcasting network, Wizzard Media currently broadcasts over one hundred million (100M) podcast shows each month. The Wizzard Media Network received over 1.6 billion download requests in 2010. With the continued success of the iPod Touch, iPhones, Android phones and an improved Apple TV along with other phone and media players supporting podcasts, we expect podcasting to continue to grow in the near term.

Wizzard Media received an average of 4.47 million podcast requests for episodes per day for 14,913 unique podcast shows for a total of 1.7 million hours of daily programming. These podcasts are consumed by millions of people around the world creating what management believes to be a strong media asset and a very compelling marketing platform for brand advertisers. We strongly believe that Wizzard Media is uniquely positioned to capture a significant portion of total advertising spending on podcasts in the future as we offer a rich inventory of popular content, strong consumption statistics and geographically and keyword targeted advertising capabilities. While there can be no future pricing guarantees, the podcasting industry is currently charging, and plans to continue to charge, between \$.005 and \$.01 per downloaded ad. The ads tend to be no longer than 15 seconds and several ads can be inserted in one twenty minute episode.

Wizzard Media will be the catalyst for attracting sponsors and advertising opportunities for the podcasts we currently broadcast. Applying our geographical targeting capabilities we can find strong, relevant advertising opportunities for national brands, which is a significant revenue generating opportunity for Wizzard and for our content producers. Advertisers and consumers alike want relevant, focused advertisements, something clearly lacking in today's digital media offerings, yet can be accomplished using our combined technologies and skills. Using our dynamic advertisement insertion technology we can insert the ad in the front, the back or even at a very specific point inside the podcast where it is most relevant to the listener. Management believes this fundamental feature gives Wizzard Media a strong competitive advantage making it easier to attract advertisers and sponsors who want to successfully align their brand of products and services with high-value content and a targeted audience on our network.

#### Sale of Custom Podcast Apps

Wizzard creates Apps for sale in the App Stores that can be customized quickly for podcast producers. Podcasters then market their very own customized App to their show's audience. Management believes podcasters can be very successful marketing their own customized App to their audience, as they know their audience better than anyone else and are great influencers of their audience. The reasons Management believes an audience member would want to purchase an App for a specific podcast are: 1) Easier, faster access to the content. 2) Bonus content exclusively for App users. 3) Inexpensive and easy way to support their favorite podcasts. 4) Social communication features.

Wizzard now provides this App as a free tool to podcasters on the Wizzard Network beginning with the podcasts that have the largest audience and eventually opening it up to every podcaster on the network. Currently, there are approximately 14,913 podcast shows on the Wizzard Network and over 18 million audience members, of which approximately 70% use iTunes to consume podcasts. Wizzard submits custom Apps to various App Stores for approval, which is not guaranteed and is based on the terms of service and an approval process, and will manage the collecting of the revenue from Apple, Google, Amazon and other App Store operators and distribution of the podcaster's share of the revenues. Wizzard expects to retain approximately 35% of the sale price that will range from \$.99 to \$4.99 in most cases.

### Sale of Podcast Subscriptions and Episodes Via Custom Podcast Apps

Once a podcaster has successfully marketed its own custom App to its audience and has created a significant install base, Management believes that from time to time the podcaster can offer new content on a subscription basis or release a special episode, in addition to its normal podcast episodes, and charge a nominal fee (\$.99) for that episode to its audience.

#### SOFTWARE – Speech recognition and Text-To-Speech

Wizzard Software's legacy 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 AT&T, as well as through our own Internet marketing efforts with Google, Yahoo and other major Internet search engines.

#### HEALTHCARE – Home Healthcare Services and Nurse Staffing

Based in Casper, Wyoming and Billings, Montana, Interim Health Care of Wyoming has been serving its community for 16 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 United States. Wizzard currently derives the bulk of its revenues, 56% for 2010, from its home healthcare and staffing operations.

#### **Research and Development**

During the calendar years ended December 31, 2010 and 2009, the Company spent \$320,600 and \$310,341, respectively, on research and development.

#### **Necessary Material**

We depend upon a speech recognition company to license us their speech recognition engines. It is these engines upon which we create our applications. We do not foresee any difficulty in continuing to license these engines, due to the competitive market between their manufacturers.

#### **Licenses**

We have the following licenses, which are integral to our business operations:

- AT&T Natural Voices text-to-speech engine.

#### **Patents Pending**

None.

#### **Environmental Compliance**

We do not believe that there are any material laws, rules or regulations regarding environmental concerns that are applicable to our present or intended business operations.

#### **Governmental Regulations**

We do not believe that there are any material laws, rules or regulations regarding governmental concerns that are applicable to our present or intended business operations.

## Employees

Currently, we have 50 full time employees and 60 part time employees who spend a significant amount of their time working for Wizzard in our Media, Healthcare and Software divisions.

### Item 1A. Risk Factors.

#### Risks Relating to Our Business

Our present and intended business operations are highly speculative and involve substantial risks. Only investors who can bear the risk of losing their entire investment should consider buying our shares. Among the risk factors that you should consider are the following:

#### **We face a higher risk of failure because we cannot accurately forecast our future revenues and operating results.**

The rapidly changing nature of the markets in which we compete makes it difficult to accurately forecast our revenues and operating results. Furthermore, we expect our revenues and operating results to fluctuate in the future due to a number of factors, including the following:

- the timing of sales of our products and services;
- the timing of product implementation, particularly large design projects;
- unexpected delays in introducing new products and services;
- increased expenses, whether related to sales and marketing, product development, or administration;
- the mix of product license and services revenue; and
- costs related to possible acquisitions of technology or businesses.

#### **We face a higher risk of failure because the podcasting media service businesses are in their infancy.**

We face the difficulties frequently encountered by companies in the early stage of development in new and evolving markets. These potential difficulties include the following:

- substantial delays and expenses related to testing and developing of our new products;
- successfully establishing podcasting as a large-scale advertising medium;
- marketing and distribution problems with new and existing products and technologies;
- at the mercy of App Store providers approval process who control if we can sell our App through their stores;
- competition from larger and more established companies;
- delays in reaching our marketing goals;
- difficulty in recruiting qualified employees for management and other positions;
- our lack of sufficient customers, revenues and cash flow; and
- our limited financial resources.

We may continue to face these and other difficulties in the future. Some of these problems may be beyond our control. If we are unable to successfully address them, our business will suffer.

#### **If we do not achieve the brand recognition necessary to succeed in the podcasting and media services markets, we may not be able to compete.**

We must build our Wizzard brand to gain market acceptance for our podcasting services, and media services and tools. We believe that our long-term success will require that we obtain significant market share for our products and services before other competitors enter the market. We must spend large amounts on product development, strategic relationships and marketing initiatives in order to establish brand awareness. We cannot be certain that we will have enough resources to build our brand and to obtain commercial acceptance of our products and services. If we do not gain market acceptance for our podcasting services, as a large-scale advertising medium, and related media services, we may not be able to compete effectively.

**We are exposed to the business risks inherent in the podcasting industry.**

With our recent entry into the podcasting industry, we have exposed our company to the risks of entities operating within that industry. The podcasting industry is in its infancy and our operations in this area may prove to be unprofitable.

**Our expansion plans may not be cost-effective.**

We have pursued, and may continue to pursue, strategic alliances with new or complementary businesses in an effort to enter into new business areas, diversify our sources of revenue and expand our products and services. If we pursue strategic alliances with new or complementary businesses, we may not be able to expand our product or service offerings and related operations in a cost-effective or timely way. We may experience increased costs, delays and diversions of management's attention when beginning any new businesses or services. Also, any new business or service that users do not favorably receive could damage our reputation and brand name in the market place. We also cannot be certain that we will obtain enough revenues from any expanded products or services to offset related costs. Any expansion of our operations may require additional expenses. These efforts may strain our management, financial and operational resources.

**Our limited resources may make it harder for us to manage growth.**

We have a limited basis upon which to evaluate our systems' ability to handle controlled or full commercial availability of our products and services. We anticipate that we will expand our operations significantly in the near future, and we will have to expand further to address the anticipated growth in our user base and market opportunities. To manage the expected growth of operations and personnel, we will need to improve existing systems, and implement new systems, procedures and controls. In addition, we will need to expand, train and manage an increasing employee base. We will also need to expand our finance, administrative and operations staff. We may not be able to effectively manage this growth. Our planned expansion in the near future will place a significant strain on our managerial, operational and financial resources. Our planned personnel, systems, procedures and controls may be inadequate to support our future operations. If we cannot manage growth effectively or if we experience disruptions during our expansion, the expansion may not be cost-effective.

**If we cannot compete successfully, we may have to go out of business.**

The market for computer software, and specifically speech recognition technology products and services is highly competitive. Current competitors include Nuance, Loquendo and Fonix. In addition, competitors may be developing speech recognition products and services that we may not be aware of. Many of our current and potential competitors have much greater financial, technical, marketing, distribution and other resources. They also have greater name recognition and market presence, longer operating histories and lower cost structures than we have. As a result, they may be able to adapt more quickly to new or emerging technologies and changes in customer requirements. Our ability to compete successfully in the rapidly evolving speech recognition market will depend upon certain factors, many of which are beyond our control and that may affect our ability to compete successfully.

We may also face competition from a number of indirect competitors that specialize in electronic commerce and other companies with substantial customer bases in the computer field and other technical fields. Additionally, companies that control access to transactions through a network or Web browser could promote our competitors or charge us a substantial fee for similar access or promotion. Our competitors may also be acquired by, receive investments from or enter into other commercial relationships with larger, better-established and better-financed companies as use of speech recognition products and services increases.

We may be unable to compete successfully against current and potential competitors, and the competitive pressures we face could cause our business to fail.

**Our business would be seriously impaired if our rights in our technology were compromised in any way.**

Wizzard licenses the speech recognition engines upon which its products operate from AT&T. We rely on non-disclosure, confidentiality and non-competition agreements with our employees to protect many of our rights in our technology. If our employees breach these agreements, we may incur significant expenses to enforce our contractual restrictions and protect our rights. Management believes that Wizzard has proprietary rights to products, including copyright

and trademark protection that will discourage others from replicating these products. However, we have no opinions from independent intellectual property counsel that the copyrights and trademarks are valid or, if valid, that their issuance, together with such other proprietary rights that we own will be sufficient to protect us from those who would try to capitalize on our success through imitation. Our business plan and strategy are to commercialize various speech recognition application technologies. Termination of our relationship by our licensor of speech recognition engines for any reason, or unauthorized disclosure of our application technologies to third parties, would cause serious harm to our business, financial position and results of operations.

**We have a history of losses and we may never achieve profitability.**

Wizzard's net loss available to common stockholders was \$4,110,459, or \$0.06 per share and \$6,509,017, or \$0.13 per share, for the years ended December 31, 2010 and 2009, respectively. Because we need to establish our brand and services, we expect to incur increasing sales and marketing, product development and administrative expenses, and as a result, we will need to generate significant revenues to achieve and maintain profitability. We cannot assure you that we will ever be able to operate profitably.

**Any unintentional infringement on the proprietary rights of others could be expensive and could cut our revenues.**

Many software companies bring lawsuits alleging violation of intellectual property rights. In addition, a large number of patents have been awarded in the voice-recognition area. Although we do not believe that we are infringing any patent rights, patent holders may claim that we are doing so. Any such claim would likely be time-consuming and expensive to defend, particularly if we are unsuccessful, and could prevent us from selling products or services. We may also be forced to enter into costly and burdensome royalty and licensing agreements.

**If we do not respond effectively to technological change, our products and services could become obsolete.**

The development of our products and services and other technology entails significant technical and business risks. To remain competitive, we must continue to improve our products' responsiveness, functionality and features.

High technology industries are characterized by:

- rapid technological change;
- changes in user and customer requirements and preferences;
- frequent new product and services introductions embodying new technologies; and
- the emergence of new industry standards and practices.

The evolving nature of the Internet could render our existing technology and systems obsolete. Our success will depend, in part, on our ability to:

- license or acquire leading technologies useful in our business;
- develop new services and technologies that address our users' increasingly sophisticated and varied needs; and
- respond to technological advances and emerging industry and regulatory standards and practices in a cost-effective and timely way.

Future advances in technology may not be beneficial to, or compatible with, our business. Furthermore, we may not use new technologies effectively or adapt our technology and systems to user requirements or emerging industry standards in a timely way. In order to stay technologically competitive, we may have to spend large amounts of money and time. If we do not adapt to changing market conditions or user requirements in a timely way, our business, financial condition and results of operations could be seriously harmed.

**If we fail to develop new products, or if we incur unexpected expenses or delays in product development, we may lose our competitive position.**

Although we currently have fully developed products available for sale, we are also developing various products and technologies that we will rely on to remain competitive. Due to the risks in developing new products and technologies, limited financing, competition, obsolescence, loss of key personnel and other factors, we may fail to develop these

technologies and products, or we may experience lengthy and costly delays in doing so. Although we may be able to license some of our technologies in their current stage of development, we cannot assure you that we will be able to do so.

**We could incur significant expenses if our technologies and products contain defects.**

Voice-recognition products are not currently accurate in every instance, and may never be. We could inadvertently release products and technologies that contain defects. Third-party technology that we include in our products could contain defects. Even though our licensing agreement with users contains language that is intended to protect us from liability for defects, clients who are not satisfied with our products or services could bring claims against us for substantial damages. These claims could cause us to incur significant legal expenses and, if successful, could result in the claimants being awarded significant damages.

The software for hosting podcasts, inserting ads into the content we host and serving podcast with advertisement is in its infancy and therefore has to be developed. Any release of software with inadvertent defects could cause significant increases in the expense for delivery of the podcast or loss of revenue if we are unsuccessful in delivering the podcast with an advertisement inserted.

**Changes in the app approval policies of an App Store could have an adverse effect on the business plans of Wizzard Media, including revenues.**

Our Podcast Apps for sale in the most popular App Stores including Apple, Amazon and Google are subject to approval by each marketplace. Throughout the submission process, some Apps have not been approved for sale in the marketplaces and may not be approved in the future because they do not comply with App Store Review Guidelines.

The App stores with which Wizzard currently sells its Apps, (Apple App Store, Google Marketplace and Amazon Appstore), have complete control over the approval of each App submitted to their store. The policies for the App approval process are normally very broad, and subject to interpretation and frequent changes by each App store. In the past, Wizzard has received approval for Apps with streaming video and then subsequently has had Apps rejected for including streaming video. On the other hand, some App Stores have approved Apps with streaming video without any hesitation.

Apple has rejected individual podcast Apps because they do not want thousands of individual podcast Apps in the App store under one developer account, and then subsequently approved podcast Apps when submitted under a podcast producer's own developer account. If Apple were to enforce their policy to disallow podcast Apps to be accepted under Wizzard's developer account or under a podcaster's individual developer account, it could have an adverse impact on future business plans of Wizzard Media, including revenues.

The approval of Apps, which cannot be guaranteed, is subject to the App Stores' review personnel, their Management and the overall store and company policy, which are subject to change at any time. The change in policy and rejection of Apps for approval by any one or all of the App Stores could have an adverse impact on future business plans of Wizzard Media, including revenues.

We have submitted a Network App to Apple for approval, and may submit similar Apps to Google and Amazon. While we believe that the Network App will be approved by Apple, there can be no assurance of this. If Apple does not approve the Network App, our future business plans could be adversely affected.

**Any changes in reimbursement levels under Medicare, Medicaid or insurance reimbursement programs and any changes in applicable government regulations could have a material adverse effect on Wizzard's net revenues.**

As managed care assumes an increasingly significant role in markets in which Wizzard operates, Wizzard's success will, in part, depend on retaining and obtaining managed care contracts. There can be no assurance that we will retain or continue to obtain such managed care contracts. In addition, reimbursement rates under managed care contracts are likely to continue experiencing downward pressure as a result of payers' efforts to contain or reduce the costs of health care by increasing case management review of services and negotiating reduced contract pricing. Therefore, even if we are successful in retaining and obtaining managed care contracts, unless we also decrease our cost for providing services and increase higher margin services, we will experience declining profit margins.

Wizzard is subject to extensive and frequently changing federal, state and local regulation. In addition, new laws and regulations are adopted periodically to regulate new and existing products and services in the health care industry. Changes in laws or regulations or new interpretations of existing laws or regulations can have a dramatic effect on operating methods, costs and reimbursement amounts provided by government and other third-party payers. Federal laws governing our activities include regulations related to Medicare reimbursement and certification and certain financial relationships with physicians and other health care providers. Although Wizzard intends to comply with all applicable fraud and abuse laws, there can be no assurance that administrative or judicial interpretation of existing laws or regulations or enactments of new laws or regulations will not have a material adverse effect on its business. Wizzard is subject to state laws governing Medicaid, professional training, licensure, financial relationships with physicians and the dispensing and storage of pharmaceuticals. The facilities operated by Wizzard must comply with all applicable laws, regulations and licensing standards. In addition, many of our employees must maintain licenses to provide some of the services that we offer. There can be no assurance that federal, state or local governments will not change existing standards or impose additional standards. Any failure to comply with existing or future standards could have a material adverse effect on our results of operations, financial condition or prospects.

**If we lose our key personnel or are unable to hire additional personnel, we will have trouble growing our business.**

We depend to a large extent on the abilities of our key management and technical personnel, in particular Christopher J. Spencer, our Chief Executive Officer and President. The loss of any key employee or our inability to attract or retain other qualified employees could seriously impair our results of operations and financial condition.

Our future success depends on our ability to attract, retain and motivate highly skilled technical, marketing, management, accounting and administrative personnel. We plan to hire additional personnel in all areas of our business as we grow. Competition for qualified personnel is intense. As a result, we may be unable to attract and retain qualified personnel. We may also be unable to retain the employees that we currently employ or to attract additional technical personnel. The failure to retain and attract the necessary personnel could seriously harm our business, financial condition and results of operations.

**System and online security failures could harm our business and operating results.**

The operation of our business depends on the efficient and uninterrupted operation of our computer and communications hardware systems. Our systems and operations are vulnerable to damage or interruption from many sources, including fire, flood, power loss, telecommunications failure, break-ins, earthquakes and similar events. Our servers are also vulnerable to computer viruses, physical or electronic break-ins and similar disruptions. Any substantial interruptions in the future could result in the loss of data and could destroy our ability to generate revenues from operations.

The secure transmission of confidential information over public networks is a significant barrier to electronic commerce and communications. Anyone who can circumvent our security measures could misappropriate confidential information or cause interruptions in our operations. We may have to spend large amounts of money and other resources to protect against potential security breaches or to alleviate problems caused by any breach.

**Our operating results could be impaired if we become subject to burdensome government regulation and legal uncertainties.**

We are not currently subject to direct regulation by any domestic or foreign governmental agency, other than regulations applicable to businesses generally. However, due to the increasing popularity and use of the Internet, it is possible that a number of laws and regulations may be adopted with respect to the Internet, relating to:

- user privacy;
- pricing;
- content;
- copyrights;
- distribution; and
- characteristics and quality of products and services.

The adoption of any additional laws or regulations may decrease the expansion of the Internet. A decline in the growth of the Internet could decrease demand for our products and services and increase our cost of doing business. Moreover, the applicability of existing laws to the Internet is uncertain with regard to many issues, including property ownership, export of specialized technology, libel and personal privacy. Our business, financial condition and results of operations could be seriously harmed by any new legislation or regulation. The application of laws and regulations from jurisdictions whose laws do not currently apply to our business, or the application of existing laws and regulations to the Internet and other online services could also harm our business.

We plan to offer our speech recognition products over the Internet in multiple states and foreign countries. These jurisdictions may claim that we are required to qualify to do business as a foreign corporation in each state or foreign country. Our failure to qualify as a foreign corporation in a jurisdiction where we are required to do so could subject us to taxes and penalties. Other states and foreign countries may also attempt to regulate our business or prosecute us for violations of their laws. Further, we might unintentionally violate the laws of foreign jurisdictions and those laws may be modified and new laws may be enacted in the future.

### **There Are Substantial Risks Related to Our Common Stock and Management's Percentage of Ownership of Our Common Stock**

#### **Due to the instability in our common stock price, you may not be able to sell your shares at a profit.**

The public market for our common stock is limited and volatile. As with the market for many other companies in new and emerging industries, any market price for our shares is likely to continue to be very volatile. In addition, the other risk factors disclosed in this Form 10-K may significantly affect our stock price. The historical volatility of our stock price may make it more difficult for you to resell shares when you want at prices you find attractive.

In addition, the stock market in general and the market for Internet and technology companies in particular, have experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of these companies. These broad market and industry factors may reduce our stock price, regardless of our operating performance.

#### **Because our common stock is "penny stock," you may have greater difficulty selling your shares.**

Our common stock is "penny stock" as defined in Rule 3a51-1 of the Securities and Exchange Commission. Section 15(g) of the Exchange Act and Rule 15g-2 of the Securities and Exchange Commission require broker/dealers dealing in penny stocks to provide potential investors with a document disclosing the risks of penny stocks and to obtain a manually signed and dated written receipt of the document before making any transaction in a penny stock for the investor's account. In addition, Rule 15g-9 of the Securities and Exchange Commission requires broker/dealers in penny stocks to approve the account of any investor for transactions in these stocks before selling any penny stock to that investor. Compliance with these requirements may make it harder for our selling stockholders and other stockholders to resell their shares.

#### **The sale of already outstanding shares of our common stock could hurt our common stock market price.**

The number of our shares available for resale in the public market may exceed the number of shares that purchasers wish to buy. This imbalance may place downward pressure on our stock price.

Approximately 85,582,568 shares of our common stock are presently publicly traded. This number will be increased by the 5,972,815 shares underlying the warrants, and the 7,500,000 shares that are currently issuable upon conversion of our Series A Convertible Preferred Stock. This potential increase in the number of shares that may be available for public trading from 85,582,568 shares to 99,055,383 shares may dramatically reduce the price of our common stock on the basis of supply and demand alone. In addition, a significant number of our other currently outstanding shares are eligible for public resale under Rule 144 of the Securities and Exchange Commission, and sales of these shares may also place downward pressure on our stock price. In May, 2004, we registered a total of 2,472,526 shares of our common stock; in August, 2005, we registered an additional 2,800,001 shares; in May, 2007 we registered an additional 3,741,250 shares; and in August 2007 we registered an additional 6,658,536 shares, all on Registration Statements on Form SB-2. In June 2009, we registered a total of 10,000,000 shares of our common stock, and in November 2009, we registered an unspecified number of shares of common stock, preferred stock warrants, debt securities and units that may consist of any combination of the foregoing, in the total

amount of \$12,500,000, all on Registration Statements on Form S3. The sale of all or any portion of these shares may have a further negative effect on our stock price.

#### **Item 1B. Unresolved Staff Comments.**

Not applicable to smaller reporting companies.

#### **Item 2. Description of Property.**

Wizzard's corporate offices are located at 5001 Baum Blvd., Suite 770, Pittsburgh, PA 15213. They consist of approximately 3,100 square feet of space, which is rented for \$4,428 per month. The lease is currently on a month to month basis. Wizzard continues to maintain a sound business relationship with the Landlord. Even though each party may exit the lease with a 30 day written notice, Management does not foresee a significant risk, especially with the current state of the economy. Wizzard also maintains offices in Casper, Wyoming and Billings, Montana for our Interim Healthcare operation, which are rented for \$4,750 and \$1,406, respectively. The Casper lease ends June 2011, and the Billings location entered a 3 year lease agreement effective March 1, 2011.

#### **Item 3. Legal Proceedings.**

Wizzard is involved in routine legal and administrative proceedings and claims of various types. We have no material pending legal or administrative proceedings, other than as discussed below or ordinary routine litigation incidental to our business, to which we or any of our subsidiaries are a party or of which any property is the subject. While any proceeding or claim contains an element of uncertainty, management does not expect that any such proceeding or claim will have a material adverse effect on our results of operations or financial position.

#### **Item 4. Reserved**

## **PART II**

#### **Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.**

As of March 4, 2011, 89,776,359 shares of our common stock were outstanding and the last reported sales price for our common stock on the NYSE Amex was \$0.25 per share. We have approximately 5,900 stockholders. This figure includes an indeterminate number of stockholders who hold their shares in "street name".

Our common stock began trading on the NYSE Amex under the symbol "WZE" on February 7, 2008. Prior to that time our common stock traded on the OTC Bulletin Board of FINRA (formerly, the "NASD") under the symbol "WIZD." We cannot guarantee that the present market for our common stock will continue or be maintained.

The quarterly high and low closing sales prices for our shares of common stock since public trading of these shares for the last two years are as follows:

	<u>Low</u>	<u>High</u>
<u>Fiscal Year 2010</u>		
Fourth quarter	\$ 0.22	\$ 0.30
Third quarter	\$ 0.18	\$ 0.24
Second quarter	\$ 0.19	\$ 0.27
First quarter	\$ 0.30	\$ 0.40
<u>Fiscal Year 2009</u>		
Fourth quarter	\$ 0.32	\$ 0.54
Third quarter	\$ 0.42	\$ 0.60
Second quarter	\$ 0.45	\$ 0.72
First quarter	\$ 0.32	\$ 0.95

We have not declared any cash dividends on our common stock, and do not intend to declare dividends in the foreseeable future. Management intends to use all available funds for the development of our plan of operation. There are no material restrictions limiting, or that are likely to limit, our ability to pay dividends on our common stock.

#### Equity Compensation Plan Information

The following information is provided as of December 31, 2010:

<u>Plan Category</u>	Number of securities to be issued upon exercise of outstanding options, warrants and rights <u>(a)</u>	Weighted average exercise price of outstanding options, warrants and rights <u>(b)</u>	Number of securities remaining available for future issuance under equity compensation plans excluded securities reflected in column (a) <u>(c)</u>
Equity compensation plans approved by stockholders	282,500	\$ 0.40	2,681,346
Equity compensation plans not approved by stockholders	422,500	\$ 2.00	56,129
Total	<u>704,000</u>	<u>\$ 1.26</u>	<u>2,737,475</u>

#### Recent Sales of Unregistered Securities; Use of Proceeds from Registered Securities.

We have issued the following restricted shares of common stock during the quarterly period ended December 31, 2010:

<u>Name</u>	<u>Date</u>	<u>Shares</u>	<u>Description</u>
Mill City	11/16/10	203,125	Extension of Note Payable
Isle Capital	11/16/10	121,875	Extension of Note Payable
Whalehaven	11/16/10	20,000	Extension of Note Payable

Management believes that the offer and sale of these securities was exempt from registration under the Securities Act of 1933, as amended (the "Act"), pursuant to Section 4(2) of the Act and Rule 506 of Regulation D promulgated thereunder, due to the limited number of recipients and the Company's reasonable belief of their status as accredited or sophisticated investors.

During the quarterly period ended December 31, 2010, we did not receive any proceeds from the exercise of warrants for which the underlying shares were registered with the Securities and Exchange Commission.

During the quarterly period ended December 31, 2010, we did not receive any proceeds from the sale of common stock.

#### Purchases of Equity Securities by the Issuer and Affiliated Purchasers.

None; not applicable.

#### **Item 6. Selected Financial Data**

The following selected financial data are derived from our consolidated financial statements. You should review this information in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 7 of this report and the historical financial statements and related notes this report contains.

(in thousands, except per share data)	Year ended December 31,				
	2010	2009	2008	2007	2006
<b>OPERATING DATA:</b>					
Total revenue	\$ 5,540	\$ 5,194	\$ 6,108	\$ 5,164	\$ 2,944
Net loss	(4,110)	(6,509)	(7,692)	(10,196)	(4,794)
Net loss available to common stockholders	(4,110)	(6,509)	(10,065)	(17,931)	(4,794)
Basic and diluted net loss per common stockholder	(0.06)	(0.13)	(0.23)	(0.44)	(0.14)

(in thousands)	As of December 31,				
	2010	2009	2008	2007	2006
<b>BALANCE SHEET DATA:</b>					
Working capital	\$ (1,335)	\$ (1,255)	\$ 670	\$ 3,570	\$ 2,393
Net property, plant and equipment	79	129	211	185	184
Intangible assets & goodwill	20,460	20,538	20,497	20,725	946
Total assets	21,355	22,005	23,246	27,850	4,298
Long-term liabilities:					
Long-term debt	0	0	1,000	1,739	189
Other	0	0	0	0	0
Total long-term liabilities	0	0	1,000	1,739	189
Total stockholders' equity	19,208	19,416	20,383	22,746	3,337

## Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion and analysis should be read in conjunction with the information set forth under the caption entitled "Item 6. Selected Financial Data" and the consolidated financial statements and related notes included in this Form 10-K.

### Safe Harbor Statement.

Statements made in this Form 10-K 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 Wizzard, including, without limitation, (i) our ability to gain a larger share of the podcasting, home healthcare and speech recognition software industries, 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" or similar expressions.

Forward-looking statements involve inherent risks and uncertainties, and important factors (many of which are beyond Wizzard'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 our reports on file with the SEC: general economic or industry conditions, nationally and/or in the communities in which Wizzard conducts business, changes in the interest rate environment, legislation or regulatory requirements, conditions of the securities markets, changes in the industries in which we operate, the development of products that may be superior to the products offered by Wizzard, demand for financial services, competition, changes in the quality or composition of Wizzard's products, our ability to develop new products, our ability to raise capital, changes in accounting principles, policies or guidelines, financial or political instability, acts of war or terrorism, other economic, competitive, governmental, regulatory and technical factors affecting Wizzard'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. Wizzard 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.

### Company Overview

Below is an update of our entire business, from our most recent entry into podcasting and apps, where we expect most of our future growth to occur, to our legacy businesses of offering core speech engine tools for software developers and

technology solutions for the healthcare industry. Currently, our healthcare operations make up 56% of our revenue, but we expect our Media business to become our largest revenue generator at some point in the near future, and provide the largest revenue growth and profits. We believe this due to the size of our podcast operations, our market leadership position, our substantial presence in iTunes and the potential monetization of the content we distribute through our publishing platform, advertising sale of Apps and paid subscriptions for content. The network growth of our media operation has occurred faster than initially expected and it is Management's opinion that we are still in the early stages of growth for this industry as we are seeing the flow of quality content coming to the Internet increase at a rapid pace and advertisers and audiences showing increased interest in the medium. Wizzard believes that our network and relevance in our industry will continue to grow by leaps and bounds and that Wizzard is positioned to be one of the leading companies in the podcast monetization business.

## 1. WIZZARD MEDIA

Wizzard Media is the four-year old division for our digital media and entertainment business. Wizzard Media is currently the industry's largest network of independent and professional digital media publishers utilizing RSS (podcasting) as a distribution method for episodic, audio and video shows. The Wizzard Media Network received over 450 million download requests for shows in 2006, 1 billion download requests in 2007, 1.2 billion download requests in 2008, 1.4 billion download requests in 2009, and 1.6 billion in 2010 to approximately 50 million total audience members throughout the year. In the fourth quarter of 2010, the Wizzard Network received 465,701,849 download requests for episodes vs. 316,271,369 download requests in the fourth quarter of 2009. Wizzard's publishing platform grew to an adjusted 14,913 shows in 2010. Management believes that Wizzard Media offers the best podcast publishing platform in the industry and is one of only a few podcast publishing platforms that are able to charge publishers for use of the service. The majority of podcast publishing platforms offer their service for free, in hopes of making money exclusively from advertising sales. Management believes that our ability to charge for the services we provide is a testament to the quality of service. The total number of episodes on the Wizzard Network grew to 1,215,661 in 2010, all of which are available for immediate distribution. With the continuing success of iPods, iPhones, iPads, Android's mobile phones, Blackberry's smartphones, we expect the number of content publishers using our service and the number of consumers watching the shows to continue to grow rapidly on an annual basis. Wizzard's LibsynPRO Enterprise service had 137 network publishers in 2010. As Wizzard Media derives a portion of its revenues through data transfer from PRO customers, launching a new, feature rich version of the PRO publishing platform provides Management with the tools to grow the number of PRO publishers and thereby revenues associated with our data transfer business. Throughout 2010, revenue from data transfer totaled \$216,744. Below is a more detailed breakout of the information above.

### WIZZARD MEDIA – PUBLISHING SERVICES

#### Hosting, Distribution Network, Content, Platform Development

In 2010 the Wizzard Media Network received approximately 1.6 billion download requests for podcast episodes vs. 1.4 billion download requests in 2009, from a wide variety of distribution outlets to which Wizzard syndicates content. The Wizzard Media network received over 4.47 million requests for shows per day throughout 2010. Our network reaches over 19 million people around the world, creating what Management believes is a strong media asset and a very compelling platform for advertisers as well as smartphone App sales. Download requests are calculated by counting the number of shows requested for download by audience members. Wizzard works to generate profits by inserting advertisements in the shows in partnership with the show's publishers, charging for the use of our publishing platform and through the sale of Apps. As the online digital media industry is in the emerging stages, the majority of these shows are distributed without advertising and the total download requests listed above are provided to give an understanding of the potential size of advertising inventory available for Wizzard's third party advertising partners and its in-house advertising sales team to fill.

Currently, Wizzard Media distributes digital shows for our producers to a variety of web portals and content aggregators (approximately 27 in all), for both download and video streaming. Approximately 70% of the shows Wizzard distributes reach audiences using Apple's iTunes platform which includes iTunes on the computer, iPods, iPads, iPhones and Apple TV. It is Management's opinion that the Wizzard Media Network's substantial presence in the iTunes Podcast Store is one of the Company's most valuable assets as consumers using iTunes are early adopters and spend money regularly on digital media. We believe this provides Wizzard with a unique offering for advertisers seeking that type of consumer and provides Wizzard with monetization opportunities for its podcast publishers through the sale of individual and network wide Apps.

Wizzard Media's technical development team continues to make significant accomplishments in terms of maintaining and expanding our publishing platform. In 2010, Wizzard's development team launched the Libsyn3 platform. We migrated Libsyn Indie users to the new platform throughout 2010. The migration was completed in early 2011 and represents a significant milestone in the upgrade of the features offered to our Producers. In migrating the 5 year old Libsyn Indie customers to the new Libsyn3 platform we were able to 'clean up' many non paying, in-active accounts. As a result, we now have 14,913 active podcast accounts. While this number is down from 16,767 reported in the third quarter, the number does not represent a drop in paying customers or revenue; it is solely a more accurate count of our active accounts.

In 2010, the development team created the Wizzard Media Podcast App for sale in the Android App platform. With this App Wizzard expanded the sale of individual podcast Apps for our paying podcast clients. This App allows publishers to generate additional revenues for their show. In addition to creating the core App, the development team released multiple updates throughout 2010. The development team also released backend support for the Android App as well as for iPad functionality.

### WIZZARD MEDIA - APPS

In the first quarter of 2009, Management took note of the extremely successful launch of the iTunes App Store by Apple. Apps are small software applications that users can purchase and download to their iPhone and iPod Touch mobile devices with relative ease. During 2010, there were over 250,000 Apps in the App Store that have been downloaded by consumers over 2 billion times. App categories include video games, sports, productivity, entertainment, education and health & fitness. Some of these Apps are free, while others have to be purchased. These Apps range in price from \$.99 to \$100.00, with the average price under \$4.99. During 2010, Wizzard aggressively entered the Apps market on several using its podcast network and active podcasters to promote the Apps to consumers. Apple and Google retain 30% of all App sales to cover the cost of running the App Store and App owners/developers receive 70% of the sales proceeds. Wizzard believes it is an obvious expansion of our podcasting business and the ways Wizzard believes it can generate revenue through the iTunes Store, Google Market Place and Amazon App Store are briefly outlined below.

#### Sale of Podcast Apps

Wizzard created Apps that work on the iPhone and Android platforms and are currently for sale in the iTunes App Store, Google's Market Place and coming soon, Amazon's App Store. Wizzard currently has approximately 1,000 Apps for sale in these two App Stores. Podcasters then market their very own App to their show's audience, many of whom use iPhones, iPods and Android phones. Management believes podcasters can be very successful marketing Apps to their audience, as they know their audience better than anyone else and are great influencers of their audience. The reasons Management believes an audience member would want to purchase Apps are: 1) Easier, faster access to the content. 2) Bonus content exclusively for App users. 3) Inexpensive and easy way to support their favorite podcasts. 4) Social communication features.

Wizzard now offers this App as a free monetizational tool to podcasters on the Wizzard Network as long as they have a qualifying monthly account. Currently, there are approximately 14,913 shows on the Wizzard Network and approximately 19 million audience members who consume podcasts. Wizzard submits each App for approval, which is not guaranteed and is based on the respective terms of service and approval process of the App Store, and manages the collecting of the revenue and distribution of the podcaster's share of the revenues. Wizzard expects to retain approximately 35% of the sale price that ranges from \$.99 to \$4.99 in most cases. During 2010, Wizzard submitted 1,120 podcast Apps and has received approval for 1,002 Apps. These Apps are currently being sold around the world via Apple's App Store and Google Market Place. Throughout 2010, revenue from App sales totaled \$189,277.

At the suggestion of Apple, Wizzard developed a "Network App" which allows for hundreds of podcast Apps, inside one fully functional App. This is very similar to Amazon's Kindle App that includes tens of thousands of books inside one App. This Network App, if accepted into the various App stores, allows us to: 1) continue our business plan to offer App monetization tools to all producers in a streamlined, efficient process; 2) comply with the continually evolving and sometimes inconsistent App approval standards and their desire not to have 'cookie-cutter' Apps for all 250,000 podcasts in iTunes in the App Store causing approval delays and rejections; 3) have more control over the actual marketing of the podcast Apps through expanded distribution of the Network App and cross promotional opportunities; 4) focus more time and attention on podcast shows with larger audiences that sell more apps than the smaller podcast shows. As a result of this change in 'go to market' strategy for iPhone Apps, Wizzard believes it could enhance revenues going forward due to the fact that we will have more control over the marketing of, wider distribution and more opportunities to generate revenues with a

Network App. For example, we could include widespread targeted promotions for Groupon or provide offers allowing people to earn Facebook credits. For our Android Google and Amazon App products, we plan to continue to create individual Apps for podcasts on our network and off network, focusing on podcasts with the largest audiences. As the Android Market continues to evolve, we may consider an option to create a Network App as the business model dictates.

#### Sale of Podcast Subscriptions and Episodes Via Custom Podcast Apps

Once a podcaster has successfully marketed an App to its audience and has created a significant install base, Management believes that from time to time the podcaster can offer new content on a subscription basis or release a special episode, in addition to its normal podcast episodes, and charge a nominal fee (\$1 - \$3) for that episode to its audience. By having a successful, extremely easy to use micropayment platform in iTunes/iPhone/iPod Touch, Android and Google, Management believes that podcast audiences will be willing to pay a nominal fee (\$1.99), from time to time, for special episodes of their favorite podcast and even sign up for inexpensive subscriptions (\$.99 a month; \$8.99 for 12 months) of new content. Wizzard earns a portion of the subscription and episode revenue for administering the App account and delivering the content to the consumer.

#### WIZZARD MEDIA - ADVERTISING

In 2010, Wizzard executed multiple national brand advertising campaigns for companies including Audible and JC Penney. These campaigns run across multiple shows, bringing the total number of advertising campaigns launched to date to 115, with 26 different advertisers, resulting in \$257,994 in 2010 advertising revenue. In the fourth quarter of 2010, Wizzard had its best quarter in Wizzard Media history in terms of advertising impressions delivered with 27 million ads delivered vs. 22.4 million ads delivered in the fourth quarter of 2009.

Wizzard's Alchemy system is able to handle the insertion of advertisements into audio and video shows with geographical targeting capabilities, which was used for multiple advertising campaigns throughout 2010. Using the new system, the Wizzard Media Network had the capability to deliver 2,499,004,001 advertisements in 2010 if 2.5 advertisements were placed in every podcast request downloaded from the network. In order to increase the percentage of filled advertising inventory we must continue to execute on our advertising sales strategy, integrate third party ad networks and portals and create relationships with more advertising agencies and their clients. The advertising capabilities number mentioned above and the tables for download inventory (below) demonstrates to advertisers the reach of the Wizzard Media Advertising Network as most advertisers want to see the opportunity for large advertising campaigns when considering a new medium for their marketing plans. Management believes that most advertisers prefer to deal with a few companies with large reach rather than many companies with smaller reach as it makes their advertising 'buys' and tracking easier to monitor.

Client results of our largest advertising execution to date were excellent in Management's opinion and we expect more buys from the client in the future. We have now had multiple advertisers renew campaigns with Wizzard including one advertiser that is on its 36<sup>th</sup> campaign, demonstrating what Management believes is excellent back-end ad operational customer service on Wizzard's part and a satisfactory ROI for our clients.

Wizzard Media currently has 22 distinct ad categories we take to market. As the number of publishers joining Wizzard's Advertising Network grows, so does the available advertising inventory for Wizzard's advertising sales team to sell.

Month	Potential Ad Impressions
January 2010	* 201,637,695
February 2010	* 185,522,557
March 2010	205,149,312
April 2010	200,965,025
May 2010	190,728,225
June 2010	* 185,024,483
July 2010	* 209,683,995
August 2010	* 217,246,837
September 2010	221,408,310
October 2010	229,233,365
November 2010	229,114,522
December 2010	* 223,289,675

\* December and January are historically strong months for downloads. June, July and August are historically slower months for downloads. Management believes that the above numbers demonstrate to advertisers the reach of the Wizzard Media network as most advertisers want to see the opportunity for large advertising campaigns. Management believes that most advertisers prefer to deal with a few companies with large reach rather than many companies with smaller reach as it makes their advertising 'buys' and tracking easier to monitor. Formula: Nielsen certified downloads x 2.5 (to take into account pre-roll and post-roll position, and 50% of all downloads capable of handling 1 mid-roll ad). While there can be no future pricing guarantees, the industry is currently charging, and plans to continue to charge, between \$.01 and \$.005 per downloaded ad. The advertisements tend to be no longer than 15 to 30 seconds and several ads can be inserted in one twenty-minute episode.

Nielsen Certified Downloads for Ad Network	
Month	Downloads
January 2010	** 80,655,078
February 2010	74,209,023
March 2010	82,059,725
April 2010	80,386,010
May 2010	76,291,290
June 2010	** 74,009,793
July 2010	83,873,598
August 2010	86,898,735
September 2010	88,563,324
October 2010	91,693,346
November 2010	91,645,809
December 2010	89,315,870

\*\* December and January are historically strong months for downloads. June, July and August are historically slower months for downloads. While there can be no future pricing guarantees, the industry average is \$.01 and \$.005 per downloaded ad. In order to win new business, at times, our ad sales force will give first time discounts in the per download price. The advertisements tend to be no longer than 15 to 30 seconds and several ads can be inserted in one twenty-minute episode.

## 2. WIZZARD TECHNOLOGY & SERVICES GROUP

Wizzard Software's legacy 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 our own Internet marketing efforts through Google, Yahoo and other major Internet search engines.

In 2010, our T&S Group saw a 3.0% decrease in revenue over 2009. The T&S Group continues to focus its efforts on core assistive application, website audio and alert systems. The website audio file distribution category currently shows the most promise for expanded business going forward.

The Speech Technology and Services Group's immediate focus is to increase revenue and be a preferred supplier for speech technologies to large businesses worldwide, emphasize great technologies, competitive prices, and high quality support to the speech development community and offer non-technical hosted speech conversion services to companies that have subscriber base in fast growing market segments. There can be no guarantee that customers will be willing to pay Wizzard for these services.

### 3. WIZZARD HEALTHCARE

Based in Casper, Wyoming and Billings, Montana, Interim Health Care of Wyoming has been serving its community for 17 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 United States. Wizzard currently derives the bulk of its revenues, 56%, from its home healthcare and staffing operations.

As was the case with most industry segments, the medical industry felt the slowing of the economy in 2009. As a result, our staffing business in Billings, Montana experienced a significant decrease in utilization of our services from the hospitals and nursing homes. This is driven by a decrease in the census (number of patients) utilizing these facilities. We continue to take the necessary steps to position ourselves in preparation of an upturn in the census for these facilities as the economy recovers resulting in an increase in the use of our services. At the same time our home healthcare service continued to be strong and provided a consistent stream of revenue through 2010. While we have not yet returned to the levels achieved prior to the down turn in the economy, we have seen an increase in revenue for staffing services in Billings, Montana, and an increase in revenue over the prior year within our Home Healthcare segment. Our home healthcare services continued to be strong and provided a consistent stream of revenue during 2010.

In 2011, as with most businesses in today's economy, we are approaching our healthcare business with skeptical optimism. As for our operations in Billings, Montana and its focus on the medical staffing industry, we anticipate a possible modest increase in the demand for our medical staffing services during the upcoming year. As such, we will continue to evaluate opportunities to expand the realm of services we offer. Promotional activities are being managed as the offices experience fluctuations in the day-to-day operations and as we embark on new business opportunities.

Our home healthcare business continues to be a substantial revenue generator for our Company 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 solid business that will offer a complimentary package of new technology and traditional services.

#### **Critical Accounting Policies and Estimates**

**Revenue Recognition** - Revenue is recognized when earned. The Company's revenue recognition policies are in compliance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 605, 985 Software — Revenue Recognition and the Securities and Exchange Commission Staff Accounting Bulletin No. 101 and 104.

The Company recognizes revenue from providing podcast hosting services when the services are provided and the sale of apps when collection is received. The Company recognizes revenue from the providing of healthcare services when the services are provided and collection is probable. The Company sells packaged and custom software products and related speech 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. Revenue from non-recurring programming, engineering fees, consulting service, support arrangements and training programs are recognized when the services are provided.

**Accounts Receivable** – We evaluate the creditworthiness of our customers based on their financial information, if available, as well as information obtained from suppliers and past experiences with customers. In some instances, we require new customers to make prepayments. Accounts receivable consist of trade receivables arising in the normal course of business. Any allowance established is subject to judgment and estimates made by management. The Company determines

the allowance based on known troubled accounts, historical experience, and other currently available evidence. We established an allowance for doubtful accounts of \$34,200 and \$34,200 at December 31, 2010 and 2009, respectively.

**Goodwill and Definite-life intangible assets** - The Company accounts for Goodwill and definite-life intangible assets in accordance with provisions of the Statement of Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 350, Intangibles, Goodwill and Other. 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 Topic 350. Impairment losses arising from this impairment test, if any, are included in operating expenses in the period of impairment. Topic 350 requires that definite intangible assets with estimable useful lives be amortized over their respective estimated useful lives, and reviewed for impairment in accordance with Topic 360, criteria for recognition of an impairment of Long-Lived Assets.

**Stock-based compensation** - The Company accounts for options in accordance with the provisions of Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) ASC Topic 718, *Compensation – Stock Compensation*. For the years ended December 31, 2010 and 2009, the Company recorded stock-based employee compensation expense of \$52,164 and \$38,371, respectively, and stock –based compensation expense to employees and consultants of \$103,555 and \$491,592, respectively, for options that were issued and immediately exercised. The remaining estimated pretax amortization on unvested options will be recognized during 2011. The plans are more fully described in Note 8 of our consolidated financial statements.

Estimating the fair value of options granted requires us to utilize valuation models and to establish several underlying assumptions. The fair value of option grants was estimated using the Black-Scholes option valuation model based on the following weighted average assumptions:

	<u>2010</u>	<u>2009</u>
Dividend yield	0 %	0 %
Expected life	3 yrs	3 yrs
Expected volatility	87.8%	84.7%
Risk-free interest rate	1.4%	1.6%

The risk-free interest rate is the implied yield available for zero-coupon U.S. government issues with a remaining term equal to the expected life of the options.

The expected lives of the options are determined based on the Company’s expectations of individual option holders anticipated behavior and the term of the option.

Volatility is based upon price performance of the Company over an equivalent term of the issued options to determine potential volatility of the issued options.

## Results of Operations.

### Year Ended December 31, 2010 Compared to Year Ended December 31, 2009

Wizzard derives its revenue from podcast publishing platform fees, podcast advertising sales, App sales as well as through speech recognition and text-to-speech programming tools, distributable engines and speech related consulting services and support. Additionally, Wizzard derives revenues through the offering of home healthcare services through its wholly-owned subsidiary Interim Healthcare of Wyoming, Inc.

During 2010, Wizzard recorded revenues of \$5,540,122, an increase of \$346,432, or approximately 7%, from our revenues of \$5,193,690 in 2009. This increase was driven by our Healthcare segment with the recovery of the economy and expansion of the services we provide combined with expanding our geographic reach. The increase in home healthcare revenue was the result of the increased use of our services. Additionally, our Media segment experienced an increase due to an increase in our hosting fees and a full year of App sales. The increase in hosting fees was due to the increase in the number of producers using our services. Our Software segment experienced a slight decline of 1% from the previous year.

During 2010, cost of goods sold was \$3,531,103, an increase of \$177,672, or approximately 5%, over the 2009 figure of \$3,353,431. This increase is a direct result of the increase in sales of our products and services during 2010. Wizzard generated a gross profit of \$2,009,019 in 2010, versus a gross profit of \$1,840,259 in 2009, an increase of 9%.

In 2010, Wizzard had operating expenses of \$4,814,877, as compared to \$5,724,544 in 2009, a decrease of 16%.

Selling expenses decreased to \$478,801 in 2010, from \$592,064 in the prior year. This decrease of 19% is due primarily to the decreased number of employees during 2009 that were focused on our media services operation and obtaining additional content with the full year impact realized in 2010.

General and administrative expenses decreased to \$1,299,982 in 2010, from \$1,413,825 in the prior year, a decrease of 8%, due primarily our effort to reduce overhead costs within our Media business segment during 2010. Salaries, wages and related expenses decreased to \$1,987,649 in 2010 from \$2,092,880 in 2009, a decrease of 5%, driven by an effort to reduce overhead costs within our Media business segment. Consulting fees decreased to \$727,845 in 2010 from \$1,230,922, a decrease of 41% due to a decrease in the use of outside consultants in the areas of public relations, investor relations, market research, combine with the fair market value decrease of the stock for consultants that were paid in stock.

Wizzard incurred non-cash legal, public relations and consulting fees of \$103,555 in fiscal 2010, as compared to \$619,092 in 2009. For fiscal 2010, \$33,765 was for consulting fees, and \$69,790 for selling expense. Of this non-cash amount in fiscal 2009, the non-cash amount includes \$127,500 was for investor relation services, \$388,472 was for consulting fees, and \$103,120 for selling expense. Due to the increased liquidity of our common stock traded on the NYSE Amex, Wizzard has been able to pay for valuable and sometimes critical services with common stock. This has helped us to use our cash for operations. For all such stock issuances, we valued the stock at the market price at the close of the day of issuance. All related expense was recorded the same day.

Interest expense decreased to \$1,142,642 in 2010, from \$2,630,082 in 2009, due to amortization of \$344,294 in 2010 versus \$1,146,383 in 2009 of the discount on our 5% convertible note payable related the beneficial conversion feature and warrants issued in connection with the convertible notes payable, and the expense for re-pricing and conversion of warrants totaling \$1,306,168 in 2009 versus \$385,636 in 2010 for extension of maturity date on notes payable.

Net loss available to common stockholders decreased 37% to \$4,110,459 in 2010, as compared to a net loss available to common stockholders of \$6,509,017 in 2009. The decrease in net loss available to common stockholders for 2010 was primarily due to the recording of a non-cash expense on the amortization of 5% notes payable of \$1,146,383 for 2009 versus \$344,294 for 2010, and interest expense of \$1,306,168 in 2009 versus \$262,284 in 2010 for issuance, re-pricing and extension of warrants. Basic and diluted loss per common share was \$0.06 in 2010, compared to \$0.13 in 2009.

### **Year Ended December 31, 2009 Compared to Year Ended December 31, 2008**

Wizzard derives its revenue from podcast publishing platform fees, podcast advertising sales, App sales as well as through speech recognition and text-to-speech programming tools, distributable engines and speech related consulting services and support. Additionally, Wizzard derives revenues through the offering of home healthcare services through its wholly-owned subsidiary Interim Healthcare of Wyoming, Inc.

During 2009, Wizzard recorded revenues of \$5,193,690, a decrease of \$914,450, or approximately 15%, from our revenues of \$6,108,140 in 2008. This decrease was within our Healthcare segment due to the drop in the economy experience throughout 2009, but primarily due to a decrease in our staffing revenues within our home healthcare subsidiary in Billings, Mt. Our Software segment experienced growth due to expansion of our media services and podcast hosting services.

During 2009, cost of goods sold was \$3,353,431, a decrease of \$793,491, or approximately 19%, over the 2008 figure of \$4,146,922. This decrease is a direct result of the decrease in sales of our products and services during 2009 due to current economic condition within our Healthcare segment. Wizzard generated a gross profit of \$1,840,259 in 2009, versus a gross profit of \$1,961,218 in 2008, a decrease of 6%.

In 2009, Wizzard had operating expenses of \$5,724,544, as compared to \$8,778,462 in 2008, a decrease of 35%.

Selling expenses decreased to \$592,064 in 2009, from \$1,121,139 in the prior year. This decrease of 47% is due primarily to the decreased number of employees during 2009 that were focused on our media services operation and obtaining additional content.

General and administrative expenses decreased to \$1,413,825 in 2009, from \$1,687,986 in the prior year, a decrease of 16%, due primarily our effort to reduce overhead costs within our Media business segment during 2009. Salaries, wages and related expenses decreased to \$2,092,880 in 2009 from \$2,874,713 in 2008, a decrease of 27%, driven by an effort to reduce overhead costs within our Media business segment. Consulting fees decreased to \$1,230,922 in 2009 from \$2,472,232, a decrease of 50% due to a decrease in the use of outside consultants in the areas of public relations, investor relations, market research, and to the fair market value decrease of the stock for consultants that were paid in stock.

Wizzard incurred non-cash legal, public relations and consulting fees of \$619,092 in fiscal 2009, as compared to \$1,054,278 in 2008. For fiscal 2009, \$127,500 was for investor relation services, \$388,472 was for consulting fees, \$103,120 for selling expense. Of this non-cash amount in fiscal 2008, the non-cash amount includes \$570,000 for investor relations', \$384,708 was for consulting fees, and \$99,570 for selling expense. Due to the increased liquidity of our common stock traded on the NYSE Amex, Wizzard has been able to pay for valuable and sometimes critical services with common stock. This has helped us to use our cash for operations. For all such stock issuances, we valued the stock at the market price at the close of the day of issuance. All related expense was recorded the same day.

Interest expense increased to \$2,630,082 in 2009, from \$669,528 in 2008, due to amortization of \$1,146,383 in 2009 versus \$482,158 in 2008 of the discount on our 5% convertible note payable related the beneficial conversion feature and warrants issued in connection with the convertible notes payable, and the expense for re-pricing and conversion of warrants totaling \$1,306,168 in 2009.

Net loss available to common stockholders decreased 35% to \$6,509,017 in 2009, as compared to a net loss available to common stockholders of \$10,064,948 in 2008, while net loss decreased 15% to \$6,509,017 in 2009, as compared to a net loss of \$7,691,878 in 2008. The decrease in net loss available to common stockholders for 2009 was due to the recording of a non-cash dividend of \$2,373,000 for dividend on the 7% Series A Convertible Preferred Stock subscription agreement in 2008. Basic and diluted loss per common share was \$0.13 in 2009, compared to \$0.23 in 2008.

## **Liquidity and Capital Resources.**

### **2010 compared to 2009**

Current assets at December 31, 2010 included \$769,099 in cash and accounts receivable, a decrease of \$532,633, or 41%, from our cash and accounts receivable of \$1,301,732 at December 31, 2009. The decrease is due to the use of working capital in operations during 2010.

During fiscal 2010, our operating activities used net cash of \$2,423,158, as compared to \$2,712,981 in net cash used by operating activities during 2009.

In 2010, depreciation and amortization expense was \$209,233, which was down from \$342,733 in 2009. This decrease was attributed to purchase of Developer Apps during 2009 and the related amortization of these intangibles through 2010.

Net cash used in investing activities increased to \$42,530 in 2010, versus \$13,886 in 2009. During 2010, the Company purchase \$42,530 of equipment, versus 2009, where the Company paid \$13,886 for equipment.

In 2010, net cash provided by financing activities increased to \$1,975,000, from \$1,754,400 in 2009. Cash of \$1,975,000 was provided by the issuance of common stock in 2010, less the payment of offering costs of \$25,000; in 2009, there was cash provided by the issuance of common stock of \$1,754,400, less the payment of offer costs of \$45,600.

At December 31, 2010, the Company had negative working capital of \$1,315,558, as compared to negative working capital of \$1,254,633 at December 31, 2009. This decrease in working capital is due to use of cash for operating activities.

### **2009 compared to 2008**

Current assets at December 31, 2009 included \$1,301,732 in cash and accounts receivable, a decrease of \$1,193,547, or 48%, from our cash and accounts receivable of \$2,495,279 at December 31, 2008. The decrease is due to the use of working capital in operations during 2009.

During fiscal 2009, our operating activities used net cash of \$2,712,981, as compared to \$4,555,428 in net cash used by operating activities during 2008.

In 2009, depreciation and amortization expense was \$342,733, which was up from \$262,665 in 2008. This increase was attributed to purchase of Developer Apps during 2009 and the related amortization of these intangibles.

Net cash used in investing activities decreased to \$13,886 in 2009, versus \$203,692 in 2008. During 2008, the Company purchase \$184,928 of equipment, versus 2009, where the Company paid \$13,886 for equipment.

In 2009, net cash provided by financing activities increased to \$1,754,400, from \$453,272 in 2008. Cash of \$1,754,400 was provided by the issuance of common stock in 2009, less the payment of offering costs of \$45,600; in 2008, there was no cash provided by the issuance of common stock. In 2008, we received \$1,000,000 in proceeds from issuance of 11% notes payable.

At December 31, 2009, the Company had negative working capital of \$1,254,633, as compared to a working capital of \$670,156 at December 31, 2008. This decrease in working capital is due to use of cash for operating activities. Also, we received proceeds totaling \$1,000,000 in proceeds from issuance of 11% notes payable in 2008.

The Company believes it is still in the early stages of the new and developing digital media publishing services, and estimates it will require approximately \$200,000 per month to maintain current operations and grow our digital media business.

### **Contractual Obligations**

Not applicable to smaller reporting companies.

### **Off-Balance Sheet Arrangements**

We have operating leases for certain facilities, but otherwise do not have any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future material effect on our financial condition, results of operations, liquidity, or capital resources.

### **Item 7A. Quantitative and Qualitative Disclosure about Market Risk**

Not applicable to smaller reporting companies.

**Item 8. Financial Statements and Supplementary Data.**

WIZZARD SOFTWARE CORPORATION AND SUBSIDIARIES  
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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## MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Board of Directors

WIZZARD SOFTWARE CORPORATION AND SUBSIDIARIES

Management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934). Our internal control over financial reporting is designed to provide reasonable assurance to management and the Board of Directors regarding the preparation and fair presentation of published financial statements. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Management assessed the effectiveness of our internal control over financial reporting as of December 31, 2010. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control — Integrated Framework. Based on our assessment, management believes that we maintained effective internal control over financial reporting as of December 31, 2010.

*Date: 3/16/11*

*By: /s/ Christopher J. Spencer  
Christopher J. Spencer  
Chief Executive Officer and President*

*Date: 3/16/11*

*By: /s/ John Busshaus  
John Busshaus  
Chief Financial Officer*

Pittsburgh, Pennsylvania

March 16, 2011

REPORT OF INDEPENDENT  
REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors  
WIZZARD SOFTWARE CORPORATION AND SUBSIDIARIES  
Pittsburgh, Pennsylvania 15213

We have audited the accompanying consolidated balance sheets of Wizzard Software Corporation and subsidiaries as of December 31, 2010 and 2009, and the related consolidated statements of operations, stockholders' equity and cash flows for the years ended December 31, 2010, 2009 and 2008. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The company is not required to have, nor were we engaged to perform, and audit of its internal controls over financial reporting for the years ended December 31, 2010 and 2009. Our audit included consideration of internal controls over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal controls over financial reporting for the years ended December 31, 2010 and 2009. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, based on our audit, the consolidated financial statements audited by us present fairly, in all material respects, the financial position of Wizzard Software Corporation and subsidiaries as of December 31, 2010 and 2009 and the results of their operations and their cash flows for the years ended December 31, 2010, 2009 and 2008, in conformity with generally accepted accounting principles in the United States of America.

The accompanying consolidated financial statements have been prepared assuming the Company will continue as a going concern. As discussed in Note 2 to the financial statements, the Company has not yet established profitable operations and has incurred significant losses since its inception. These factors raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regards to these matters are also described in Note 2. The consolidated financial statements do not include any adjustments that might result from the outcome of these uncertainties.

/s/ Gregory & Associates, LLC

March 30, 2011  
Salt Lake City, Utah

104000 - Statement - WIZZARD SOFTWARE CORPORATION AND SUBSIDIARIES CONSOLIDATED  
BALANCE SHEETS

	December 31, 2010	December 31, 2009
Wizzard Statement of Financial Position		
CURRENT ASSETS:		
Cash	267,206	757,894
Accounts receivable	501,893 [1]	543,838 [1]
Prepaid expenses	43,713	32,103
Total current assets	812,812	1,333,835
PROPERTY AND EQUIPMENT, net	78,933	129,249
GOODWILL	20,459,669	20,459,669
DEFINITE LIFE INTANGIBLE ASSETS, net	0	78,387
OTHER ASSETS	3,582	3,582
Total assets	21,354,996	22,004,722
CURRENT LIABILITIES:		
Accounts payable	681,698	578,742
Accrued expenses	298,268	176,530
Notes payable - current portion	1,000,000	1,000,000
Convertible Debt	159,671 [2]	831,679 [3]
Deferred revenue	7,883	1,517
Total current liabilities	2,147,520	2,588,468
NOTES PAYABLE, less current portion	0	0
Total liabilities	2,147,520	2,588,468
STOCKHOLDERS' EQUITY		
Preferred stock	4 [4]	4 [5]
Common stock	69,873 [6]	56,465 [7]
Additional paid-in capital	79,414,119	75,525,846
Accumulated deficit	(60,276,520)	(56,166,061)
Total stockholders' equity	19,207,476	19,416,254
Total liabilities and stockholders' equity	21,354,996	22,004,722

[1] net of \$34,200 allowance

[2] net of discount of \$5,329

[3] net of discount of \$154,420

[4] \$.001 par value, 10,000,000 shares authorized, 4,000 Series A cumulative, convertible, contingently redeemable shares issued and outstanding with liquidation preferences.

[5] \$.001 par value, 10,000,000 shares authorized, 4,182 Series A cumulative, convertible, contingently redeemable shares issued and outstanding with liquidation preferences.

[6] \$.001 par value, 100,000,000 shares authorized, 69,873,112 shares issued and outstanding, respectively

[7] \$.001 par value, 100,000,000 shares authorized, 56,465,322 shares issued and outstanding, respectively

See accompanying notes to these unaudited consolidated financial statements.

124000 - Statement - WIZZARD SOFTWARE CORPORATION AND SUBSIDIARIES CONSOLIDATED  
STATEMENTS OF OPERATIONS

	December 31, 2010	December 31, 2009	December 31, 2008
Wizzard Statement of Operations			
REVENUE			
Software	800,088	806,163	783,513
Healthcare	3,099,092	2,904,782	3,932,505
Media Services	1,640,942	1,482,745	1,392,122
Total Revenue	<u>5,540,122</u>	<u>5,193,690</u>	<u>6,108,140</u>
COST OF GOODS SOLD			
Software cost of goods sold	328,943	315,027	351,981
Healthcare cost of goods sold	2,089,811	1,979,983	2,708,337
Media Services cost of goods sold	1,112,349	1,058,421	1,086,604
Total Cost of Goods Sold	<u>3,531,103</u>	<u>3,353,431</u>	<u>4,146,922</u>
Gross Profit	<u>2,009,019</u>	<u>1,840,259</u>	<u>1,961,218</u>
OPERATING EXPENSES			
Selling expenses	478,801	592,064	1,121,139
General and administrative	1,299,982	1,413,825	1,687,986
Salaries, wages and related expenses	1,987,649	2,092,880	2,874,713
Consulting fees	727,845	1,230,922	2,472,232
Research and development	320,600	310,341	66,825
Impairment of goodwill	0	84,512	555,567
Total Operating Expenses	<u>4,814,877</u>	<u>5,724,544</u>	<u>8,778,462</u>
LOSS FROM OPERATIONS	<u>(2,805,858)</u>	<u>(3,884,285)</u>	<u>(6,817,244)</u>
OTHER INCOME (EXPENSE):			
Loss on disposal of assets	0	0	(7,207)
Extension of notes payable	(385,636)	0	(263,483)
Extension and re-pricing of warrants	0	(1,306,254)	0
Interest income	1,727	2,242	60,918
Interest expense	(757,006)	(1,323,828)	(669,526)
Other income (expense)	(163,686)	3,108	4,664
Total Other Income (Expense)	<u>(1,304,601)</u>	<u>(2,624,732)</u>	<u>(874,634)</u>
LOSS BEFORE INCOME TAXES	<u>(4,110,459)</u>	<u>(6,509,017)</u>	<u>(7,691,878)</u>
CURRENT INCOME TAX EXPENSE	0	0	0
DEFERRED INCOME TAX EXPENSE	0	0	0
NET LOSS	<u>(4,110,459)</u>	<u>(6,509,017)</u>	<u>(7,691,878)</u>
DIVIDEND			
Preferred dividend	0	0	(2,373,070)
NET LOSS AVAILABLE TO COMMON SHAREHOLDERS	<u>(4,110,459)</u>	<u>(6,509,017)</u>	<u>(10,064,948)</u>
BASIC LOSS PER COMMON SHARE AVAILABLE TO COMMON SHAREHOLDERS			
	<u>(0.06)</u>	<u>(0.13)</u>	<u>(0.23)</u>
BASIC WEIGHTED AVERAGE COMMON SHARES OUTSTANDING			
	<u>64,644,393</u>	<u>50,024,587</u>	<u>44,625,216</u>
DILUTED LOSS PER COMMON SHARE AVAILABLE TO COMMON SHAREHOLDERS			
	<u>(0.06)</u>	<u>(0.13)</u>	<u>(0.23)</u>
DILUTED WEIGHTED AVERAGE COMMON SHARES OUTSTANDING			
	<u>64,644,393</u>	<u>50,024,587</u>	<u>44,625,216</u>

See accompanying notes to these unaudited consolidated financial statements.

WIZZARD SOFTWARE CORPORATION  
STATEMENT OF STOCKHOLDERS' EQUITY  
FOR THE YEARS ENDED DECEMBER 31 2010, 2009 AND 2008

	Common Stock		Preferred Stock		Additional Paid In Capital	Accumulated Deficit
	Shares	Amount	Shares	Amount		
Balance at December 31, 2007	43,304,034	\$ 43,304	6,147	\$ 6	\$ 64,668,006	\$ (41,965,166)
Stock issued for consulting services	350,907	351	-	-	807,637	-
Stock issued upon exercise of options for services	126,500	127	-	-	246,163	-
Stock issued for PNPP Milestone	58,830	59	-	-	127,602	-
Stock issued upon conversion of notes payable and accrued interest	504,895	505	-	-	905,465	-
Stock issued for Webmayhem Inc. Milestone	713,150	713	-	-	1,546,823	-
Warrants issued for extension of note payable	-	-	-	-	263,483	-
Acquisition of iClipx	220,000	220	-	-	653,180	-
Stock issued for Switchpod Milestone	100,000	100	-	-	97,900	-
Stock issued upon conversion of Series A Preferred into Common Stock	82,216	82	(115)	-	(82)	-
Dividend on Series A Preferred Stock	253,449	253	-	-	(213,158)	-
Compensation for vested stock options	-	-	-	-	470,878	-
Beneficial conversion feature on notes payable					420,885	
Net loss for the year ended December 31, 2008						(7,691,878)
Balance at December 31, 2008	<u>45,713,981</u>	<u>\$ 45,714</u>	<u>6,032</u>	<u>\$ 6</u>	<u>\$ 69,994,782</u>	<u>\$ (49,657,044)</u>
Stock issued for consulting services	175,000	175	-	-	127,325	-
Stock issued upon exercise of options for services	1,038,166	1,038	-	-	490,554	-
Stock issued upon conversion of notes payable and accrued interest	1,162,291	1,162	-	-	505,072	-
Stock issued upon conversion of Series A Preferred Stock	1,850,000	1,850	(1,850)	(2)	(1,848)	-
Stock Issued upon conversion of warrants	1,704,884	1,705	-	-	1,011,762	-
Issuance of Common Stock	4,200,000	4,200	-	-	1,750,200	-
Acquisition of Developer Apps	621,000	621	-	-	366,399	-
Compensation for notes payable which were re-priced and terms extended	-	-	-	-	950,527	-
Compensation for warrants which were re-priced and terms extended	-	-	-	-	292,702	-
Compensation for vested stock options	-	-	-	-	38,371	-
Net Loss for the year ended December 31, 2009	-	-	-	-	-	(6,509,017)
Balance at December 31, 2009	<u>56,465,322</u>	<u>\$ 56,465</u>	<u>4,182</u>	<u>\$ 4</u>	<u>\$ 75,525,846</u>	<u>\$ (56,166,061)</u>

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

WIZZARD SOFTWARE CORPORATION  
STATEMENT OF STOCKHOLDERS' EQUITY  
FOR THE YEARS ENDED DECEMBER 31 2010, 2009 AND 2008

	<u>Common Stock</u>		<u>Preferred Stock</u>		<u>Additional Paid In Capital</u>	<u>Accumulated Deficit</u>
	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>		
Stock issued for consulting services	421,104	421	-	-	103,135	-
Stock issued upon conversion of notes payable and accrued interest	3,426,686	3,427	-	-	886,412	-
Stock issued upon conversion of Series A Preferred Stock	455,000	455	(182)	-	(455)	-
Stock Issued upon conversion of warrants	50,000	50	-	-	17,950	-
Issuance of Common Stock for cash	8,000,000	8,000	-	-	1,967,000	-
Acquisition of Developer Apps	110,000	110	-	-	37,890	-
Compensation for re-pricing and terms extended	945,000	945	-	-	824,177	-
Compensation for vested stock options	-	-	-	-	52,164	-
Net Loss for the year ended December 31, 2010	-	-	-	-	-	(4,110,459)
Balance at December 31, 2010	<u>69,873,112</u>	<u>\$ 69,873</u>	<u>4,000</u>	<u>\$ 4</u>	<u>\$ 79,414,119</u>	<u>\$ (60,276,520)</u>

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

152200 – Statement - WIZZARD SOFTWARE CORPORATION AND SUBSIDIARIES CONSOLIDATED  
STATEMENTS OF CASH FLOWS

	December 31, 2010	December 31, 2009	December 31, 2008
Wizzard Statement of Cash Flows			
Cash Flows from Operating Activities			
Net loss	(4,110,459)	(6,509,017)	(7,691,878)
Adjustments to reconcile net loss to net cash used in operating activities:			
Amortization of discount on notes payable	344,294	1,146,383	552,767
Cashless exercise of warrants	262,284	1,306,168	0
Compensation for extension of notes payable	385,636	0	263,483
Stock for non cash expenses	103,555	619,092	1,054,278
Non-cash compensation - options issued	52,164	38,371	470,878
Impairment of goodwill	0	84,512	555,567
Loss on disposal of assets	0	0	7,207
Non-cash interest expense on notes payable	68,739	72,325	161,513
Depreciation and amortization expense	209,233	342,733	262,665
Change in allowance for bad debt	0	0	16,638
Change in assets and liabilities:			
Increase (Decrease) Accounts receivable	41,945	221,081	92,501
Increase (Decrease) Prepaid expenses	(11,610)	6,538	(13,322)
(Increase) Decrease Accounts payable	102,956	148,572	(237,965)
(Increase) Decrease Accrued expense	121,739	(144,313)	(43,664)
(Increase) Decrease Deferred revenue	6,366	(45,426)	(6,096)
Net Cash Used in Operating Activities	<u>(2,423,158)</u>	<u>(2,712,981)</u>	<u>(4,555,428)</u>
Cash Flows from Investing Activities:			
Purchase of property & equipment	(42,530)	(13,886)	(184,928)
Acquisition of iClipx	0	0	(12,500)
Acquisition of operations of PNPP	0	0	(6,264)
Net Cash Used in Investing Activities	<u>(42,530)</u>	<u>(13,886)</u>	<u>(203,692)</u>
Cash Flows from Financing Activities:			
Issuance of common stock	1,975,000	1,754,400	0
Issuance of Notes Payable	0	0	1,000,000
Dividend on Series A Preferred Stock	0	0	(422,074)
Payments on capital lease	0	0	(26,726)
Payments on notes payable	0	0	(97,928)
Net Cash Provided by (Used in) Financing Activities	<u>1,975,000</u>	<u>1,754,400</u>	<u>453,272</u>
Net Increase (Decrease) in Cash	(490,688)	(972,467)	(4,305,848)
Cash at Beginning of Period	<u>757,894</u>	<u>1,730,361</u>	<u>6,036,209</u>
Cash at End of Period	<u><u>267,206</u></u>	<u><u>757,894</u></u>	<u><u>1,730,361</u></u>
Supplemental Disclosures of Cash Flow Information			
Cash paid during the periods for:			
Interest	112,023	110,656	21,203
Income taxes	0	0	0

(Continued)

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

WIZZARD SOFTWARE CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Continued)

Supplemental Disclosure of Non-Cash Investing and Financing Activities:	For the Years Ended December 31,		
	<u>2010</u>	<u>2009</u>	<u>2008</u>
Compensation for re-pricing and extension of warrants	262,284	1,306,168	-
Value of stock issued upon exercise of options for services	103,555	491,592	246,290
Value of stock issued to consultants	-	127,500	807,988
Amortization of discount on notes payable	344,294	1,146,383	552,767
Compensation upon vesting of stock options granted	52,164	38,371	470,878
Value of stock issued upon conversion of notes payable and related accrued interest	889,839	506,235	749,702
Value of stock issued for acquisition of Webmayhem Inc.	-	-	1,547,535
Value of stock issued for acquisition of the operations of PNPP	-	-	127,661
Value of stock issued for acquisition of the operations of iClipx	-	-	653,400
Value of stock issued for acquisition of the operations of Switchpod	-	-	98,000
Value of stock issued for acquisition Developer Apps	38,000	367,020	-
Value of warrants issued for extension of notes payable	385,636	-	263,483

During 2010, the company issued 455,000 common shares upon conversion of 182 shares of Series A Preferred Stock.

On April 8, 2010, the Company changed the conversion price of the 5% Convertible Notes Payable from \$0.40 per share to \$0.25 per share. This resulted in the recording of a beneficial conversion feature valued at \$195,202

On April 8, 2010, the Company closed a Subscription Agreement by which five institutional investors purchased 8,000,000 shares of Common Stock, par value \$.001 and 5,000,000 warrants, for a total amount of \$1,975,000, net of fees of \$25,000.

During 2009, the company issued 1,850,000 common shares upon conversion of 1,850 shares of Series A Preferred Stock.

During 2009, the company issued 1,850,000 common shares upon conversion of 1,850 shares of Series A Preferred Stock. On September 19, 2009, the Company changed the conversion price of the 5% Convertible Notes Payable from \$0.50 per share to \$0.40 per share. This resulted in the recording of a beneficial conversion feature valued at \$94,289

On June 19, 2009, the Company changed the conversion price of the 5% Convertible Notes Payable from \$1.00 per share to \$0.50 per share. This resulted in the recording of a beneficial conversion feature valued at \$451,990.

During 2008, the company issued 82,216 common shares upon conversion of 115 shares of Series A Preferred Stock and payment of \$1,466 in dividend payable.

On December 2, 2008, the Company changed the conversion price of the 5% Convertible Notes Payable from \$2.00 per share to \$1.00 per share. This resulted in the recording of a beneficial conversion feature valued at \$420,885

On December 2, 2008, the Company amended the Series A Preferred Stock reducing the conversion price to common stock from \$2.05 per share to \$1.00 per share, and eliminating future cumulative dividends. Also, the company issued 252,734 common shares in payment of \$177,421 in dividend payable.

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

WIZZARD SOFTWARE CORPORATION AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Organization** - Wizzard Software Corporation ["Parent"], a Colorado corporation, was organized on July 1, 1998. The Company operates in three segments, Software, Healthcare and Media Services. The Software segment engages primarily in the development, sale, and service of custom and packaged computer software products. The Media Services provides podcast hosting, content management tools and advertising services. The Healthcare segment operates primarily in the home healthcare and healthcare staffing services in Wyoming and Montana. 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. On February 27, 2007, Parent organized Wizzard Acquisition Corp., a Pennsylvania corporation, to acquire and dissolve into the operations of Webmayhem, Inc. [Libsyn], a Pennsylvania corporation, in a transaction accounted for as a purchase. On April 3, 2007, Interim purchased the operations of Professional Personnel, Inc., d.b.a., Professional Nursing Personnel Pool ["PNPP"].

**Consolidation** - The financial statements presented reflect the accounts of Parent, Libsyn 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. Management made assumptions and estimates for determining reserve for accounts receivable, obsolete inventory and in determining the impairment of definite life intangible assets and goodwill. Actual results could differ from those estimated by management.

**Reclassification** – The financial statements for the period ended prior to December 31, 2010 have been reclassified to conform to the headings and classifications used in the December 31, 2010 financial statements.

**Cash and Cash Equivalents** – The Company considers all highly liquid investments with an original maturity date of three months or less when purchased to be cash equivalents.

**Accounts Receivable** - Accounts receivable consist of trade receivables arising in the normal course of business. At December 31, 2010 and 2009, the Company has an allowance for doubtful accounts of \$34,200 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 years ended December 31, 2010, 2009 and 2008, the Company adjusted the allowance for bad debt by \$0, \$0 and \$16,638, respectively.

**Depreciation** - Depreciation of property and equipment is provided on the straight-line method over the estimated useful lives.

**Leases** - The Company accounts for leases in accordance with Accounting Standards Codification ("ASC") Topic 840, Accounting for Leases. Leases that meet one or more of the capital lease criteria of standard are recorded as a capital lease, all other leases are operating leases.

**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 Board ("FASB") Accounting Standards Codification ("ASC") Topic 350, Intangibles--Goodwill and Other. 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 Topic 350. Impairment losses arising from this impairment test, if any, are included in operating expenses in the period of impairment. Topic 350 requires that definite intangible assets with estimable useful lives be amortized over their respective estimated useful lives, and reviewed for impairment in accordance with Topic 360, criteria for recognition of an impairment of Long-Lived Assets.

WIZZARD SOFTWARE CORPORATION AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

**Software Development Costs** - We account for software development costs, including costs to develop software products or the software component of products to be marketed to external users, as well as software programs to be used solely to meet our internal needs in accordance with ASC 985 Software. We have determined that technological feasibility for our products to be marketed to external users was reached shortly before the release of those products. As a result, the development costs incurred after the establishment of technological feasibility and before the release of those products were not material, and accordingly, were expensed as incurred. In addition, costs incurred during the application development stage for software programs to be used solely to meet our internal needs were not material.

**Loss Per Share** - The Company computes loss per share in accordance with FASB ASC Topic 260, 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 11).

**Income Taxes** - The Company accounts for income taxes in accordance with FASB ASC Topic 740, Accounting for Income Taxes. This topic requires an asset and liability approach for accounting for income taxes (see Note 9).

**Advertising Costs** - Advertising costs are expensed as incurred and amounted to \$293,546, \$162,518 and \$195,655 for the period ending December 31, 2010, 2009 and 2008, respectively.

**Fair Value of Financial Instruments** - The Company accounts for fair value measurements for financial assets and financial liabilities in accordance with FASB ASC Topic 820. The authoritative guidance, which, among other things, defines fair value, establishes a consistent framework for measuring fair value and expands disclosure for each major asset and liability category measured at fair value on either a recurring or nonrecurring basis. Fair value is defined as the exit price, representing the amount that would either be received to sell an asset or be paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, the guidance establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

- Level 1. Observable inputs such as quoted prices in active markets for identical assets or liabilities;
- Level 2. Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly; and
- Level 3. Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

Unless otherwise disclosed, the fair value of the Company's financial instruments including cash, accounts receivable, prepaid expenses, accounts payable, accrued expenses and notes payable approximates their recorded values due to their short-term maturities.

**Revenue Recognition** - Revenue is recognized when earned. The Company's revenue recognition policies are in compliance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 985-605, Software — Revenue Recognition. The Company's revenue recognition policies are also in compliance with the Securities and Exchange Commission Staff Accounting Bulletin No. 101 and 104.

WIZZARD SOFTWARE CORPORATION AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

**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 December 31, 2010 and 2009 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. 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 \$0, \$500 and \$24,312 at December 31, 2010, 2009 and 2008, respectively.

**Healthcare** - The Company recognizes revenue from the providing of healthcare services when the services are provided and collection is probable.

**Media Services** – Digital media publishing services are billed on a month to month basis. The Company recognizes revenue from providing digital media publishing services when the services are provided and when collection is probable. The Company recognizes revenue from the insertion of advertisements in digital media, as the digital media with the advertisement is downloaded and collection is probable. The Company recognizes revenue from the sale of Apps when the app is sold and when collection is received.

**Research and Development Cost** - The Company expenses the cost of developing new products as incurred as research and product development costs, which totals \$320,600, \$310,340 and \$66,825 for the twelve months ended December 31, 2010, 2009 and 2008, respectively.

**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 8. During the periods presented in the accompanying financial statements, the Company has granted options under its 2007, 2008 and 2009 defined stock option plans. The Company accounts for options in accordance with the provisions of Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") ASC Topic 718, *Compensation – Stock Compensation*. Non-cash compensation cost of \$52,164 and \$38,371 have been recognized for the vesting of options granted to employees and directors with an associated recognized tax benefit of \$0 for the twelve months ended December 31, 2010 and 2009, respectively. Non-cash compensation cost of \$103,555, \$127,500 and \$246,290 have been recognized for options issued to employee and consultants which immediately vested and were exercised with an associated recognized tax benefit of \$0 for the twelve months ended December 31, 2010, 2009 and 2008.

**Recently Enacted Accounting Standards**

In January 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2010-06, Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements (ASU 2010-06). ASU 2010-06 amends Subtopic 820-10 to require disclosure of the transfers in and out of Levels 1 and 2. The Company adopted ASU 2010-06 and its application had no impact on the Company's consolidated financial statements.

WIZZARD SOFTWARE CORPORATION AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

In October 2009, the FASB issued Accounting Standards Update No. 2009-13, Revenue Recognition (Topic 605): Multiple-Deliverable Revenue Arrangements—a consensus of the FASB Emerging Issues Task Force (ASU 2009-13). ASU 2009-13 addresses the accounting for sales arrangements that include multiple products or services by revising the criteria for when deliverables may be accounted for separately rather than as a combined unit. Specifically, this guidance establishes a selling price hierarchy for determining the selling price of a deliverable, which is necessary to separately account for each product or service. This hierarchy provides more options for establishing selling price than existing guidance. ASU 2009-13 is required to be applied prospectively to new or materially modified revenue arrangements in fiscal periods beginning on or after June 15, 2010. The Company adopted ASU 2009-13 and its application had no impact on the Company's consolidated financial statements.

In December 2010, the FASB issued Accounting Standards Update No. 2010-28, Intangibles — Goodwill and Other (Topic 350): When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts (ASU 2010-28). ASU 2010-28 modifies Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. In determining whether it is more likely than not that a goodwill impairment exists, an entity should consider whether there are any adverse qualitative factors indicating that an impairment may exist. ASU 2010-28 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2010. Early adoption is not permitted. The Company has not yet determined the impact on its 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 consolidated financial statements do not include any adjustments that might result from the outcome of these uncertainties.

NOTE 3 - PROPERTY & EQUIPMENT

The following is a summary of property and equipment at:

	Life	December 31, 2010	December 31, 2009
Furniture, fixtures and equipment	2-10 yrs	\$ 431,288	\$ 390,442
Software	2-5 yrs	11,964	11,964
		<u>443,252</u>	<u>402,406</u>
Less: Accumulated depreciation		(364,319)	(273,157)
Property & equipment, net		<u>\$ 78,933</u>	<u>\$ 129,249</u>

Depreciation expense for the years ended December 31, 2010, 2009 and 2008 was \$92,846, \$96,012 and \$75,850, respectively. Certain equipment is held as collateral on notes payable.

Amortization expense for the year ended December 31, 2010, 2009, and 2008 was \$0, \$0 and \$15,982, respectively.

WIZZARD SOFTWARE CORPORATION AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4 - GOODWILL / DEFINITE-LIFE INTANGIBLES ASSETS

**Intangible Assets** - Definite-life intangible assets consist of distribution rights to i-phone applications, website development cost, patents, and trademarks. The Company classifies its intangible assets as definite-life intangible assets.

During, 2010, the Company recorded \$38,000 of intangible assets for the distribution rights for i-phone applications through the issuance of 110,000 shares of restricted common stock. These assets are being amortized on a straight-line basis over its estimated useful life.

Definite life intangible assets consist of:

	<u>For the Years Ended December 31,</u>	
	<u>2010</u>	<u>2009</u>
Intangible Asset at beginning of period	\$ 78,387	\$ 37,500
Purchases	110,000	372,120
Amortization	(188,387)	(246,721)
Impairment	-	(84,512)
Intangible Asset at end of period	<u>\$ -</u>	<u>\$ 78,387</u>

Impairment - During 2009, the Company performed its annual test of impairment of definite life intangible assets by comparing the net carrying value of the intangible asset with the present value of future cash flows. Fair value was estimated using the expected present value of discounted future cash flows of the businesses. When making these estimates, we were required to make estimates of future operating trends and judgments on discount rates and other variables. Future results and other assumed variables could differ from those estimated. During 2009, the Company recorded an impairment charge of \$84,512 as a result of impairment testing.

**Goodwill** - The following is a summary of goodwill:

	<u>For the Years Ended December 31,</u>	
	<u>2010</u>	<u>2009</u>
Goodwill at beginning of period	\$ 20,459,669	\$ 20,459,669
Impairment	-	-
Goodwill at end of period	<u>\$ 20,459,669</u>	<u>\$ 20,459,669</u>

Goodwill consists of:

	<u>December 31,</u>
	<u>2010</u>
Interim Healthcare of Wyoming – Casper	\$ 945,795
Interim Healthcare of Wyoming - Billings	974,691
Webmayhem Inc.	18,539,183
Total Goodwill	<u>\$ 20,459,669</u>

WIZZARD SOFTWARE CORPORATION AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4 - GOODWILL / DEFINITE-LIFE INTANGIBLES ASSETS – Continued

Impairment - The result of the annual impairment test for Interim Healthcare of Wyoming Inc. indicated that the carrying value of goodwill in 2010 did not exceed their implied fair value, and an impairment charge was not recorded in the consolidated statement of operations.

Also, the Company completed an analysis of the fair value of the business as it relates to the goodwill associated with the acquisition of Webmayhem Inc. The analysis of the business enterprises' fair value was performed as of October 1, 2010. Based on the results of the application of the Fair Market Value, no impairment of goodwill was recorded on the goodwill recorded in connection with the acquisition of Webmayhem Inc. When making these estimates, we were required to make estimates of future operating trends and judgments on discount rates and other variables. Actual future results and other assumed variables could differ from those estimated.

NOTE 5 - NOTES PAYABLE / CONVERTIBLE NOTE PAYABLE

Note Payable - On December 2, 2008, the Company closed a Subscription Agreement by which three institutional investors purchased 11% promissory notes payable having a total principal amount of \$1,000,000, maturing April 1, 2011. The holders of the notes were granted a security interest in the assets of the Company and its subsidiary, Interim Healthcare of Wyoming Inc, including ownership of the Subsidiary and the assets of the Subsidiary. The notes and related interest were subsequently repaid, See Note 16.

Convertible Notes Payable – On October 27, 2006, the Company closed a Subscription Agreement by which three institutional investors purchased a) a 5% convertible notes payable having a total principal amount of \$2,375,000, originally convertible into common shares of the Company at \$2.00 per share and maturing April 27, 2008; b) Class A Warrants to purchase a total of 593,750 shares of common stock, at \$2.50 per share, exercisable for three years, and c) Class B Warrants to purchase a total of 1,187,500 shares of common stock at \$2.00 per share, exercisable until 180 days after the effective date of the Registration Statement. As the conversion price for the note was below the fair value of the common stock on the date issued, the Company recorded a discount on the note for beneficial conversion feature of the note in accordance with the provisions found in FASB ASC Topic 470 (formerly EITF 98-5). The fair value of the beneficial conversion feature was reduced so that the discount resulting from the fair value of the beneficial conversion feature of the warrants does not exceed the \$2,375,000 proceed received from the subscription. The original \$2,375,000 discount was amortized as interest expense over the original term of the note. The Class A Warrants and Class B Warrants were valued using the Black-Scholes pricing model using the following weighted average assumptions 77.19% volatility, 1.33 years expected life, 5.08% risk free interest rate and expected dividend yield of zero.

On November 28, 2008, the Company changed the conversion price of the 5% Convertible Notes Payable from \$2.00 per share to \$1.00 per share. As the conversion price for the note was at the fair value of the common stock on the date of the change, the Company recorded a \$420,885 discount on the note for beneficial conversion feature of the note in accordance with the provisions found in EITF 98-5.

On June 19, 2009, the Company changed the conversion price of the 5% Convertible Notes Payable from \$1.00 per share to \$0.50 per share. As the conversion price for the note was at the fair value of the common stock on the date of the change, the Company recorded a \$567,493 discount on the note for beneficial conversion feature of the note.

On September 19, 2009, the Company changed the conversion price of the 5% Convertible Notes Payable from \$0.50 per share to \$0.40 per share. As the conversion price for the note was at the fair value of the common stock on the date of the change, the Company recorded a \$236,162 discount on the note for beneficial conversion feature of the note.

On April 7, 2010, the Company changed the conversion price of the 5% Convertible Notes Payable from \$0.40 per share to \$0.250 per share. As the conversion price for the note was at the fair value of the common stock on the date of the change, the Company recorded a \$195,202 discount on the note for beneficial conversion feature of the note.

WIZZARD SOFTWARE CORPORATION AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5 - NOTES PAYABLE / CONVERTIBLE NOTE PAYABLE – Continued

As of December 31, 2010 and 2009, the Company owed \$159,674 and \$986,099 net of remaining discounts of \$5,329 and \$154,420, respectfully, on the convertible notes payable. As of December 31, 2010, the notes are convertible into common shares at \$.25 per share and mature April 1, 2011. During 2010, 2009 and 2008, the Company recorded interest expense of \$38,334, \$1,146,383 and \$552,767 resulting from the amortization of the discounts recorded against the notes.

NOTE 6 - CAPITAL STOCK

**Preferred Stock** - The Company has authorized 10,000,000 shares of preferred stock, \$.001 par value. As of December 31, 2010 and 2009, the Company had 4,000 and 4,182 Series A Preferred shares issued and outstanding, respectively.

On December 2, 2008, the Company amended the Series A Preferred Stock effectively reducing the conversion price to common stock from \$2.05 per share to \$1.00 per share, and eliminating future cumulative dividends. A liquidating dividend of \$1,981,286 was recorded upon amendment of the Series A Preferred shares and reflected in the December 31, 2008 Consolidated Statement of Operations.

As of December 31, 2010, the Series A Preferred shares have no voting rights, with liquidation rights of stated value plus unpaid dividends and damages. The Series A Preferred shares and any damages are convertible into common shares at \$0.80 per common shares. Subsequent to year end as a condition to a stock subscription agreement all of the holders of the Company's Series A 7% Convertible Preferred Stock (the "Preferred Stock") will convert all of their Preferred Stock into shares of Common Stock at a conversion ratio of 0.533333 and agree to a 6 month lock-up on such conversion shares See Note 16.

**Common Stock** - The Company has authorized 100,000,000 shares of common stock, \$.001 par value. As of December 31, 2010 and 2009, 69,873,112 and 56,465,322 shares were issued and outstanding, respectively.

On February 1, 2008, the Company issued 50,000 common shares in payment of a \$100,000 note payable.

On February 1, 2008, the Company issued 200,000 restricted common shares valued at \$570,000 for consulting services.

On February 6, 2008, the Company issued 220,000 restricted common shares valued at \$653,400 to acquire the operations of iClipx Inc.

On February 12, 2008, the Company issued 13,296 common shares in payment of a \$25,000 note payable and \$1,592 of accrued interest.

On February 29, 2008, the Company issued 49,000 common shares upon the exercise of options valued at \$134,750 to consultants for services rendered.

On February 29, 2008, the Company issued 5,000 restricted common shares valued at \$13,750 for consulting services.

On March 5, 2008, the Company issued 4,715 restricted common shares upon notice of conversion of 11 shares of Series A Preferred Stock.

On March 5, 2008, the Company issued 688 restricted common shares in payment of all dividends accruing on the shares of Series A Preferred stock that was converted on March 5, 2008.

On March 24, 2008, the Company issued 49,038 restricted common shares valued at \$106,412 for Professional Nursing Personnel Pool attainment of the Milestones.

On March 24, 2008, the Company issued 1,000 common shares upon the exercise of options valued at \$2,170 to consultants for services rendered.

WIZZARD SOFTWARE CORPORATION AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6 - CAPITAL STOCK – continued

On March 24, 2008, the Company issued 713,150 restricted common shares valued at \$1,547,535 for Webmayhem Inc. attainment of Milestone I.

On March 24, 2008, the Company issued 1,907 restricted common shares valued at \$4,138 for consulting services.

On April 15, 2008, the Company issued 9,792 restricted common shares valued at \$21,249 for Professional Nursing Personnel Pool attainment of the Milestones.

On May 5, 2008, the Company issued 20,000 common shares in payment of a \$40,000 note payable.

On May 7, 2008, the Company issued 22,575 common shares in payment of a \$40,000 note payable and \$5,150 of accrued interest.

On May 14, 2008, the Company issued 25,852 restricted common shares upon notice of conversion of 53 shares of Series A Preferred Stock.

On May 14, 2008, the Company issued 676 restricted common shares in payment of all dividends accruing on the shares of Series A Preferred stock that was converted on May 14, 2008.

On May 15, 2008, the Company issued 10,000 common shares upon the exercise of options valued at \$21,800 to consultants for services rendered.

On May 15, 2008, the Company issued 5,000 restricted common shares valued at \$10,900 for consulting services.

On June 19, 2008, the Company issued 89,000 restricted common shares valued at \$160,200 for consulting services.

On August 7, 2008, the Company issued 53,796 common shares in payment of \$94,144 of accrued interest.

On August 22, 2008, the Company issued 46,500 common shares upon the exercise of options valued at \$68,820 to consultants for services rendered.

On September 24, 2008, the Company issued 50,124 common shares in payment of a \$91,500 note payable and \$8,749 of accrued interest.

On September 25, 2008, the Company issued 50,131 common shares in payment of a \$91,500 note payable and \$8,761 of accrued interest.

On October 9, 2008, the Company issued 54,891 common shares in payment of a \$100,000 note payable and \$9,781 of accrued interest.

On October 22, 2008, the Company issued 99,712 common shares in payment of a \$181,700 note payable and \$17,723 of accrued interest.

On December 1, 2008, the Company issued 252,734 common shares in payment of all dividends accruing on the shares of Series A Preferred stock.

On December 2, 2008, the Company issued 59,371 common shares in payment of a \$54,000 note payable and \$5,371 of accrued interest.

On December 3, 2008, the Company issued 10,000 common shares in payment of a \$10,000 note payable.

WIZZARD SOFTWARE CORPORATION AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6 - CAPITAL STOCK – continued

On December 4, 2008, the Company issued 10,000 common shares in payment of a \$6,000 note payable and \$4,000 of accrued interest.

On December 5, 2008, the Company issued 10,999 common shares in payment of a \$10,000 note payable and \$999 of accrued interest.

On December 8, 2008, the Company issued 3,000 common shares upon the exercise of options valued at \$2,940 to consultants for services rendered.

On December 8, 2008, the Company issued 50,000 restricted common shares valued at \$49,000 for consulting services.

On December 8, 2008, the Company issued 100,000 restricted common shares valued at \$98,000 for Switchpod attainment of the Milestones.

On December 9, 2008, the Company issued 17,000 common shares upon the exercise of options valued at \$15,810 to consultants for services rendered.

On December 15, 2008, the Company issued 51,000 restricted common shares upon notice of conversion of 51 shares of Series A Preferred Stock.

On January 14, 2009, the Company issued 1,250,000 common shares upon notice of conversion of 1,250 shares of Series A Preferred Stock.

On January 15, 2009, the Company issued 50,000 common shares upon the exercise of options valued at \$35,000 to consultants for services rendered.

On February 5, 2009, the Company issued 25,037 common shares in payment of a \$22,600 note payable and \$2,437 of accrued interest.

On February 17, 2009, the Company issued 20,000 common shares upon the exercise of options valued at \$12,600 to consultants for services rendered.

On February 17, 2009, the Company issued 50,000 restricted common shares valued at \$31,500 for consulting services.

On February 18, 2009, the Company issued 25,071 common shares in payment of a \$22,600 note payable and \$2,471 of accrued interest.

On March 4, 2009, the Company issued 45,571 common shares upon the exercise of options valued at \$21,874 to consultants for services rendered.

On March 30, 2009, the Company issued 100,000 common shares upon notice of conversion of 100 shares of Series A Preferred Stock.

On April 9, 2009, the Company issued 57,995 common shares upon the exercise of options valued at \$41,468 to consultants for services rendered.

On April 9, 2009, the Company issued 78,643 common shares in payment of a \$36,962 of accrued interest.

On April 13, 2009, the Company issued 500,000 common shares upon notice of conversion of 500 shares of Series A Preferred Stock.

WIZZARD SOFTWARE CORPORATION AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6 - CAPITAL STOCK – continued

On April 27, 2009, the Company issued 38,334 common shares in payment of a \$21,084 of accrued interest.

On May 20, 2009, the Company issued 110,000 common shares upon the exercise of options valued at \$63,800 to consultants for services rendered.

On June 19, 2009, the Company closed a Subscription Agreement by which an institutional investor purchased 1,200,000 shares of Common Stock, par value \$.001, for a total amount of \$588,000, net of fees of \$12,000.

On June 25, 2009 the Company issued 1,219,512 common shares upon re-pricing of warrants and immediate conversion of warrants.

On July 16, 2009, the Company issued 47,500 common shares upon the exercise of options valued at \$23,750 to consultants for services rendered.

On August 31, 2009, the Company issued 47,500 common shares upon the exercise of options valued at \$22,800 to consultants for services rendered.

On August 31, 2009 the Company issued 275,000 common shares upon re-pricing of warrants and immediate conversion of warrants, recording \$132,000 in other expense.

On September 17, 2009 the Company issued 210,372 common shares upon re-pricing of warrants and immediate conversion of warrants, recording \$100,978 in other expense.

On September 17, 2009, the Company issued 456,000 restricted common shares for the purchase of distribution rights to Developers Apps valued at \$289,320.

On September 17, 2009, the Company issued 200,000 restricted common shares valued at \$96,000 for consulting services.

On September 17, 2009, the Company recorded \$94,289 of non-cash expense related to the re-pricing of convertible notes payable.

On September 17, 2009, the Company closed a Subscription Agreement by which an institutional investor purchased 1,800,000 shares of Common Stock, par value \$.001, for a total amount of \$720,000.

On November 9, 2009, the Company issued 192,535 common shares in payment of a \$75,000 note payable and \$2,014 of accrued interest.

On November 9, 2009, the Company issued 125,000 common shares in payment of a \$50,000 note payable.

On November 11, 2009, the Company issued 14,581 common shares in payment of a \$5,832 of accrued interest.

On November 11, 2009, the Company issued 34,275 common shares in payment of a \$13,710 note payable.

On November 16, 2009, the Company issued 250,000 common shares in payment of a \$100,000 note payable.

On November 17, 2009, the Company issued 27,500 common shares in payment of a \$11,000 note payable.

On November 24, 2009, the Company issued 37,500 common shares in payment of a \$15,000 note payable.

WIZZARD SOFTWARE CORPORATION AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6 - CAPITAL STOCK – continued

On November 25, 2009, the Company issued 165,000 restricted common shares for the purchase of distribution rights to Developers Apps valued at \$77,500.

On November 11, 2009, the Company issued 210,636 common shares in payment of a \$84,000 note payable and \$254 of accrued interest.

On December 2, 2009, the Company issued 650,000 common shares upon the exercise of options valued at \$266,500 to consultants for services rendered.

On December 2, 2009, the Company recorded \$404,248 of non-cash expense related to the extension of convertible notes payable.

On December 15, 2009, the Company issued 103,179 common shares in payment of a \$40,000 note payable and \$1,271 of accrued interest.

On December 21, 2009, the Company closed a Subscription Agreement by which an institutional investor purchased 1,200,000 shares of Common Stock, par value \$.001, for a total amount of \$446,400, net of fees of \$33,600.

On December 22, 2009, the Company issued 10,000 common shares upon the exercise of options valued at \$3,800 to consultants for services rendered.

During 2009, the company recorded \$38,371 of non-cash compensation expense related to the vesting of certain stock options.

On December 31, 2009, the Company recorded \$28,508 of non-cash expense related to the extension A warrants.

On January 4, 2010, the Company issued 455,000 restricted common shares upon notice of conversion of 182 shares of Series A Preferred Stock.

On January 6, 2010, the Company issuance of 600,000 restricted common shares to extend the maturity date of three notes payable to December 2, 2009.

On January 8, 2010, the Company issued 82,205 common shares in payment of a \$25,000 note payable and \$7,882 of accrued interest.

On January 28, 2010, the Company issued 66,616 common shares upon the exercise of options valued at \$23,316 to consultants and employees for services rendered.

On February 12, the Company issued 50,000 common shares upon notice of cashless conversion of warrants.

On February 16, 2010, the Company issued 105,722 common shares in payment of a \$40,000 note payable and \$2,289 of accrued interest.

On February 17, 2010, the Company issued 105,736 common shares in payment of a \$40,000 note payable and \$2,294 of accrued interest.

On February 17, 2010, the Company issued 25,000 common shares upon the exercise of options valued at \$9,750 to consultants and employees for services rendered.

On February 26, 2010, the Company recorded \$244,284 of expense for the re-pricing of the conversion price of the Series A Preferred Stock from \$1.00 to \$0.80 per share.

WIZZARD SOFTWARE CORPORATION AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6 - CAPITAL STOCK – continued

On April 8, 2010, the Company closed a Subscription Agreement by which five institutional investors purchased 8,000,000 shares of Common Stock, par value \$.001, for a total amount of \$1,975,000, net of fees of \$25,000.

On April 8, 2010, the Company issued 255,750 common shares in payment of a \$61,100 note payable and \$2,837 of accrued interest.

On May 5, 2010, the Company issued 102,500 common shares upon the exercise of options valued at \$22,550 to consultants and employees for services rendered.

On May 13, 2010, the Company issued 110,000 restricted common shares for the purchase of distribution rights to Developers Apps valued at \$38,000.

On June 18, 2010, the Company issued 50,000 common shares in payment of a \$12,500 note payable.

On June 24, 2010, the Company issued 150,000 common shares in payment of a \$30,060 note payable.

On April 1, 2011, the Company recorded \$195,202 and \$52,486 for the extension of a note payable to 4/1/2011 and issuance of warrants.

On August 27, 2010, the Company issued 57,273 common shares in payment of \$10,876 of accrued interest.

On September 23, 2010, the Company issued 43,728 common shares upon the exercise of options valued at \$8,300 to consultants and employees for services rendered.

On October 7, 2010, the Company issued 200,000 common shares in payment of a \$50,000 note payable.

On October 12, 2010, the Company issued 250,000 common shares in payment of a \$62,500 note payable.

On October 13, 2010, the Company issued 20,000 common shares in payment of a \$5,000 note payable.

On October 26, 2010, the Company issued 200,000 common shares in payment of a \$50,000 note payable.

On November 1, 2010, the Company issued 200,000 common shares in payment of a \$50,000 note payable.

On November 2, 2010, the Company issued 250,000 common shares in payment of a \$62,500 note payable.

On November 10, 2010, the Company issued 300,000 common shares in payment of a \$75,000 note payable.

On November 15, 2010, the Company issued 300,000 common shares in payment of a \$75,000 note payable.

On November 16, 2010, the Company issued 345,000 shares of restricted Common Stock for the extension of maturity date of notes payable.

On November 23, 2010, the Company issued 250,000 common shares in payment of a \$62,500 note payable.

On November 24, 2010, the Company issued 92,260 common shares upon the exercise of options valued at \$15,000 to consultants and employees for services rendered.

On November 29, 2010, the Company issued 88,000 common shares upon the exercise of options valued at \$24,640 to consultants and employees for services rendered.

WIZZARD SOFTWARE CORPORATION AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6 - CAPITAL STOCK – continued

On December 1, 2010, the Company issued 250,000 common shares in payment of a \$62,500 note payable.

On December 21, 2010, the Company issued 400,000 common shares in payment of a \$100,000 note payable.

During 2010, the company recorded \$52,164 of non-cash compensation expense related to the vesting of certain stock options.

NOTE 7 – RELATED PARTY TRANSACTIONS

The Company entered into an agreement with Sempire Marketing whereby Sempire provided marketing services to clients of Wizzard Software Corporation. Also, Survival Spanish, an Education podcaster ran advertising campaigns on their shows during 2010. Sempire Marketing and Survival Spanish is owned by David Spencer. David Spencer is a sibling of the CEO of the Company. During 2010 and 2009, payments were made to Mr. Spencer totaling \$1,006 and \$786, respectively.

NOTE 8 - STOCK OPTIONS & WARRANTS

2009 Stock Option Plan - During 2009, the Board of Directors adopted a Stock Option Plan ("2009 Plan"). Under the terms and conditions of the 2009 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 2009 Plan may not exceed 2,000,000. At December 31, 2010, 655,012 options were available to be granted under the 2009 Plan. During the twelve months ended December 31, 2010 and 2009, the Company granted 596,988 and 1,200,000 options under the plan.

2008 Key Employee Stock Option Plan - During 2008, the Board of Directors adopted a 2008 Key Employee Stock Option Plan ("2008 Key Employee Plan"). Under the terms and conditions of the 2008 Key Employee 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 2008 Key Employee Plan may not exceed 400,000. At December 31, 2010, 26,334 options were available to be granted under the 2008 Key Employee Plan. During the twelve months ended December 31, 2010 and 2009, the Company granted 0 and 294,666 under the plan.

2008 Stock Option Plan - During 2008, the Board of Directors adopted a Stock Option Plan ("2008 Plan"). Under the terms and conditions of the 2008 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 2008 Plan may not exceed 200,000. At December 31, 2010, 12,884 options were available to be granted under the 2008 Plan. During the twelve months ended December 31, 2010 and 2009, the Company granted 4,616 and 17,500 options under the plan.

2007 Stock Option Plan - During 2007, the Board of Directors adopted a Stock Option Plan ("2007 Plan"). Under the terms and conditions of the 2007 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 2007 Plan may not exceed 200,000. At December 31, 2010, 43,245 options were available to be granted under the 2007 Plan. During the year ended December 31, 2010 and 2009, the Company granted 0 and 10,000 options under the plan.

WIZZARD SOFTWARE CORPORATION AND SUBSIDIARIES  
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8 - STOCK OPTIONS & WARRANTS – continued

The fair value of option grants during the years ended December 31, 2010 and 2009 was determined using the Black-Scholes option valuation model. The significant weighted average assumptions relating to the valuation of the Company's Stock Options for the years ended December 31, 2010 and 2009 were as follows:

	<u>2010</u>	<u>2009</u>
Dividend yield	0 %	0 %
Expected life	3 yrs	3 yrs
Expected volatility	87.8%	84.7%
Risk-free interest rate	1.4%	1.6%

A summary of the status of options granted at December 31, 2010, and changes during the period then ended are as follows:

	<u>For the Year Ended December 31, 2010</u>			
	<u>Shares</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Contractual Term</u>	<u>Aggregate Intrinsic Value</u>
Outstanding at beginning of period	606,500	\$ 1.95	5.1 years	\$ -
Granted	601,604	0.35	2.1 years	-
Exercised	(421,104)	-	-	-
Forfeited	(43,000)	0.50	-	-
Expired	(40,000)	2.67	-	-
Outstanding at end of period	<u>704,000</u>	<u>1.36</u>	<u>3.6 years</u>	<u>-</u>
Vested and expected to vest in the future	<u>704,000</u>	<u>1.36</u>	<u>3.6 years</u>	<u>-</u>
Exercisable at end of period	<u>535,500</u>	<u>1.67</u>	<u>4.1 years</u>	<u>-</u>
Weighted average fair value of options granted	<u>704,000</u>	<u>\$ 1.36</u>	<u>3.6 years</u>	<u>\$ -</u>

The Company had 34,000 non-vested options at the beginning of 2010 with a weighted average price of \$.51 per share. At December 31, 2010, the Company had 168,500 non-vested options at the weighted average price of \$0.35.

The total intrinsic value of options exercised during the years ended December 31, 2010, 2009 and 2008 was \$0, \$0 and \$0 respectively. Intrinsic value is measured using the fair market value at the date of exercise (for shares exercised) or at December 31, 2010, 2009 and 2008 (for outstanding options), less the applicable exercise price.

During 2010, 2009 and 2008, the company recorded \$52,164, \$38,371 and \$470,878 of non-cash compensation expense related to the vested stock options issued to employees.

December 31, 2010, 2009 and 2008 the company recorded non-cash compensation cost of \$103,555, \$491,592 and \$246,290 for vested and exercised options issued to employees and consultants.

WIZZARD SOFTWARE CORPORATION AND SUBSIDIARIES  
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8 – STOCK OPTIONS AND WARRANTS – continued

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

	December 31, 2010		December 31, 2009	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of period	1,118,134	\$ 1.74	3,336,351	\$ 2.62
Granted	5,500,000	0.36	-	-
Exercised	(609,756)	-	(1,704,884)	-
Forfeited	-	-	-	-
Expired	(318,750)	0.25	(513,333)	2.27
Outstanding at end of period	5,689,628	\$ 0.36	1,118,134	\$ 1.74

On April 8, 2010, the Company issued 500,000 warrants to extend the maturity date of a note payable to April 1, 2011.

On April 8, 2010, the Company closed a Subscription Agreement by which five institutional investors purchased 8,000,000 shares of Common Stock. As part of this Subscription Agreement, the Company issued 5,000,000 warrants to the institutional investors and recorded the beneficial conversion feature of the warrants.

On June 25, 2009 the Company issued 1,219,512 common shares upon re-pricing of warrants and immediate conversion of warrants, recording \$780,488 of expense.

On August 31, 2009 the Company issued 275,000 common shares upon re-pricing of warrants and immediate conversion of warrants, recording \$132,000 of expense.

On September 17, 2009 the Company issued 210,372 common shares upon re-pricing of warrants and immediate conversion of warrants, recording \$100,978 of expense.

NOTE 9 - INCOME TAXES

The Company accounts for income taxes in accordance with FASB ASC Topic 740, Accounting for Income Taxes which requires the Company to provide a net deferred tax asset or liability equal to the expected future tax benefit or expense of temporary reporting differences between book and tax accounting and any available operating loss or tax credit carryforwards. At December 31, 2010 and 2009, the total of all deferred tax assets was \$16,307,193 and \$16,070,886, respectively, and the total of the deferred tax liabilities was \$1,509,212 and \$1,515,719, respectively. The amount of and ultimate realization of the benefits from the deferred tax assets for income tax purposes is dependent, in part, upon the tax laws in effect, the Company's future earnings, and other future events, the effects of which cannot be determined. Because of the uncertainty surrounding the realization of the deferred tax assets the Company has established a valuation allowance of \$14,797,981 and \$14,555,167 for the years ended December 31, 2010 and 2009. The change in the valuation allowance for the year ended December 31, 2010 and 2009 was \$242,814 and \$1,453,082, respectively.

WIZZARD SOFTWARE CORPORATION AND SUBSIDIARIES  
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9 – INCOME TAXES – continued

The components of income tax expense (benefit) from continuing operations for the years ended December 31, 2010, 2009 and 2008 consist of the following:

	For the Years Ended December 31,		
	2010	2009	2008
Current tax expense:			\$
Federal	\$ -	-	-
State	-	-	-
Current tax expense	<u>-</u>	<u>-</u>	<u>-</u>
Deferred tax expense (benefit):			
Allowance for doubtful accounts	(2,202)	-	(5,657)
Bonus accrual	32,929	(13,804)	(18,438)
Commission accrual	22,009	(1,817)	(8,567)
Vacation accrual	23,767	(6,869)	(6,869)
Goodwill – impaired	-	(32,326)	(212,507)
Non-cash compensation – options	425,257	(14,677)	(180,113)
Stock compensation	-	75,449	-
Goodwill – tax amortization	1,005,081	486,811	548,316
Net operating loss carryforward	(1,776,509)	(1,945,849)	(2,720,562)
Valuation allowance	269,668	1,453,082	2,604,397
	<u>-</u>	<u>-</u>	<u>-</u>
Income tax expense	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Deferred income tax expense/(benefit) results primarily from the reversal of temporary timing differences between tax and financial statement income.

A reconciliation of income tax expense at the federal statutory rate to income tax expense at the company's effective rate is as follows:

	December 31,		
	2010	2009	2008
Current deferred tax assets:			
Computed tax at the expected statutory rate	\$ (1,397,556)	\$ (2,209,820)	\$ (2,615,239)
State and local income taxes, net of federal	(178,229)	(276,940)	(339,540)
Non-deductible compensation for modification of warrants	104,479	499,614	100,783
Amortization of discount on convertible notes payable for the beneficial conversion feature, and warrants	137,147	438,496	211,436
Other non-deductible expenses	638,408	95,568	38,163
Non-cash compensation – options	426,083	-	-
Change in valuation allowance	269,668	1,453,082	2,604,397
Income tax expense	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

WIZZARD SOFTWARE CORPORATION AND SUBSIDIARIES  
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9 – INCOME TAXES – continued

The temporary differences, tax credits and carryforwards gave rise to the following deferred tax asset at December 31, 2010 and 2009:

	December 31,	
	2010	2009
Current deferred tax assets (liabilities):		
Allowance for doubtful accounts	\$ 13,830	\$ 11,628
Bonus accrual	24,118	57,047
Commission accrual	-	22,009
Vacation accrual	9,294	33,061
Valuation allowance	(47,242)	(123,745)
Total current deferred tax assets (liabilities)	-	-
Long-term deferred tax assets (liabilities):		
Non-cash compensation – options	-	425,257
Stock compensation	-	-
Excess of goodwill/intangible assets amortization for tax over book	(1,509,212)	(504,131)
Net operating loss carryforward	16,286,805	14,510,296
Valuation allowance	(14,777,593)	(14,431,422)
Total long-term deferred tax assets (liabilities)	-	-
	\$ -	\$ -

The Company has available at December 31, 2010 operating loss carryforwards of approximately \$42,000,000 which may be applied against future taxable income and which expires in various years through 2030.

We file U.S. federal, U.S. states return, and we are generally no longer subject to tax examinations for years prior to 2006 for U.S. federal and U.S. states tax returns.

NOTE 10 - LEASES

**Operating Lease** - The Company leases office space, in Pittsburgh, Pennsylvania, on a month to month basis for of \$4,381 a month. The Company leases additional office space in Casper, Wyoming for \$4,750 a month through June 2011. The Company further leases space in Billings, Montana for of \$1,406 a month through February 2014.

Lease expense charged to operations was \$127,862, \$145,728 and \$173,978 for the years ended December 31, 2010, 2009 and 2008, respectively.

WIZZARD SOFTWARE CORPORATION AND SUBSIDIARIES  
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11 - LOSS PER SHARE

The following data shows 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 years ended December 31:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Loss from continuing operations available to common stockholders (numerator)	\$ (4,110,459)	\$ (6,509,017)	\$ (7,691,878)
Preferred dividends paid, warrants issued in connection with preferred stock, and intrinsic value of the beneficial conversion feature analogous to a dividend	-	-	(2,373,070)
Loss available to common stockholders (numerator)	(4,110,459)	(6,509,017)	(10,064,948)
Weighted average number of common shares outstanding during the period used in loss per share (denominator)	<u>64,644,393</u>	<u>50,024,587</u>	<u>44,625,216</u>

At December 31, 2010, the Company had 704,000 options to purchase common stock of the Company at \$0.35 to \$2.89 per share, and 5,689,628 warrants outstanding to purchase common stock of the Company at \$0.25 to \$0.50 per share and a convertible note payable wherein the holder could convert the note into a minimum of 660,000 shares of common stock and 4,000 shares of Series A Preferred convertible into common stock at \$0.80 per share wherein the holder could convert the shares into a minimum of 5,000,000 shares of common stock; which were not included in the loss per share computation because their effect would be anti-dilutive.

At December 31, 2009, the Company had 506,500 options to purchase common stock of the Company at \$0.51 to \$2.89 per share, and 1,118,134 warrants outstanding to purchase common stock of the Company at \$0.40 to \$2.85 per share and convertible notes payable wherein the holders could convert the note into a minimum of 2,465,250 shares of common stock and 4,182 shares of Series A Preferred convertible into common stock at \$1.00 per share wherein the holder could convert the shares into a minimum of 4,182,000 shares of common stock; which were not included in the loss per share computation because their effect would be anti-dilutive. See Note 16 for subsequent issuances of common stock and common stock equivalents. The Company may be obligated to issue additional shares in connection with the purchase of Developer Apps (See Note 13).

At December 31, 2008, the Company had 742,500 options to purchase common stock of the Company at \$1.59 to \$2.89 per share, and 3,336,351 warrants outstanding to purchase common stock of the Company at \$2.00 to \$2.85 per share and convertible notes payable wherein the holders could convert the note into a minimum of 1,069,734 shares of common stock and 6,032 shares of Series A Preferred convertible into common stock at \$1.00 per share wherein the holder could convert the shares into a minimum of 6,032,000 shares of common stock; which were not included in the loss per share computation because their effect would be anti-dilutive. See Note 16 for subsequent issuances of common stock and common stock equivalents.

WIZZARD SOFTWARE CORPORATION AND SUBSIDIARIES  
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 12 - CONCENTRATION OF REVENUES

During the years ended December 31, 2010, 2009 and 2008, 12%, 11% and 10%, respectively, of the Company's revenue was derived from the sale of AT&T's OEM Natural Voices desktop products.

NOTE 13 - COMMITMENTS & 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 a material impact on our results of operations or financial position.

**Agreements** - In connection with the agreement with AT&T to sell AT&T's OEM Natural Voices desktop product licenses, the Company is required to make minimum purchases of \$125,000 per each six month period beginning July 2007 through September 2013. 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 2010 through June 2011.

NOTE 14 - SEGMENT REPORTING

The Company's operations are divided into three independent segments – software, media 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 all operating segments.

**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 and from digital media publishing services at the time the service is provided.

**Media** – The Company attributes revenue from digital media publishing service at the time the service is provided and collection is 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 years ended December 31, 2010, 2009 and 2008 (in 000's):

	2010				2009				2008			
	Soft- ware	Media	Health care	Total	Soft- ware	Media	Health care	Total	Soft- ware	Media	Health care	Total
Net revenues	\$ 800	\$ 1,641	\$ 3,099	\$ 5,540	\$ 806	\$ 1,483	\$ 2,905	\$ 5,194	\$ 784	\$ 1,392	\$ 3,932	\$ 6,108
Cost of sales	329	1,112	2,090	3,531	315	1,058	1,980	3,353	352	1,087	2,708	4,147
General and administrative	1,637	797	854	3,288	1,558	1,124	825	3,507	2,126	1,632	805	4,563
Consulting	698	18	12	728	1,185	22	24	1,231	1,818	582	72	2,472
Selling	310	107	61	478	168	362	62	592	161	912	48	1,121
Research and development	-	321	-	321	-	310	-	310	51	16	-	67
Compensation for re- pricing/extension of warrants	479	-	-	479	1,306	-	-	1,306	263	-	-	263
Impairment of goodwill	-	-	-	-	-	85	-	85	-	556	-	556
Other income (expense)	3	(167)	2	(162)	3	-	2	5	55	3	8	66
Interest expense	662	-	1	663	1,324	-	-	1,324	660	-	10	670
Loss on disposal of assets	-	-	-	-	-	-	-	-	1	6	-	7
Net income (loss)	\$ (3,312)	\$ (881)	\$ 83	\$ (4,110)	\$ (5,047)	\$ (1,478)	\$ 16	\$ (6,509)	\$ (4,593)	\$ (3,396)	\$ 297	\$ (7,692)
Total assets	1,241	18,627	1,487	21,355	1,852	18,539	1,614	22,005	2,406	18,729	2,111	23,246
Depreciation expense	17	66	9	92	42	41	13	96	41	25	26	92

WIZZARD SOFTWARE CORPORATION AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 15 – QUARTERLY FINANCIAL INFORMATION (Unaudited)

The following table set forth unaudited financial information on a quarterly basis for each of the last two years:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
<b>2010</b>					
Revenues	\$ 1,300,610	\$ 1,318,989	\$ 1,472,121	\$ 1,448,402	\$ 5,540,122
Gross profit	484,827	448,629	525,624	549,939	2,009,019
Operating loss	(695,439)	(800,420)	(678,867)	(631,132)	(2,805,858)
Net loss	<u>(1,356,994)</u>	<u>(1,143,755)</u>	<u>(770,724)</u>	<u>(838,986)</u>	<u>(4,110,459)</u>
Net loss available to common stockholders	<u>(1,356,994)</u>	<u>(1,143,755)</u>	<u>(770,724)</u>	<u>(838,986)</u>	<u>(4,110,459)</u>
Basic and diluted loss per share	(0.02)	(0.02)	(0.01)	(0.01)	(0.06)
<b>2009</b>					
Revenues	\$ 1,178,573	\$ 1,160,919	\$ 1,384,218	\$ 1,469,980	\$ 5,193,690
Gross profit	374,282	380,408	531,671	553,898	1,840,259
Operating loss	(1,130,353)	(967,282)	(815,855)	(970,795)	(3,884,285)
Net loss	<u>(1,317,753)</u>	<u>(2,193,552)</u>	<u>(1,508,249)</u>	<u>(1,489,463)</u>	<u>(6,509,017)</u>
Net loss available to common stockholders	<u>(1,317,753)</u>	<u>(2,193,552)</u>	<u>(1,508,249)</u>	<u>(1,489,463)</u>	<u>(6,509,017)</u>
Basic and diluted loss per share	(0.03)	(0.05)	(0.03)	(0.02)	(0.13)

NOTE 16 - SUBSEQUENT EVENTS

Subsequent events have been evaluated through the date and time this annual report on Form 10-K was filed:

On January 7, 2011, the Company issued 400,000 common shares in payment of \$100,000 of a note payable.

On January 11, 2011, the Company issued 299,768 common shares in payment of \$65,000 of a note payable and \$9,972 of accrued interest.

On January 19, 2011, the company issue 250,000 unregistered and restricted shares of common stock as part of the settlement with GHS Entertainment.

On January 20, 2011, the company issued 5,000,000 shares upon notice of exercise of warrants by five institutional investors, and the company received \$1.1 million in cash.

On January 21, 2011, the Company closed a Subscription Agreement by which six institutional investors purchased 14,000,000 shares of Common Stock, par value \$.001, and 5,283,187 warrants to purchase common stock at \$0.43 per share, for a total amount of \$2,823,600, net of fees of \$256,400. As a condition to the Subscription agreement, all of the holders of the Company's Series A 7% Convertible Preferred Stock will convert all of their Preferred Stock into shares of Common Stock at a conversion ratio of 0.533333 and agree to a 6 month lock-up on such conversion shares. On January 18, 2011, all of the holders of the Preferred Stock executed Waiver Agreements and Lock-Up Agreements incorporating these terms.

On January 25, the company made payments to three holders of notes payable totaling \$1.1 million in Principal.

On January 31, 2011, the Company issued 31,769 common shares upon the exercise of options valued at \$8,000 to consultants and employees for services rendered.

On March 1, 2011, the Company executed a Securities Purchase Agreement to purchased 30 million shares of Reach Messaging Holdings, Inc. Common Stock, par value \$.001 for \$150,000 and penny warrants to purchase an additional 30 million shares of common stock at \$0.01 per share.

## **Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.**

None; not applicable

### **Item 9A. Controls and Procedures**

**Disclosure Controls and Procedures**—We maintain disclosure controls and procedures that are designed to ensure that information we are required to disclose in the reports that we file or submit under the Securities Exchange Act of 1934 (the “Exchange Act”), such as this Annual Report on Form 10-K, is recorded, processed, summarized and reported within the time periods specified by SEC rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information we are required to disclose in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including the Chief Executive Officer (“CEO”) and the Chief Financial Officer (“CFO”), to allow timely decisions regarding required disclosure.

Our management evaluated, with the participation of our CEO and CFO, the effectiveness of our disclosure controls and procedures as of December 31, 2010, pursuant to paragraph (b) of Rules 13a-15 and 15d-15 under the Exchange Act. This evaluation included a review of the controls’ objectives and design, the operation of the controls, and the effect of the controls on the information presented in this Annual Report. Our management, including the CEO and CFO, do not expect that disclosure controls can or will prevent or detect all errors and all fraud, if any. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Our disclosure controls and procedures are designed to provide such reasonable assurance of achieving their objectives. Also, the projection of any evaluation of the disclosure controls and procedures to future periods is subject to the risk that the disclosure controls and procedures may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Based on their review and evaluation, and subject to the inherent limitations described above, our CEO and CFO have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) were effective as of December 31, 2010 at the above-described reasonable assurance level.

**Internal Control over Financial Reporting**—Management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

Because of inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even internal controls determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. The effectiveness of our internal control over financial reporting is subject to various inherent limitations, including cost limitations, judgments used in decision making, assumptions about the likelihood of future events, the possibility of human error, and the risk of fraud. The projection of any evaluation of effectiveness to future periods is subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with policies may deteriorate. Because of these limitations, there can be no assurance that any system of internal control over financial reporting will be successful in preventing all errors or fraud or in making all material information known in a timely manner to the appropriate levels of management.

This annual report does not include an attestation report of the company’s registered public accounting firm regarding internal control over financial reporting. Management’s report was not subject to attestation by the company’s registered public accounting firm pursuant to rules of the Securities and Exchange Commission that exempt from this requirement issuers that are neither accelerated filers nor large accelerated filers..

There has been no change in our internal control over financial reporting during the quarter ended December 31, 2010 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## Management's Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934). Our internal control over financial reporting is designed to provide reasonable assurance to management and the Board of Directors regarding the preparation and fair presentation of published financial statements. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Management assessed the effectiveness of our internal control over financial reporting as of December 31, 2010. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control — Integrated Framework. Based on this assessment, management has determined that the Company's internal control over financial reporting as of December 31, 2010, was effective.

### Item 9B. Other Information

None; not applicable.

## PART III

### Item 10. Directors, Executive Officers, and Corporate Governance.

#### DIRECTORS AND EXECUTIVE OFFICERS

The following table sets forth:

- the names of our current directors and executive officers,
- their ages as of June 15, 2011, which is the record date for our 2011 annual meeting of stockholders; and
- the capacities in which they currently serve Wizzard :

<u>Name</u>	<u>Age</u>	<u>Position(s)</u>	<u>Served in Position Since</u>
Christopher J. Spencer	42	Chief Executive Officer and Chairman of the Board	2001
John Busshaus	48	Chief Financial Officer	2007
David Mansueto	32	Director	2007
Denis Yevstifeyev	29	Director	2007
Douglas Polinsky	52	Director	2007
J. Gregory Smith	42	Director	2007

**Christopher Spencer** has served as our Chief Executive Officer, President and as a director of Wizzard since February 7, 2001. Mr. Spencer has been responsible for our overall direction since our inception and has been instrumental in leading us to our current position in the podcasting industry. From 1994 until 1996, Mr. Spencer founded and worked for ChinaWire, Inc., a high-technology company engaged in financial remittance between international locations and China. Mr. Spencer worked for Lotto USA, Inc. from 1992-1994, where he was founder and Chief Executive Officer for the Pennsylvania computer networking company. From 1990 until 1992, Mr. Spencer worked for John Valiant, Inc., and was responsible for business concept development and obtaining financing.

**John Busshaus** served as our Controller since April 2006, until his election as our Chief Financial Officer on January 29, 2007. Mr. Busshaus has been responsible for our overall accounting and financial reporting functions since joining the Company in April 2006. From 2004 to 2006, Mr. Busshaus was an independent business consultant. Mr. Busshaus' efforts were assisting organizations with the implementation of Sarbanes Oxley, filing of SEC reports, and taking a company through an IPO. Mr. Busshaus worked for Talanga International from 2001 to 2004, where he was the Chief Financial Officer for the company. From 1999 to 2000, Mr. Busshaus worked for Mellon Bank as Controller and Vice President, and was responsible for strategic planning and managing the annual and monthly budgeting within Global Security Services. From 1994 to 1998, Mr. Busshaus worked for PepsiCo as Senior Business Planner, and was responsible for annual and

quarterly budgets planning, as well as weekly, monthly and quarterly reporting of results. As a member of management, Mr. Busshaus' efforts contributed to the revenue growth and market share increases in a market that was categorized as saturated.

**David Mansueto** has served a director for Wizzard's since April of 2007. Mr. Mansueto was a co-founder and executive officer of Liberated Syndication, since the founding of the business in 2004. Mr. Mansueto handles creative planning and strategic decision making for Liberated Syndication. From 2004 to 2007, Mr. Mansueto, with three other individuals, founded and ran Liberated Syndication, the largest podcast hosting business in the world. From 2001 to 2004, Mr. Mansueto was engaged in the performance and digital arts, and produced many performance series in the Pittsburgh area including a regular public access talk show that featured local artists, entrepreneurs and politicians. In 2000, Mr. Mansueto co-created Emayhem.com, one of the web's first user generated online communities. In 1996, Mr. Mansueto attended the University of Pittsburgh to study theatre, film and music. Mr. Mansueto was awarded the top prize at the American College Theatre Festival for his sound design work on the premiere stage production of The Hudsucker Proxy.

**Douglas Polinsky** has served as a Director of Wizzard since October 2007. Mr. Polinsky serves as the President of Great North Capital Corp., a Minnesota-based financial services company he founded in 1995. Great North advises corporate clients on capital formation and other transaction-related financial matters. Mr. Polinsky earned a Bachelor of Science degree in Hotel Administration at the University of Nevada at Las Vegas.

**Greg Smith** has served as a Director of Wizzard since October 2007. Mr. Smith is an award-winning producer and entrepreneur with over 10 years of experience in Non-Fiction Television. In 2000, Mr. Smith established The Solution Film Group, LLC and acts as the Company's President. Mr. Smith provides professional production and editorial support for various forms of non-fiction television entertainment, including the direction of media projects from development through production and post-production. His clients include Discovery Channel, Science Channel, Discovery HD Theater, Animal Planet, The Military Channel, PBS, and Discovery Networks International. Mr. Smith most recently won an Emmy in 2006 for the Discovery Channel's animated special Before the Dinosaurs. His other awards for excellence in production and editing include Emmys for the Discovery Channel's Walking with Prehistoric Beasts and Allosaurus: A Walking with Dinosaurs Special. From 1997 to 2000, Mr. Smith worked for Discovery Communications, Inc. in the capacity of Supervising Producer from January 1998 to November 2000, and Producer/Editor from October 1997 to January 1998. From 1995 to 1996, Mr. Smith worked for Discovery Channel Pictures serving as Assistant Editor from March 1996 to October 1997, and Production Assistant from September 1995 to March 1996. From 1994 to 1995, Mr. Smith worked for Crawford Communications in Atlanta, Georgia as a Manager of Satellite Services for The Learning Channel.

**Denis Yevstifeyev** has served as a Director of Wizzard since October 2007. Mr. Yevstifeyev operates his own consulting practice providing accounting and management consulting services to clients across various business sectors. From 2007 to 2008, Mr. Yevstifeyev served as Sr. Financial Reporting Analyst for American Eagle Outfitters, Inc. in Pittsburgh. His duties included: preparing and analyzing various internal and external financial reports; researching new accounting pronouncements and evaluating any impact on the financial statements. He also reviewed accounting workpapers and prepared the company's SEC filings for forms 8-K, 10-Q and 10-K. From 2005 to 2007, Mr. Yevstifeyev worked for Schneider Downs, Inc., where he worked on Sarbanes-Oxley compliance engagements. In 2005, Mr. Yevstifeyev graduated with a Bachelor of Science degree in Business from Washington and Jefferson College. He also graduated with honors from the Moscow Bank College of the Central Bank of Russia in Moscow with a degree in Finance in 2000. From 2002 to 2003, Mr. Yevstifeyev served as the Settlement Department Manager for SDM BANK in Moscow, where he dealt with domestic and international corresponding banks, among other responsibilities.

There are no non-officer employees who are expected to make a significant contribution to the business.

#### Family Relationships.

There are no family relationships between any of our directors or executive officers.

#### Involvement in Certain Legal Proceedings.

During the past ten years, none of our present or former directors, executive officers or persons nominated to become directors or executive officers:

(1) A petition under the Federal bankruptcy laws or any state insolvency law was filed by or against, or a receiver, fiscal agent or similar officer was appointed by a court for the business or property of such person, or any

partnership in which he was a general partner at or within two years before the time of such filing, or any corporation or business association of which he was an executive officer at or within two years before the time of such filing;

(2) Such person was convicted in a criminal proceeding or is a named subject of a pending criminal proceeding (excluding traffic violations and other minor offenses);

(3) Such person was the subject of any order, judgment, or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, permanently or temporarily enjoining him from, or otherwise limiting, the following activities:

(i) Acting as a futures commission merchant, introducing broker, commodity trading advisor, commodity pool operator, floor broker, leverage transaction merchant, any other person regulated by the Commodity Futures Trading Commission, or an associated person of any of the foregoing, or as an investment adviser, underwriter, broker or dealer in securities, or as an affiliated person, director or employee of any investment company, bank, savings and loan association or insurance company, or engaging in or continuing any conduct or practice in connection with such activity;

(ii) Engaging in any type of business practice; or

(iii) Engaging in any activity in connection with the purchase or sale of any security or commodity or in connection with any violation of Federal or State securities laws or Federal commodities laws;

(4) Such person was the subject of any order, judgment or decree, not subsequently reversed, suspended or vacated, of any Federal or State authority barring, suspending or otherwise limiting for more than 60 days the right of such person to engage in any activity described in paragraph (f)(3)(i) of this section, or to be associated with persons engaged in any such activity;

(5) Such person was found by a court of competent jurisdiction in a civil action or by the Commission to have violated any Federal or State securities law, and the judgment in such civil action or finding by the Commission has not been subsequently reversed, suspended, or vacated;

(6) Such person was found by a court of competent jurisdiction in a civil action or by the Commodity Futures Trading Commission to have violated any Federal commodities law, and the judgment in such civil action or finding by the Commodity Futures Trading Commission has not been subsequently reversed, suspended or vacated;

(7) Such person was the subject of, or a party to, any Federal or State judicial or administrative order, judgment, decree, or finding, not subsequently reversed, suspended or vacated, relating to an alleged violation of:

(i) Any Federal or State securities or commodities law or regulation; or

(ii) Any law or regulation respecting financial institutions or insurance companies including, but not limited to, a temporary or permanent injunction, order of disgorgement or restitution, civil money penalty or temporary or permanent cease-and-desist order, or removal or prohibition order; or

(iii) Any law or regulation prohibiting mail or wire fraud or fraud in connection with any business entity; or

(8) Such person was the subject of, or a party to, any sanction or order, not subsequently reversed, suspended or vacated, of any self-regulatory organization (as defined in Section 3(a)(26) of the Exchange Act (15 U.S.C. 78c(a)(26))), any registered entity (as defined in Section 1(a)(29) of the Commodity Exchange Act (7 U.S.C. 1(a)(29))), or any equivalent exchange, association, entity or organization that has disciplinary authority over its members or persons associated with a member.

## SECTION 16(a) BENEFICIAL OWNERSHIP REPORT COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934 requires our officers and directors, and persons who own more than 10% of a registered class of our equity securities, to file reports of ownership and changes in ownership with the SEC. Officers, directors, and greater than 10% stockholders are required by SEC regulations to furnish us with copies of all Section 16(a) forms they file. Based solely on a review of the copies of such forms furnished to us with respect to fiscal 2010 and on representations that no other reports were required, we believe that during the 2010 fiscal year all applicable Section 16(a) filing requirements were met.

<u>Name of Beneficial Owner</u> <sup>(1)</sup>	<u>Amount and Nature of Beneficial Ownership</u> <sup>(2)</sup>	<u>Late Reports</u>
<b>10% Stockholders:</b>		
None		
<b>Directors:</b>		
Douglas Polinsky	102,000	0
J. Gregory Smith	0	0
Denis Yevstifeyev	0	0
David Mansueto	1,143,857	0
<b>Executive Officers:</b>		
Christopher Spencer, Chief Executive Officer	3,049,934	0
John L. Busshaus	337,500 <sup>(3)</sup>	0
All directors and executive officers as a group (6 persons)	4,633,291	0

\* Less than 1%

- (1) The address of each director and officer is c/o Wizzard Software Corporation, 5001 Baum Blvd. Suite 770, Pittsburgh, Pennsylvania 15213.
- (2) The persons named in this table have sole voting and investment power with respect to all shares of common stock reflected as beneficially owned by them. A person is deemed to be the beneficial owner of securities that can be acquired by such person within sixty (60) days from April 1, 2011, and the total outstanding shares used to calculate each beneficial owner's percentage includes such shares, although such shares are not taken into account in the calculations of the total number of shares or percentage of outstanding shares. Beneficial ownership as reported does not include shares subject to option or conversion that are not exercisable within 60 days of April 1, 2011.
- (3) Includes 337,500 stock options that are vested or will vest within 60 days of April 1, 2011.

## CORPORATE GOVERNANCE

### Code of Ethics

We uphold a set of basic values to guide our actions and are committed to maintaining the highest standards of business conduct and corporate governance. We have adopted a Code of Business Conduct and Ethics for directors, officers (including our principal executive officer and principal financial officer) and employees, which, in conjunction with our Certificate of Incorporation, Bylaws and Board of Directors committee charters, form the framework for governance of Wizzard. The Code of Ethics and Business Conduct, Board of Directors committee charters, Bylaws and Certificate of Incorporation are available at our corporate offices. Stockholders may request free printed copies of these documents from:

Wizzard Software Corporation  
Attn: Kathy Neal  
5001 Baum Blvd., Suite 770  
Pittsburgh, PA 15213

### Board of Directors Independence

The Board of Directors has determined that each of J. Gregory Smith, Denis Yevstifeyev and Douglas Polinsky has no material relationship with us (either directly or as a partner, stockholder or officer of an organization that has a relationship with us) and satisfies the independence requirements required by the NYSE AMEX. The non-management independent directors meet in executive session, without management, at least annually. Mr. Polinsky, an independent non-management director, chairs all executive session meetings of directors.

## Committees of the Board of Directors

The Board of Directors has adopted written charters for two standing committees: the Nominating Committee and the Audit Committee. The Board has determined that all members of the Nominating and Audit Committees are independent and satisfy the relevant SEC or NYSE AMEX independence requirements for members of such committees.

*Nominating Committee.* The Nominating Committee currently consists of Mr. Polinsky as chair, Mr. Yevstifeyev, and Mr. Smith. This committee provides assistance to the Board in identifies individuals qualified to become members of the Board of Directors consistent with Board criteria. The committee also oversees the evaluation of the Board of Directors and management. There have not been any material changes to the procedures by which stockholders recommend nominees to the Board of Directors.

*Audit Committee.* The Audit Committee currently consists of Mr. Polinsky as chair, Mr. Yevstifeyev, and Mr. Smith., Mr. Yevstifeyev, the Board of Directors has determined, is an “audit committee financial expert” as defined under SEC rules. This committee oversees the integrity of our financial statements, disclosure controls and procedures, the systems of internal accounting and financial controls, compliance with legal and regulatory requirements, the qualifications and independence of the independent auditors and the performance of our internal audit function and independent auditors, and the quarterly reviews and annual independent audit of our financial statements. Gregory & Associates, our independent auditors, reports directly to the Audit Committee.

We will provide a free printed copy of any of the charters of any Board committee to any stockholder on request.

*Compensation Committee.* The Compensation Committee currently consists of Mr. Polinsky as chair, Mr. Yevstifeyev, and Mr. Smith. This committee provides assistance to the Board of Directors in overseeing our compensation policies and practices. It reviews and approves the compensation levels and policies for the Board of Directors; reviews and approves corporate goals and objectives with respect to CEO compensation and, based upon these evaluations, determines and approves the CEO’s compensation; makes recommendations to the Board of Directors with respect to non-CEO executive officer compensation. The Compensation Committee also has the responsibility to provide the report to stockholders on executive officer compensation, which appears below.

### Item 11. Executive Compensation.

#### COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

No member of the compensation committee (i) was an officer or employee of the Company or a subsidiary of the Company during 2010, (ii) was formerly an officer of the Company or a subsidiary of the Company, or (iii) had any relationship required to be disclosed pursuant to Item 404 of Regulation S-K.

During fiscal 2010, none of the Company’s executive officers served as (i) a member of a compensation committee of another company, one of whose executive officers served on the Company’s compensation committee; (ii) a director of another company, one of whose executive officers served on the Company’s compensation committee; or (iii) a member of a compensation committee of another company, one of whose executive officers served as one of the Company’s directors.

#### COMPENSATION DISCUSSION AND ANALYSIS

##### Overview and General Philosophy

At Wizzard, our focus is to create value through advancements in the use of speech recognition software within our diverse businesses. Our executive compensation program supports this goal of value creation by:

- rewarding executives for obtaining performance milestones;
- aligning the interests of executives with the interests of stockholders; and

- attracting and retaining highly motivated and talented executives.

Our compensation elements simultaneously fulfill one or more of these three objectives. The elements include:

- base salary;
- discretionary bonuses (in the form of cash, restricted stock, and stock options);
- benefits programs.

The type and amount of compensation is determined considering current pay, competitive pay data from the external talent market and the opportunity for future pay. We combine compensation elements for each executive in a manner that will meet the performance, alignment and retention goals listed above as well as eliciting the best possible contribution from the executive.

#### Compensation Objectives

Our executive compensation philosophy is built around two objectives: supporting stockholder value creation through, aligning the interests of executives with the interests of stockholders, and attracting and retaining highly motivated and talented executives.

Due to our diverse businesses, we have determined that no specific peer group is appropriate to use in defining market pay levels for our named executives. We therefore use general industry data of companies which are a similar size to us based on market capitalization to establish market pay levels.

#### Obtained Performance Milestones:

- We construct our annual bonus opportunities to have appropriately aggressive targets that require significant achievement against performance milestones.

#### Aligned Interests:

- Our base pay practices reduce fixed costs and emphasize performance-based incentive programs, which we believe are in the best interests of stockholders.
- We base our annual bonus opportunities on performance milestones and value to the stockholder that focus executives on performance results that are of common interest to stockholders.
- We award long-term equity incentive opportunities using stock options and restricted stock so that appreciating stock value is a significant factor in executive compensation.

#### Executive Retention:

- We believe our use of lower base salary levels accompanied by an emphasis on incentive programs attracts executives that are appropriately aggressive, innovative, and willing to risk a larger share of their compensation on their own performance and the performance of the Company.
- Discretionary bonuses allow us to adjust to unique market conditions in a timely fashion in order to retain key executives.

#### Compensation Administration

*General Process.* Executive compensation decisions at Wizzard are the product of several factors, modified by judgment and discretion as necessary. The predominant factors include:

- key performance measurements such as revenue, monthly download of content, and key business developments;

- strategic initiatives such as acquisitions, and implementation of process improvements;
- achievement of specific operational goals relating to the sphere of influence led by the executive;
- compensation of other executives within the Company (to ensure internal equity); and

For the CEO, these factors are judged and compensation is recommended by the Compensation Committee of the Board of Directors and approved by the Board. For the other executive officers (including all of the named executives in the Summary Compensation Table), the factors are considered by the CEO, who recommends compensation levels. These judgments and recommendations are then reviewed and approved or revised by the Compensation Committee.

Generally, the Compensation Committee reviews and makes adjustments to base compensation once per year, effective at the beginning of each fiscal year (January 1). Annual incentives are typically paid within two months of the fiscal year end, usually in mid-February. Equity grants are typically awarded in the spring of each year, in March or early April.

*Role of Compensation Committee.* The Compensation Committee oversees the design, development and implementation of our compensation program. The Committee evaluates the performance of the CEO and determines CEO compensation consistent with the objectives of the compensation program. The Committee also approves all incentive compensation plans and approves or revises recommendations made by the CEO for compensation decisions affecting other executives. The Committee also approves all bonuses, awards and grants under all incentive plans.

*Role of CEO.* Our CEO is responsible for the implementation and administration of our compensation program throughout the organization. The CEO evaluates the performance of executives and, consistent with the objectives of the compensation program, meets with the Compensation Committee to consider and recommend compensation programs, set and evaluate performance milestone, and make specific recommendations on the form and amount of compensation for named executives.

#### Compensation Components

*Short-Term Compensation.* Consistent with our stated compensation philosophy, our key metric for executive short-term compensation is annual total cash compensation. Discretionary bonuses provide significant upside potential which results in targeted annual total cash compensation.

Our performance for fiscal 2010 was at or above targeted levels, even in a year that was very challenging. Company-wide, total revenue for the year was \$5.5 million, an increase of 7% from the previous year. In April, 2010, the Company closed a subscription agreement whereby five institutional investors invested a total of \$2.0 million in cash in exchange for 8,000,000 shares of common stock and 5,000,000 warrants.

*Base Salary.* We consider base salary a tool to provide executives with a reasonable base level of income relative to the scope of the positions they hold. Base salaries are established based on the level of responsibility for the position. With the exception of the CEO and named executives all base salaries are reviewed annually, and are adjusted from time to time to reflect changes in responsibility level.

In 2010, our named executives' salaries ranged from \$133,100 to \$145,200. There were no changes in salaries for senior executives during 2009 or 2010.

*Annual Bonus.* Currently, there is not an established annual incentive bonus plan.

*Discretionary Bonuses.* Because there is not an annual incentive plan, the Compensation Committee may determine a discretionary bonus is to be awarded to appropriately reward senior executives. In these cases, discretionary bonuses are used to assure that executives are appropriately rewarded. The Committee determines discretionary bonuses for the CEO. The CEO recommends discretionary bonuses for all other named executives, which are then approved or adjusted by the Committee.

In fiscal year 2010, there were no discretionary bonuses awarded to any executive officer.

Our Compensation Committee believes that we have executed on our compensation philosophy given the level of Company performance in fiscal 2010.

*Long-Term Incentive Compensation.* In 2010, we offered a limited group of employees, including all named executives, stock options.

In fiscal 2011, we plan to execute a long-term incentive design that will utilize stock options. For senior management, including named executives, the primary emphasis will be on stock option awards. This results primarily in senior management focus on stock price performance, directly aligning the interests of executives with the interests of stockholders. It also puts a higher percentage of long-term compensation at risk as the design delivers less immediate value to executives.

All stock-options granted to the named executives by the Company must have prior Compensation Committee approval. The exercise price for all stock-based awards coincides with the date the Committee approves the award grant. It is against Company policy to back-date stock-based awards or to try to time stock-based awards for any reason and we have never engaged in these practices.

*Award Adjustment or Recovery.* We do not have a policy to recover or otherwise adjust payments made or awards earned as a result of changes in subsequent periods relating to performance measures upon which such payments or awards are based, sometimes referred to as a “clawback” policy. We have not required any named executive to return any award or repay any payment received in any fiscal year.

*Tax Deductibility of Compensation.* Section 162(m) of the Internal Revenue Code of 1986, as amended, imposes a \$1,000,000 limit on the amount that a public company may deduct for compensation paid to named executives unless compensation is based on an individual’s meeting pre-established performance goals determined by a compensation committee and approved by stockholders.

#### Retirement and Other Benefits

Generally, we view retirement savings as a personal matter. We currently do not offer any pre-tax retirement savings through the use of a traditional 401(k) plan; a deferred compensation plan; or other retirement programs.

*Perquisites.* Eligible employees, including named executives, participate in various other employee benefit plans, including medical and dental care plans; flexible spending accounts for health care; life, accidental death and dismemberment and disability insurance; and vacation plans. The primary purpose of providing these plans and limited perquisites to senior executives is to attract and retain talented executives to manage the Company. With respect to non-insurance perquisites, we prefer to take a minimalist approach. For fiscal 2010, the Company did not have executive non-insurance perquisites.

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#### Compensation Committee Report

The Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis set forth in this Annual Report with our management. Based on such review and discussions, the Compensation Committee recommended to our Board of Directors that the Compensation Discussion and Analysis be included in this Annual Report on Form 10-K.

Compensation Committee  
Douglas Polinsky, Chairman  
J. Gregory Smith  
Denis Yevstifeyev

#### Summary Compensation Table

The following sets forth the compensation of Wizzard’s Chief Executive Officer during fiscal 2010, and the other persons who served as executive officers during fiscal 2010. Unless otherwise noted, the amounts shown represent what was earned in fiscal 2010.

**SUMMARY COMPENSATION TABLE – FISCAL 2010**

<u>Name and principal position</u>	<u>Salary</u> ( <u>\$</u> )	<u>Bonus</u> ( <u>\$</u> )	<u>Stock</u> <u>awards</u> ( <u>\$</u> )	<u>Non-equity</u> <u>incentive</u> <u>plan</u> <u>compensation</u> ( <u>\$</u> )	<u>All other</u> <u>compensation</u> ( <u>\$</u> )	<u>Total</u> ( <u>\$</u> )
Christopher Spencer – Chief Executive Officer						
2010	145,200	0	0	0	0	145,200
2009	145,200	0	0	0	0	145,200
2008	143,875	0	0	0	0	143,875
John Busshaus – Chief Financial Officer						
2010	133,100	0	0	0	0	133,100
2009	133,100	0	0	0	0	133,100
2008	131,115	0	293,750 <sup>(1)</sup>	0	0	424,865

(1) Stock-based compensation represents the amounts recognized for financial reporting purposes for granting of stock options totaling \$177,320, calculated in accordance with the requirements of SFAS No. 123R. Reference is made to Note 8 to the consolidated financial statements included in our Annual Report on Form 10-K for the fiscal year 2008 for a detailed description of the assumptions used in valuing stock-based awards under SFAS No. 123R.

**Restricted Stock Awards**

There were no issuances of restricted stock award during fiscal 2010 to any named executive.

**Outstanding Equity Awards at Fiscal Year End**

The following table sets forth information concerning outstanding equity awards for the named executives as of December 31, 2010.

**OUTSTANDING EQUITY AWARDS AT DECEMBER 31, 2010**

<u>Name</u>	<u>Option awards</u>				<u>Stock awards</u>				
	<u>Number</u> <u>of securities</u> <u>underlying</u> <u>unexercised</u> <u>options</u> <u>(#)</u> <u>exercisable</u>	<u>Number</u> <u>of securities</u> <u>underlying</u> <u>unexercised</u> <u>options</u> <u>(#)</u> <u>unexercisable</u>	<u>Equity incentive</u> <u>plan awards:</u> <u>number of</u> <u>securities</u> <u>underlying</u> <u>unexercised</u> <u>options (#)</u>	<u>Option</u> <u>exercise</u> <u>price</u> <u>(<u>\$</u>)</u>	<u>Option</u> <u>expiration</u> <u>date</u>	<u>Number</u> <u>of shares</u> <u>or units</u> <u>of stock</u> <u>that have</u> <u>not vested</u> <u>(#)</u>	<u>Market value</u> <u>of shares</u> <u>or units</u> <u>of stock</u> <u>that have</u> <u>not vested</u> <u>(<u>\$</u>)</u>	<u>Equity</u> <u>incentive plan</u> <u>awards:</u> <u>number of</u> <u>unearned</u> <u>shares, units or</u> <u>other rights</u> <u>that have not</u> <u>vested (#)</u>	<u>Equity</u> <u>incentive plan</u> <u>awards:</u> <u>market or</u> <u>payout value of</u> <u>unearned</u> <u>shares, units or</u> <u>other rights</u> <u>that have not</u> <u>vested (<u>\$</u>)</u>
John L. Busshaus	137,500	0	0	1.59	5/22/2016	0	0	0	0
John L. Busshaus	200,000	0	0	2.20	5/16/2017	0	0	0	0

**Grants of Plan-Based Awards for 2010**

There were no plan-based equity awards made to our executive officers during fiscal 2010

**Option Exercises and Stock Vested**

The following table sets forth information concerning fiscal 2010 option exercises and restricted stock that vested during fiscal 2010 for the named executives.

## OPTION EXERCISES AND STOCK VESTED DURING FISCAL 2009

Name	Option awards		Stock awards	
	Number of shares acquired on exercise (#)	Value realized on exercise (\$)	Number of shares acquired on vesting (#)	Value realized on vesting (\$)
Christopher Spencer	0	0	0	0
John L. Busshaus	0	0	0	0

### Pension Benefits

The Company does not have any plans that provide for payments or other benefits at, following, or in connection with retirement.

### Nonqualified Deferred Compensation

The Company does not have a Deferred Compensation Plan for its executive officers.

### Other Potential Post-Employment Payments

As of December 31, 2010, there were no named executives with employment contracts that require or required severance or other post-employment payments.

### Summary Information about Equity Compensation Plans

As of December 31, 2010, we had seven stock option plans, which were not approved by stockholders. A total of 1,937,500 shares of common stock have been reserved for ultimate issuance under the plans. Four of the plans have expired and awards can no longer be granted under those plans. As of December 31, 2010, options for approximately 56,129 shares of common stock could be granted under the remaining plans.

The Compensation Committee, or in its absence, the full Board, administers and interprets the plans. This Committee is authorized to grant options and other awards both under the plans and outside of any plan to eligible employees, officers, directors, and consultants. Terms of options and other awards granted under the plans, including vesting requirements, are determined by the Committee and historically have varied significantly. Options and other awards granted under the plans vest over periods ranging from zero to ten years, expire ten years from the date of grant and are not transferable other than by will or by the laws of descent and distribution. Incentive stock option grants are intended to meet the requirements of the Internal Revenue Code.

*2002 Stock Option Plan.* A total of 1,000,000 shares of common stock are reserved for issuance under the 2002 Stock Option Plan. The 2002 Plan expired in 2007 and awards can no longer be granted under the 2002 Plan. The 2002 Plan provided for the granting of both incentive stock options (ISOs) and non-statutory stock options (NSOs).

*2004 Stock Option Plan.* A total of 200,000 shares of common stock are reserved for issuance under the 2004 Stock Option Plan. The 2004 Plan expired in 2007 and awards can no longer be granted under the 2004 Plan. The 2004 Plan provided for the granting of both incentive stock options (ISOs) and non-statutory stock options (NSOs).

*2005 Stock Option Plan.* A total of 200,000 shares of common stock are reserved for issuance under the 2005 Stock Option Plan. The 2005 Plan expired in 2007 and awards can no longer be granted under the 2005 Plan. The 2005 Plan provided for the granting of both incentive stock options (ISOs) and non-statutory stock options (NSOs).

*2006 Stock Option Plan.* A total of 137,500 shares of common stock are reserved for issuance under the 2006 Stock Option Plan. The 2006 Plan expired in 2006 and awards can no longer be granted under the 2006 Plan. The 2006 Plan provided for the granting of both incentive stock options (ISOs) and non-statutory stock options (NSOs).

*2007 Stock Option Plan.* A total of 200,000 shares of common stock are reserved for issuance under the 2007 Stock Option Plan. The 2007 Plan has not expired and awards up to 43,245 can be granted under the 2007 Plan. The 2007 Plan provided for the granting of both incentive stock options (ISOs) and non-statutory stock options (NSOs).

*2007 Key Employee Stock Option Plan.* A total of 200,000 shares of common stock are reserved for issuance under the 2007 Key Employee Stock Option Plan. The 2007 Key Employee Plan expired in 2007 and awards can no longer be granted under the 2007 Key Employee Plan. The 2007 Key Employee Plan provides for the granting of both incentive stock options (ISOs) and non-statutory stock options (NSOs).

*2008 Stock Option Plan.* A total of 200,000 shares of common stock are reserved for issuance under the 2008 Stock Option Plan. The 2008 Plan has not expired and awards up to 12,884 can be granted under the 2008 Plan. The 2008 Plan provides for the granting of both incentive stock options (ISOs) and non-statutory stock options (NSOs).

*2008 Key Employee Stock Option Plan.* A total of 400,000 shares of common stock are reserved for issuance under the 2008 Key Employee Stock Option Plan. The 2008 Key Employee Plan has not expired and awards up to 26,334 can be granted under the 2008 Key Employee Plan. The 2008 Key Employee Plan provides for the granting of both incentive stock options (ISOs) and non-statutory stock options (NSOs).

*2009 Stock Option Plan.* A total of 2,000,000 shares of common stock are reserved for issuance under the 2009 Stock Option Plan. The 2009 Plan has not expired and awards up to 655,012 can be granted under the 2009 Plan. The 2009 Plan provides for the granting of both incentive stock options (ISOs) and non-statutory stock options (NSOs).

*2010 Stock Option Plan.* A total of 2,000,000 shares of common stock are reserved for issuance under the 2010 Stock Option Plan. The 2010 Plan has not expired and awards up to 2,000,000 can be granted under the 2010 Plan. The 2010 Plan provides for the granting of both incentive stock options (ISOs) and non-statutory stock options (NSOs).

*No Loans for Option Exercises.* It is our policy to not make loans to employees or officers for the purpose of paying for the exercise of stock options.

*Stockholder Approval of Equity Compensation Plans.* The following table presents information as of December 31, 2010, about our common stock that may be issued upon the exercise of options granted to employees, consultants or members of the Board of Directors under all of our existing equity compensation plans and individual arrangements. As described above, we have seven stock option plans under which options have been granted.

<b>Plan Category</b>	<b>Maximum shares to be issued upon exercise of options</b>	<b>Weighted-average exercise price of outstanding options</b>	<b>Shares remaining available for future issuance under existing equity compensation plans (excluding shares reflected in first column)</b>
Plans approved by stockholders	281,500	\$ 0.40	2,681,346
Plans not approved by stockholders	422,500	2.00	56,129
<b>Total</b>	<b>704,000</b>	<b>\$ 1.36</b>	<b>2,737,475</b>

#### DIRECTOR COMPENSATION

In 2010, we paid our non-employee directors a cash retainer and granted stock options. In 2011, the Board of Directors will consider stock options or other appropriate equity incentive grants to the outside directors. We reimburse directors for out-of-pocket expenses they incur when attending meetings of the Board. Salaried executives who serve as directors are not paid for their services as directors and accordingly, Christopher Spencer is not included in the director compensation table below.

The following table sets forth the compensation we paid our non-employee directors in 2010. Unless otherwise noted, the amounts shown represent what was earned in fiscal 2010.

**DIRECTOR COMPENSATION TABLE – FISCAL 2010**

<b>Name</b>	<b>Fees earned or paid in cash (\$)</b>	<b>Stock awards (\$)</b>	<b>Option awards (\$)</b>	<b>Non-equity incentive plan compensation (\$)</b>	<b>Nonqualified deferred compensation earnings (\$)</b>	<b>All other compensation (\$)</b>	<b>Total (\$)</b>
Doug Polinsky	22,000	0	16,800	0	0	0	38,800
J. Gregory Smith	22,000	0	16,800	0	0	0	38,800
Denis Yevstifeyev	22,000	0	16,800	0	0	0	38,800

All outside directors are entitled to base annual cash compensation of \$24,000, which we pay monthly. Currently, the outside directors also receive options for the purchase of common stock which normally vest at the rate of 24,000 shares each year, through December 31, 2010. The outside directors were granted 144,000 stock options on January 22, 2010, with a fair value of \$50,400 on that date. As of December 31, 2010, there were 144,000 stock options outstanding that were granted to the outside directors.

**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

**Securities Authorized for Issuance Under Equity Compensation Plans**

<b>Plan Category</b>	<b>Maximum shares to be issued upon exercise of options</b>	<b>Weighted-average exercise price of outstanding options</b>	<b>Shares remaining available for future issuance under existing equity compensation plans (excluding shares reflected in first column)</b>
Plans approved by stockholders	281,500	\$ 0.40	2,681,346
Plans not approved by stockholders	422,500	2.00	56,129
<b>Total</b>	<b>704,000</b>	<b>\$ 1.36</b>	<b>2,737,475</b>

**Security Ownership of Certain Beneficial Owners**

The following table sets forth certain information as of March 5, 2011 regarding the beneficial ownership of our common stock, for:

- each person (or group of affiliated persons) who, insofar as we have been able to ascertain, beneficially owned more than 5% of the outstanding shares of our common stock;
- each director;
- each named executive; and
- all directors and executive officers as a group.

We relied on information received from each stockholder as to beneficial ownership, including information contained on Schedules 13D and 13G and Forms 3, 4 and 5. As of March 4, 2011 there were 89,776,359 shares of common stock outstanding. As of that date, there were options to purchase 704,000 shares of common stock and warrants to purchase 5,972,815 shares of common stock.

Name and Address of Beneficial Owner <sup>(1)</sup>	Amount and Nature of Beneficial Ownership <sup>(2)</sup>	Percent of Class
<b>5% Stockholders:</b>		
Christopher Spencer, Chief Executive Officer	3,049,934	3.4 %
<b>Directors:</b>		
Douglas Polinsky	102,000	*
J. Gregory Smith	0	
Denis Yevstifeyev	0	
David Mansueto	1,143,857	1.3 %
<b>Executive Officers:</b>		
John L. Busshaus	337,500 <sup>(3)</sup>	*
All directors and executive officers as a group (6 persons)	4,633,291	5.1 %
* Less than 1%		

- (1) The address of each director and officer is c/o Wizzard Software Corporation, 5001 Baum Blvd. Suite 770, Pittsburgh, Pennsylvania 15213.
- (2) The persons named in this table have sole voting and investment power with respect to all shares of common stock reflected as beneficially owned by them. A person is deemed to be the beneficial owner of securities that can be acquired by such person within sixty (60) days from April 1, 2011, and the total outstanding shares used to calculate each beneficial owner's percentage includes such shares, although such shares are not taken into account in the calculations of the total number of shares or percentage of outstanding shares. Beneficial ownership as reported does not include shares subject to option or conversion that are not exercisable within 60 days of April 1, 2011.
- (3) Includes 337,500 stock options that are vested or will vest within 60 days of April 1, 2011.

### Changes in Control

There are no known arrangements known to the Company, including any pledge by any person of securities of the Company, the operation of which may at a subsequent date result in a change in control of the Company.

### Item 13. Certain Relationships and Related Transactions, and Director Independence.

#### Transactions with Related Persons.

During the fiscal years ended December 31, 2010 and 2009, there were no transactions, and there are no currently proposed transactions, in which the Company was or is to be a participant and the amount involved exceeds the lesser of \$120,000 or one percent of the average of the Company's total assets at year end for the last two completed fiscal years, and in which any related person had or will have a direct or indirect material interest. Survival Spanish, an Education podcaster ran advertising campaigns on his shows and sold podcast Apps during 2010. Survival Spanish are owned by David Spencer. David Spencer is a sibling of the CEO of the Company. During 2010, payments were made to Mr. Spencer totaling \$1,006.

#### Parents of the Issuer.

The Company has no parents.

#### Promoters and certain control persons.

None; not applicable.

#### Director independence.

The Board of Directors has determined that each of J. Gregory Smith, Denis Yevstifeyev and Douglas Polinsky has no material relationship with us (either directly or as a partner, stockholder or officer of an organization that has a relationship with us) and satisfies the independence requirements required by the NYSE AMEX. The non-management independent directors meet in executive session, without management, at least annually. Mr. Polinsky, an independent non-management director, chairs all executive session meetings of directors.

#### Item 14. Principal Accountant Fees and Services.

The following is a summary of the fees billed to Wizzard by its principal accountants during the calendar years ended December 31, 2010, 2009 and 2008:

<u>Fee category</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Audit Fees <sup>(1)</sup>	\$ 83,990	\$ 80,715	\$ 85,575
Audit – related fees	0	0	0
Tax fees	0	0	0
All other fees	0	0	0
Total fees	\$ <u>83,990</u>	\$ <u>80,715</u>	\$ <u>85,575</u>

- (1) Consists of fees for audit of the Company's annual financial statements, audit of the financial statements of acquired subsidiaries, the review of interim financial statements included in the Company's quarterly reports, and the review of other documents filed with the Securities and Exchange Commission.

Audit fees - Consists of fees for professional services rendered by our principal accountants for the audit of our annual financial statements and the review of financial statements included in our Forms 10-Q or services that are normally provided by our principal accountants in connection with statutory and regulatory filings or engagements.

Audit-related fees - Consists of fees for assurance and related services by our principal accountants that are reasonably related to the performance of the audit or review of Wizzard's financial statements and are not reported under "Audit fees."

Tax fees - Consists of fees for professional services rendered by our principal accountants for tax compliance, tax advice and tax planning.

All other fees - Consists of fees for products and services provided by our principal accountants, other than the services reported under "Audit fees," "Audit-related fees" and "Tax fees" above.

The Audit Committee is informed of and approves all services Gregory & Associates provides. The Audit Committee pre-approves the annual audit fee, tax services, and non-routine SEC filing reviews, as well as the fees for all large projects that are expected to cost more than \$50,000. In addition, it has pre-approved \$100,000 for items that relate to routine accounting services related to items such as new, routine SEC filings requiring consents, and routine tax consultations. Upon performance of such services, the Audit Committee is informed of and approves the matters to which such consultations relate. Upon approval by the Audit Committee, the amount is added back to the pre-approved \$100,000.

#### PART IV

#### Item 15. Exhibits, Financial Statement Schedules.

##### (a) Financial Statements.

Consolidated Balance Sheets of Wizzard Software Corporation and subsidiaries as of December 31, 2010 and 2009

Consolidated Statements of Operations of Wizzard Software Corporation and subsidiaries for the years ended December 31, 2010, 2009 and 2008

Consolidated Statements of Stockholders' Equity of Wizzard Software Corporation and subsidiaries for the years ended December 31, 2010, 2009 and 2008

Consolidated Statements of Cash Flows of Wizzard Software Corporation and subsidiaries for the years ended December 31, 2010, 2009 and 2008

Notes to Consolidated Financial Statements

(b) Exhibits. (1)

<u>Exhibit Number</u>	<u>Description</u>
3.1	Articles of Incorporation(2)
3.2	Certificate of Amendment filed May 22, 2000 (2)
3.3	Articles of Amendment filed February 7, 2001 (2)
3.4	Articles of Amendment filed July 3, 2007 (2)
3.2	Articles of Amendment/Certificate of Designation regarding rights and preferences of Series A Preferred Stock (3)
3.3	Amended and Restated Bylaws(4)
10.1	Subscription Agreement (5)
10.2	Convertible Note for \$1,000,000 (5)
10.3	Convertible Note for \$400,000 (5)
10.4	Convertible Note for \$350,000 (5)
10.5	Funds Escrow Agreement (5)
10.6	Class A Common Stock Purchase Warrant No. 2006-A-001 (5)
10.7	Class A Common Stock Purchase Warrant No. 2006-A-002 (5)
10.8	Class A Common Stock Purchase Warrant No. 2006-A-003 (5)
10.9	Class B Common Stock Purchase Warrant No. 2006-B-001 (5)
10.10	Class B Common Stock Purchase Warrant No. 2006-B-002 (5)
10.11	Class B Common Stock Purchase Warrant No. 2006-B-003 (5)
10.12	Amendment to Transaction Documents Agreement (6)
10.13	Convertible Note issued to Alpha Capital Anstalt (Second closing) (6)
10.14	Convertible Note issued to Whalehaven Capital Fund Ltd. (Second closing) (6)
10.15	Convertible Note issued to Genesis Microcap Inc. (Second closing) (6)
10.16	Class A Common Stock Purchase Warrant of Alpha Capital Anstalt (Second closing) (6)
10.17	Class A Common Stock Purchase Warrant of Whalehaven Capital Fund Ltd.(Second closing) (6)
10.18	Class A Common Stock Purchase Warrant of Genesis Microcap Inc. (Second closing) (6)
10.19	Class B Common Stock Purchase Warrant of Alpha Capital Anstalt (Second closing) (6)

- 10.20 Class B Common Stock Purchase Warrant of Whalehaven Capital Fund Ltd. (Second closing) (6)
- 10.20 Class B Common Stock Purchase Warrant of Genesis Microcap Inc. (Second closing) (6)
- 10.21 Securities Purchase Agreement (2)
- 10.22 Registration Rights Agreement (2)
- 10.23 Common Stock Purchase Warrant for 1,036,585 shares (2)
- 10.24 Common Stock Purchase Warrant for 121,951 shares (2)
- 10.25 Common Stock Purchase Warrant for 60,976 shares (2)
- 10.26 Common Stock Purchase Warrant for 609,756 shares (2)
- 10.27 Modification and Amendment Agreement (7)
- 10.28 Modification Agreement (8)
- 10.29 Subscription Agreement (9)
- 10.30 Secured Note for \$200,000 (9)
- 10.31 Secured Note for \$500,000 (9)
- 10.32 Secured Note for \$300,000 (9)
- 10.33 Security Agreement (9)
- 10.34 Collateral Agent Agreement (9)
- 10.35 Guaranty (9)
- 10.36 Funds Escrow Agreement (9)
- 10.37 Modification and Amendment Agreement with Genesis Microcap Inc. (10)
- 10.38 Modification and Amendment Agreement with Whalehaven Capital Fund Ltd. (10)
- 10.39 Waiver Agreement (11)
- 10.40 Waiver, Amendment and Exchange Agreement (11)
- 10.41 Securities Purchase Agreement (11)
- 10.42 Amendment No. 1 to Securities Purchase Agreement (12)
- 10.43 Modification and Amendment Agreement with Whalehaven Capital Fund Ltd. (13)
- 10.44 Modification and Amendment Agreement with Genesis Microcap Inc. (13)
- 10.45 Waiver Agreement with Canada Pension Plan Investment Board (14)
- 10.46 Waiver Agreement with preferred stockholders (14)

10.47	Addendum No. 1 to Securities Purchase Agreement (14)
10.48	Waiver and Extension Agreement (15)
10.49	Warrant Amendment Agreement (16)
10.50	Waiver Agreement (17)
10.51	Promissory Note (18)
10.52	Promissory Note (19)
10.53	Form of Securities Purchase Agreement (20)
10.54	Form of Warrant (20)
10.55	Extension and Waiver Agreement with Note Holders (21)
10.56	Extension and Waiver Agreement with Whalehaven (21)
10.57	Extension and Waiver Agreement with Alpha Capital (21)
10.58	Extension and Waiver Agreement with Enable entities (21)
10.59	Note Amendment Agreement with Chardan (21)
10.60	Settlement Agreement and Release (22)
10.61	Engagement Agreement, as amended (23)
10.62	Form of Securities Purchase Agreement (23)
10.63	Form of Warrant (23)
10.64	Waiver Agreement (23)
10.65	Lock-Up Agreement (23)
10.66	Form of Securities Purchase Agreement (24)
10.67	Form of Warrant (24)
10.68	Securities Purchase Agreement (25)
10.69	Form of Warrant (25)
31.1	302 Certification of Christopher J. Spencer
31.2	302 Certification of John Busshaus
32	906 Certification

- (1) Summaries of all exhibits contained within this Report are modified in their entirety by reference to these Exhibits.

- (2) Incorporated by reference from our Registration Statement on Form SB-2 filed with the Securities and Exchange Commission on July 26, 2007.
- (3) Incorporated by reference from our Current Report on Form 8-K dated June 29, 2007, filed with the Securities and Exchange Commission on July 3, 2007.
- (4) Incorporated by reference from our Current Report on Form 8-K dated September 5, 2007, filed with the Securities and Exchange Commission on September 10, 2007.
- (5) Incorporated by reference from our Current Report on Form 8-K dated October 25, 2006, filed with the Securities and Exchange Commission on October 27, 2006.
- (6) Incorporated by reference from our Registration Statement on Form SB-2, filed with the Securities and Exchange Commission on December 22, 2006.
- (7) Incorporated by reference from our Current Report on Form 8-K dated November 10, 2008, filed with the Securities and Exchange Commission on November 14, 2008.
- (8) Incorporated by reference from our Current Report on Form 8-K dated November 28, 2008, filed with the Securities and Exchange Commission on December 2, 2008.
- (9) Incorporated by reference from our Current Report on Form 8-K dated December 2, 2008, filed with the Securities and Exchange Commission on December 2, 2008.
- (10) Incorporated by reference from our Current Report on Form 8-K dated April 27, 2009, filed with the Securities and Exchange Commission on April 29, 2009.
- (11) Incorporated by reference from our Current Report on Form 8-K dated June 19, 2009, filed with the Securities and Exchange Commission on June 22, 2009.
- (12) Incorporated by reference from our Current Report on Form 8-K dated September 14, 2009, filed with the Securities and Exchange Commission on September 15, 2009.
- (13) Incorporated by reference from our Current Report on Form 8-K dated October 15, 2009, filed with the Securities and Exchange Commission on October 21, 2009.
- (14) Incorporated by reference from our Current Report on Form 8-K dated December 17, 2009, filed with the Securities and Exchange Commission on December 23, 2009.
- (15) Incorporated by reference from our Current Report on Form 8-K dated January 4, 2010, filed with the Securities and Exchange Commission on January 6, 2010.
- (16) Incorporated by reference from our Current Report on Form 8-K dated February 10, 2010, filed with the Securities and Exchange Commission on February 12, 2010.
- (17) Incorporated by reference from our Current Report on Form 8-K dated February 26, 2010, filed with the Securities and Exchange Commission on March 4, 2010.
- (18) Incorporated by reference from our Current Report on Form 8-K dated March 12, 2010, filed with the Securities and Exchange Commission on March 12, 2010.
- (19) Incorporated by reference from our Current Report on Form 8-K dated March 26, 2010, filed with the Securities and Exchange Commission on March 31, 2010.
- (20) Incorporated by reference from our Current Report on Form 8-K dated April 1, 2010, filed with the Securities and Exchange Commission on April 1, 2010.

- (21) Incorporated by reference from our Current Report on Form 8-K dated April 8, 2010, filed with the Securities and Exchange Commission on April 8, 2010.
- (22) Incorporated by reference from our Current Report on Form 8-K dated November 15, 2010, filed with the Securities and Exchange Commission on November 19, 2010.
- (23) Incorporated by reference from our Current Report on Form 8-K dated January 18, 2011, filed with the Securities and Exchange Commission on January 20, 2011.
- (24) Incorporated by reference from our Current Report on Form 8-K dated January 20, 2011, filed with the Securities and Exchange Commission on January 25, 2011.
- (25) Incorporated by reference from our Current Report on Form 8-K dated March 1, 2011, filed with the Securities and Exchange Commission on March 4, 2011.

(c) Financial Statement Schedules.

The following documents are filed as part of this Report:

1. Financial Statements

See Index to Consolidated Financial Statements

2. Financial Statement Schedules:

All financial statement schedules have been omitted because they are not applicable or the required information is presented in the financial statements or the notes to the consolidated financial statements

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

WIZZARD SOFTWARE CORPORATION

*Date:* 3/31/11

*By:* /s/ Christopher J. Spencer  
Christopher J. Spencer  
Chief Executive Officer and President

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

*Date:* 3/31/11

*By:* /s/ Christopher J. Spencer  
Christopher J. Spencer  
Chief Executive Officer and President

*Date:* 3/31/11

/s/ John Busshaus  
John Busshaus  
Chief Financial Officer

*Date:* 3/31/11

/s/ J. Gregory Smith  
J. Gregory Smith  
Director

*Date:* 3/31/11

/s/ Denis Yevstifeyev  
Denis Yevstifeyev  
Director

*Date:* 3/31/11

/s/ Douglas Polinsky  
Douglas Polinsky  
Director

*Date:* 3/31/11

/s/ David Mansueto  
David Mansueto  
Director

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

I, Christopher J. Spencer, certify that:

1. I have reviewed this report on Form 10-K of the 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 issuer as of, and for, the periods presented in this report;
4. The 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 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 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) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) evaluated the effectiveness of the 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
  - d) disclosed in this report any change in the issuer's internal control over financial reporting that occurred during the issuer's most recent fiscal quarter (the issuer's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the issuer's internal control over financial reporting; and
5. The issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the issuer's auditors and the audit committee of the 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 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 issuer's internal control over financial reporting.

Date: 3/31/11

By: /s/ Christopher J. Spencer  
Christopher J. Spencer  
Chief Executive Officer and President

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

I, John Busshaus, certify that:

1. I have reviewed this report on Form 10-K of the 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 issuer as of, and for, the periods presented in this report;
4. The 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 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 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) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) evaluated the effectiveness of the 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
  - d) disclosed in this report any change in the issuer's internal control over financial reporting that occurred during the issuer's most recent fiscal quarter (the issuer's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the issuer's internal control over financial reporting; and
5. The issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the issuer's auditors and the audit committee of the 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 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 issuer's internal control over financial reporting.

Date: 3/31/11

*/s/ John Busshaus*  
*John Busshaus*  
*Chief Financial Officer*

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

I, Christopher J. Spencer and John Busshaus, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Annual Report of Wizzard Software Corporation on Form 10-K for the year ended December 31, 2010 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Annual Report of Wizzard Software Corporation on Form 10-K fairly presents in all material respects the financial condition and results of operations of Wizzard Software Corporation.

*Date: 3/31/11*

*By: /s/ Christopher J. Spencer  
Christopher J. Spencer  
Chief Executive Officer and President*

*Date: 3/31/11*

*/s/ John Busshaus  
John Busshaus  
Chief Financial Officer*