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PERVASIP CORP
Form 10KSB
March 02, 2009
UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-KSB

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

For the fiscal year ended November 30, 2008

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

For the transition period from _____ to _____.

Commission File No. 0-4465

PERVASIP CORP.
(Name of Small Business Issuer in Its Charter)

New York
(State or Other Jurisdiction
of Incorporation or Organization)

13-2511270
(I.R.S Employer Identification No.)

75 South Broadway, Suite 400, White Plains, New York
(Address of Principal Executive Offices)

10601
(Zip Code)

(914) 620-1500
(Issuer's Telephone Number)

Securities registered under Section 12(b) of the Exchange Act:
None

Securities registered under Section 12(g) of the Exchange Act:
Common Stock, par value \$.10 per share

Check whether the issuer is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ___ No

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

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will 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-KSB or any amendment to this Form 10-KSB ___.

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

Registrant's revenues for its most recent fiscal year were \$2,093,819

The aggregate market value of the common stock held by non-affiliates computed based on the closing price of such stock as of May 31, 2008 was approximately \$6,440,000.

The number of shares outstanding of the registrant's classes of common stock, as of February 15, 2009, was 26,326,172.

Transitional Small Business Disclosure Format Yes ___ No X

Documents Incorporated by Reference:

Portions of the Issuer's definitive proxy statement to be filed pursuant to Regulation 14A not later than 120 days after the end of the fiscal year are incorporated by reference in Part III hereof.

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Signatures

The statements contained in this Report that are not historical facts are “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995 with respect to our financial condition, results of operations and business, which can be identified by the use of forward-looking terminology, such as “estimates,” “projects,” “plans,” “believes,” “expects,” “anticipates,” “intends,” or the negative thereof or other variations thereon, or by discussions of strategy that involve risks and uncertainties. Management wishes to caution the reader of the forward-looking statements that such statements, which are contained in this Report, reflect our current beliefs with respect to future events and involve known and unknown risks, uncertainties and other factors, including, but not limited to, economic, competitive, regulatory, technological, key employee, and general business factors affecting our operations, markets, growth, services, products, licenses and other factors discussed in our other filings with the Securities and Exchange Commission, and that these statements are only estimates or predictions. No assurances can be given regarding the achievement of future results, as actual results may differ materially as a result of risks facing us, and actual events may differ from the assumptions underlying the statements that have been made regarding anticipated events. Factors that may cause our actual results, performance or achievements, or industry results, to differ materially from those contemplated by such forward-looking statements include, without limitation:

- The availability of additional funds to successfully pursue our business plan;
- The performance of Unified Technologies Group Inc. under its wholesale master service agreement with us, including its performance of its minimum number of customer lines commitment and the payment of any required shortfall penalties;
 - The cooperation of industry service partners that have signed agreements with us;
- Our ability to market our services to current and new customers and generate customer demand for our products and services in the geographical areas in which we operate;
- The impact of changes the Federal Communications Commission or State Public Service Commissions may make to existing telecommunication laws and regulations, including laws dealing with Internet telephony;
 - The ability to comply with provisions of our financing agreements;
 - The highly competitive nature of our industry;
 - The acceptance of telephone calls over the Internet by mainstream consumers;
 - Our ability to retain key personnel;
 - Our ability to maintain adequate customer care and manage our churn rate;
- Our ability to maintain, attract and integrate internal management, technical information and management information systems;
 - Our ability to manage rapid growth while maintaining adequate controls and procedures;
 - The availability and maintenance of suitable vendor relationships, in a timely manner, at reasonable cost;
 - The decrease in telecommunications prices to consumers; and
 - General economic conditions.

These forward-looking statements are subject to numerous assumptions, risks and uncertainties that may cause our actual results to be materially different from any future results expressed or implied by us in those statements.

These risk factors should be considered in connection with any subsequent written or oral forward-looking statements that we or persons acting on our behalf may issue. All written and oral forward looking statements made in connection with this Report that are attributable to us or persons acting on our behalf are expressly qualified in their entirety by these cautionary statements. Given these uncertainties, we caution investors not to unduly rely on our forward-looking statements. We do not undertake any obligation to review or confirm analysts’ expectations or estimates or to release publicly any revisions to any forward-looking statements to reflect events or circumstances after the date of this document or to reflect the occurrence of unanticipated events. Further, the information about our intentions contained in this document is a statement of our intention as of the date of this document and is based upon, among other things, the existing regulatory environment, industry conditions, market conditions and prices, the economy in general and our assumptions as of such date. We may change our intentions, at any time and without notice, based upon any changes in such factors, in our assumptions or otherwise.

PART I

In this Annual Report on Form 10-KSB, we will refer to Pervasip Corp., a New York corporation, as “our company,” “we,” “us” and “our.”

Item 1. – Business

Overview

We are a provider of local, long distance and international voice telephone services. We provide these services using a proprietary Linux-based open-source softswitch that utilizes an Internet Protocol (“IP”) telephony product. IP telephony is the real time transmission of voice communications in the form of digitized “packets” of information over the Internet or a private network, which is analogous to the way in which e-mail and other data is transmitted. We provide our IP telephone services primarily on a wholesale basis to other service providers, such as cable operators, Internet service providers, WiFi and fixed wireless broadband providers, data integrators, value-added resellers, and satellite broadband providers. Our technology enables these carriers to quickly and inexpensively offer premiere broadband telephone services, complete with order flow management for efficient provisioning, billing and support services and user interfaces that are easily customized to reflect the carrier’s unique brand.

We are currently enhancing the reach of our IP telephony services by preparing to use the data side of the cell phone network to run our telephone calls. Cell phone networks provide both voice and data services. In a traditional cell phone service, the users speak over the voice side of the network and receive email messages and obtain Internet access over the data side of the network. With our service, the voice transmission runs over the data side of the cell phone network, and the voice side would not be used. The data side of the cell phone network is simply another avenue upon which we can run our IP telephony services. However, it is a low-cost method of delivering telephone service and we believe it will attract a significant number of subscribers to our service, from the large and more expensive cell phone carriers. We refer to our use of the data side of the cell phone networks as voice-over-IP enabled mobile phone service (“Mobile VoIP”).

We believe that Mobile VoIP will be a telephone service that experiences rapid growth. We will continue to use a wholesale model with Mobile VoIP, just as we are a wholesaler of IP telephony. In October 2008, we entered into a wholesale agreement to sell Mobile VoIP services to Unified Technologies Group, Inc. (“UTGI”), a diversified technology company that intends to sell our Mobile VoIP service directly to end-users, or indirectly to end-users via cell phone distributors. UTGI intends to utilize the Global System for Mobile communications (“GSM”) standard for the Mobile VoIP calls. GSM is the most popular standard for mobile phones in the world, with more than 3 billion users in more than 200 countries and territories. According to UTGI, it has access to the data side of the GSM network in approximately 130 countries, and usage of the product does not generate roaming charges to end-users who travel to any of those countries, as the entire call stays on the UTGI data network. UTGI believes it will be able to provide a high-quality call to hundreds of thousands of customers because it uses its own virtual private network over the GSM network to provide the high-speed Internet access to the mobile phone. By placing software on the mobile phone to create a dynamic virtual stabilized network, UTGI intends to ensure the highest level of quality by enhancing the call with services such as bandwidth limitation correction, compression, sampling, jitter correction, echo cancellation and buffering. When the consumer uses the mobile device and makes a Mobile VoIP telephone call, the entire operation is intended to be seamless to the cell phone user, who receives no indication that the call is a VoIP call.

Development of Business

We were incorporated in the State of New York in 1964 under the name Sirco Products Co. Inc. and developed a line of high-quality handbags, totes, luggage and sport bags. In 1999, we divested our handbag and luggage operations, which had experienced several years of operating losses

We commenced operations in the telecommunications industry in fiscal 1998 by acquiring a Competitive Local Exchange Carrier (“CLEC”) that was formed to attract and retain a geographically-concentrated customer base in the metropolitan New York region, primarily through the resale of products and services of incumbent and alternative facilities-based local providers. In 1999, we changed our name to eLEC Communications Corp. to signify our new focus on telecommunications and our vision to run local exchange services over the Internet. In October 2000, we purchased another CLEC, and in November 2002 we started a third CLEC.

Our CLEC operations always leased circuit-switched network elements from other carriers in order to provide wireline services to customers. Although we entered the telephone business in 1998 by leasing wirelines, it was always our intention to use that platform as a stepping-stone on our way to becoming an IP telephone company. Consequently, we sold our wireline business during fiscal 2007. In conjunction with this sale and the shift of our focus on IP telephony, in December 2007, we changed our name to Pervasip Corp. The word Pervasip is a contraction of the phrase “Pervasive IP” and our intention is to be known as a pervasive IP company with a ubiquitous global presence.

In 2004, we incorporated VoX Communications Corp. (“VoX”) as our wholly-owned IP subsidiary to pursue the deployment of our own IP network for digital telephony services. In addition to the general cost advantages of digital telephone service, we believe IP communication technologies will continue to advance rapidly and will further the potential for the Internet to become the preferred medium of communication and commerce. Consequently, in fiscal 2006 and 2007, we expended a vast amount of our resources on the planning, development and implementation of our IP network.

Although we allow individual users to purchase our digital voice service on the VoX website at www.voxcorp.net, we have focused our efforts on becoming a wholesale provider of digital voice services. As a wholesaler, we enable broadband service providers to sell a voice product to their existing customers before a retail digital telephone company approaches the broadband customer with its voice product. This wholesale model contains many cost advantages for us, especially with regard to customer acquisition costs. Companies that sell digital voice services on a retail level typically experience significant customer acquisition costs because of the high marketing expenses and special promotions they use to attract an end-user who already has broadband service. We do not incur the expense of retail customer acquisitions, as these costs are borne by our wholesale customers. Our wholesale customers, however, often can attract retail customers in a more cost-effective manner than we can because the wholesale customer already has a customer base of end-users who are utilizing broadband services.

Available Information

We maintain a corporate website with the address www.pervasip.com and Vox maintains a corporate website with the address www.voxcorp.net. We have not incorporated by reference into this Report on Form 10-KSB the information on any of our websites and you should not consider any of such information to be a part of this document. Our website addresses are included in this document for reference only. We make available free of charge through our corporate website our Annual Reports on Form 10-K or 10-KSB, Quarterly Reports on Form 10-Q or Form 10-QSB and Current Reports on Form 8-K, and amendments to these reports through a link to the EDGAR database as soon as reasonably practicable after we electronically file such material with, or furnish such material to, the Securities and Exchange Commission.

Business Strategy

Our objective is to build a profitable IP telephone company on a stable and scalable platform with minimal network costs. We want to be known for our high quality of service, robust features and ability to deliver any new product to a wholesale customer or a web store without delay. We believe that to achieve our objective we need to have “cradle to grave” automation of our back-office web and billing systems. We have written our software for maximum automation, flexibility and changeability.

We know from experience in provisioning complex telecom orders that back-office automation is a key factor in keeping overhead costs low. Technology continues to work for 24 hours a day and we believe that the fewer people a company has in the back office, the more efficiently it can run, which should drive down the cost per order.

Furthermore, our strategy is to grow rapidly by leveraging the capital, customer base and marketing strength of companies that sell broadband services. Many of our targeted wholesale customers and some of our existing wholesale customers have significant financial resources to market a private-labeled digital voice product to their existing customer base or to new customers. We believe our strength is our technology-based platform. In providing our technology on a wholesale basis, our goal is to obtain and manage 500,000 individual end-users by leveraging the sales, marketing, financial and other resources of our wholesale customers.

Principal Products and Markets

Our IP telephony offerings are tailored to meet the specific needs of unique wholesale customers. We focus on marketing to wholesale accounts that have an existing customer base of residential and small business users. We believe we provide compelling product offerings to Cable Operators, Internet Service Providers (“ISPs”), Wireless Internet Service Providers (“WISPs”), CLECs and other broadband service providers, as we enable them to quickly roll out private-labeled broadband voice solutions to their residential and small business customers. Our Mobile VoIP wholesale customer, UTGI, does not have an existing customer base of broadband users or cell phone users. However, UTGI has represented to us that it has pre-sold more than 500,000 Mobile VoIP lines to approximately 100 cell phone distributors throughout the country. Once UTGI allows its distributors to begin selling its Mobile VoIP product, the distributors have one year to reach their minimum guaranteed level of sales in take-or-pay contracts. Based upon its market studies and correspondence with its distributors, UTGI has asked us to be ready to provide our VoIP service to a minimum of 320,000 and a maximum of 800,000 cell phone users within 12 months of the launching of their product. UTGI has advised us that it plans to stage the launch of its Mobile VoIP product so that only 20 to 30 distributors are initially allowed to sell Mobile VoIP. After a few months of successfully handling the new end-users, UTGI plans to allow additional distributors to sell the product.

Mobile VoIP Carriers – Our contract with UTGI is our only contract with a Mobile VoIP carrier. However, we are negotiating with other entities that desire to be Mobile VoIP carriers. We believe the basic strategy of these carriers is to attract the customer base of the large incumbent mobile phone companies by offering a carrier grade service at significantly reduced prices. Every major mobile phone company currently offers both voice and data plans and the consumer has to pay for both plans, resulting in a total monthly payment of approximately \$140 if an unlimited voice plan is purchased. UTGI intends to offer unlimited data and voice plans for \$70 a month for U.S. telephone numbers. We believe many mobile carriers are reluctant to allow piggy-backing of voice services on their data network because approximately 80% of their revenue is generated from their voice offerings. Mobile VoIP carriers intend to compete with the existing mobile phone industry by attacking the existing voice revenues of the incumbent carriers by offering the consumer a mobile phone plan that is half the cost of the existing plans of the incumbent carriers. UTGI has advised us that it intends to take this attack a step further by not requiring the consumer to purchase a one or two-year contract. As UTGI has not yet launched its product offerings or received any revenues to date from its proposed Mobile VoIP service, there can be no assurance that UTGI will be successful in its marketing efforts or that it will be able to meet its contractual obligations under its wholesale agreement with us.

Cable Operators - We have identified approximately 3,000 cable operators in the United States, of which more than 75 are large multiple system operators (“MSOs”) and over 2,900 are independent cable operators. All of these cable operators are potential wholesale customers of our IP telephone product. We believe every MSO is already selling some form of an IP telephone product, typically a packet-cable solution in large metropolitan areas. The equipment expenditures required under packet cable generally do not justify the capital investment in the remote areas of an MSO’s footprint. We believe our SIP-based solution, which does not require our wholesale customers to purchase any equipment, is a reliable, low-cost solution for any carrier. We anticipate that MSOs will be able to generate revenue sooner than our wholesale customers that have never sold a telephony product because the MSOs already have experience with selling, marketing, billing, customer service and other operational aspects related to providing digital voice services.

We also support the Arris 502G modem, which allows us to provide our IP telephone service over a cable television connection without requiring a broadband connection. This product offers the cable companies two significant benefits. First, by using the 502G as its cable television modem, the addressable market becomes the cable operator’s entire customer base, and not just its broadband customers. Second, the cable carrier will save approximately \$60 on each digital telephone line sold because it will not have to buy an analog telephone adapter (“ATA”) from us to carry the digital telephone service over the broadband connection.

ISPs – ISPs range in size from small town ISPs to those with several international facilities. This potential customer base has been under considerable pressure of late to offer more services to compete against the major telecom companies and MSO cable companies. Furthermore, we believe ISPs are looking for additional revenue streams as the pricing pressure on Internet access has steadily increased. Many ISPs in the major cities have either sold their client base to larger operators or found a unique niche to stay in business. We believe the secondary and tertiary markets are more likely a better target for our services. We have joined the Federation of Internet Solution Providers of the Americas to give us better access to those potential customers.

WISPs - From Starbucks and McDonalds to the cities of San Francisco and Philadelphia, wireless Internet access is a powerful force in the broadband market. We estimate there are more than 750 WISPs in the U.S. As with any broadband medium, these providers want to layer on as many applications and additional revenue streams as possible. Although the voice-over-Wi-Fi market is young, Clearwire Corporation and other companies have proven the demand in this market by rolling out voice-over-Wi-Fi and WiMax in several markets in the United States.

We have become a member of WISPA, a wireless broadband association, which allows us to market our IP telephony services to the association's approximately 250 members. Several of the WISPA members have become wholesale customers of ours.

CLECs – CLECs provide a local exchange service over a wireline and generally are experiencing cost increases for line rentals and usage. For some CLECs, the logical step is to begin offering a bundle of high-speed Internet services and IP telephony services to their existing wireline customers. While the revenue per line on voice service decreases as a result of transitioning a customer from a wireline to a digital telephone line, the CLEC typically enjoys a higher gross margin on the sale of digital phone service. We do not actively pursue sales to CLECs, but have several CLECs as customers because they do not have the time or resources to build their own digital telephone solution and they need an IP telephony product to combat the customer churn from customers leaving their wireline service for the less expensive digital phone service.

Other Broadband Providers - Various other entities provide a broadband service that is suitable for our IP telephony product. We have satellite providers and broadband-over-powerline providers that use our digital voice service. We are not able to predict at this time the broadband market penetration that these types of entities will obtain. It is possible that broadband over powerline will be able to carry our voice product to areas in which cable operators and telephone companies cannot bring their broadband.

Agent and retail sales - Our focus is to serve the wholesale IP telephony market. However, we maintain a web site for retail sales so that agents can promote and sell our product. We also offer a low-cost, toll-free product on a wholesale and retail basis. We have switched hundreds of toll-free telephone numbers to our platform primarily because we can offer a significant per-minute savings to our customers. Many states, such as New Mexico and Arizona, still have in-state rates that are higher than ten cents a minute. We offer in-state rates at 3.9 cents a minute.

Our Network

We operate a sophisticated IP network to deliver our broadband voice services. We carefully monitor the network as it automatically minimizes the route taken by packets carrying a voice conversation, and self-regulates traffic volumes to directly control the quality of service from the origination to the termination of a call. Calls are connected on our network with minimal post-dial delay and our G.729 compression yields virtually no jitter. When compared to other broadband voice carriers or wireline connections, we deliver a high-quality call. Our softswitch utilizes advanced SIP infrastructure on a cluster of SIP servers and has the ability to scale at a low cost. We believe the collective thought process of our SIP servers makes us unique, as our servers are capable of “thinking” about what they are doing and will perform self-healing functions when necessary to ensure a call is not dropped. Unlike many of our competitors, we do not rely on Microsoft to power our softswitch. By using our own open-source software platform, we are able to update the network as needed, avoid the delays of waiting for software upgrades from Microsoft and avert the problems associated with having too much reliance on one vendor in order to run our network.

We consider voice to be an application on an IP transport. Our network does not use the mainframe technology approach that Sonus Networks, Inc. or BroadSoft, Inc. promotes. Instead, we have a fully-scalable, redundant, power-backed stable platform with a server farm that contains no specifically-designed telecom equipment. By not relying on the telecom equipment and related software of the larger equipment vendors, we are able to own and control our own proprietary source code and to scale without the limitations and delays associated with equipment financing, installation, integration and source code updates that equipment vendors impose on other broadband voice carriers.

Competition

The communications industry is highly competitive and the market for enhanced Internet and IP communications services is new and rapidly evolving. We believe the primary competitive factors that will determine our success in the Internet and IP communications market are:

- Quality of service
 - Responsive customer care services
 - Ability to provide customers with a telephone number in their local calling area
 - Pricing levels and policies
 - Ability to provide E911 and 911 service
 - Bundled service offerings
 - Innovative features
 - Ease of use
 - Accurate billing
 - Brand recognition
- Quality of ATA supported by us and used by our customer

Future competition could come from a variety of companies, both in the Internet and telecommunications industries. This competition includes major companies that have been in operation for many years and have greater resources and larger subscriber bases than we have, as well as companies operating in the growing market of discount telecommunications services, including calling cards and prepaid cards. In addition, some Internet service providers have begun to aggressively enhance their real-time interactive communications, and are focusing initially on instant messaging, with the intent to progress toward providing PC-to-Phone services and broadband telephony services.

We anticipate that competition also will come from several traditional telecommunications companies, including industry leaders, such as AT&T Inc., Sprint Nextel Corporation, Deutsche Telekom AG and Qwest Communications International, Inc., as well as established broadband services providers, such as Time Warner Inc., Comcast Corporation and Cablevision Inc. These companies provide enhanced Internet and IP communications services in both the United States and internationally. All of these competitors are significantly larger than we are and have:

- substantially greater financial, technical and marketing resources;
- stronger name recognition and customer loyalty;
- well-established relationships with many of our target customers;
- larger networks; and
- large existing user bases to cross sell new services.

These and other competitors may be able to bundle services and products that are not offered by us together with enhanced Internet and IP communications services, which could place us at a significant competitive disadvantage. Many of our competitors enjoy economies of scale that can result in a lower cost structure for transmission and related costs, which could cause significant pricing pressures within the industry.

Major Customer

We have one customer that accounted for 32% of our revenues in fiscal 2008 and 51% of our revenue in fiscal 2007. Loss of this account would be detrimental to us, partially because this account helps us to engage large potential accounts and is steadily billing approximately \$60,000 a month, compared to approximately \$50,000 a month in 2007.

Government Regulation

The Federal Communications Commission (“FCC”) has jurisdiction over all U.S. telecommunications common carriers to the extent they provide interstate or international communications services, including the use of local networks to originate or terminate such services. The FCC also has jurisdiction over certain issues relating to interconnection between providers of local exchange service and the provision of service via fixed wireless spectrum.

The use of the Internet and private IP networks to provide voice communications services is a relatively recent market development. Although the provision of such services is currently permitted by United States law and largely unregulated within the United States, several foreign governments have adopted laws and/or regulations that could restrict or prohibit the provision of voice communications services over the Internet or private IP networks. More aggressive regulation of the Internet in general, and Internet telephony providers and services specifically, may materially and adversely affect our business.

On March 10, 2004, the FCC initiated a broad rulemaking proceeding concerning the provision of voice and other services and applications utilizing IP technology. While the FCC has not released an order in this proceeding, it has addressed some of the questions raised by the rulemaking in subsequent proceedings. Although the FCC has not adopted a formal definition of broadband voice services, we use the term generally to include any IP-enabled services offering real-time, multidirectional voice functionality, including, but not limited to, services that mimic traditional telephony.

In June 2005, the FCC adopted rules requiring providers of broadband voice services to provide 911 emergency access. We believe we are in compliance with this order. In August 2005, the FCC adopted rules that these providers must design their systems to facilitate authorized wiretaps pursuant to the Communications Assistance to Law Enforcement Act. We anticipate that we will continue to develop technologies as required by governmental regulation that support emergency access and enhanced services. We believe that almost all digital voice providers have difficulty in achieving full compliance within the stated deadlines due to the level of complexity and cost of some of the requirements. We find that we in a position similar to our peers in the industry, where a strict interpretation of an FCC order could lead to an enforcement action including fines or an order to cease and desist marketing a certain service in a certain area where we do not have full compliance.

In June 2006, the FCC announced that interconnected digital voice providers, such as VoX, would be required to contribute to the Universal Service Fund (“USF”) on an interim basis, beginning October 2006. The FCC permitted interconnected digital voice providers to determine their USF contribution according to one of three different calculation methods. Implementation of the regulatory requirements compelled by the FCC’s action take considerable time and cost, and we cannot guarantee that we have implemented these requirements fully. If we fail to report our revenue and remit USF on that revenue accurately, we may be subject to late fees, penalties or other actions, which could negatively affect our business.

In April 2007, the FCC released its order extending the application of the customer proprietary network information (“CPNI”) rules to interconnected VoIP providers. CPNI includes information such as the telephone numbers called by a consumer; the frequency, duration and timing of such calls; and any services and features purchased by the consumer, such as call waiting, call forwarding and caller ID.

Under the FCC’s existing rules, carriers may not use CPNI without customer approval except in circumstances related to their provision of existing services, and must comply with detailed customer approval processes when using CPNI outside of these circumstances. The new CPNI requirements are aimed at establishing more stringent security measures for access to a customer’s CPNI data in the form of enhanced passwords for on-line access and call-in access to account information as well as customer notification of account or password changes.

At the present time, we do not utilize our customer’s CPNI in a manner that would require us to obtain consent from our customers. In the event that we do in the future, however, we will be required to adhere to specific CPNI rules aimed at marketing such services. We will soon be required to implement internal processes in order to be compliant with all the CPNI rules.

Other action by the FCC has expanded the possibility that our digital voice services may become subject to state regulation, which will likely lead to higher costs and reduce some of the competitive advantage digital voice services hold over traditional telecommunications services.

Employees

As of February 23, 2009, we had 11 employees on a full-time basis. We are not subject to any collective bargaining agreement and we believe our relationship with our employees is good. In conjunction with a financing on February 18, 2009, our lender required us to eliminate our entire sales force and various other employees. We therefore have reduced operating expenses going forward, and we plan to operate with fewer employees until our revenues increase further.

Item 2. – Properties

The following table sets forth pertinent facts concerning our office leases at February 15, 2009.

| Location | Use | Approximate Square Feet | Annual Rent |
|---|--------|-------------------------|-------------|
| 75 South Broadway White Plains, NY 10601 | Office | 1,000 | \$28,000 |
| 5955 T.G. Lee Boulevard Orlando, Florida | Office | 4,000 | \$96,000 |

The lease for our office space in White Plains, New York is renewable every three months. We maintain up to three employees at this location, and we plan to maintain this location in 2009. Our lease for our office space in Orlando, Florida is unsigned at this time, but we anticipate signing a lease for approximately \$8,000 a month in rent. We currently occupy this space under a sub-lease agreement that expired on February 15, 2009. We anticipate the launch of Mobile VoIP service with UTGI will create a need for additional office space in fiscal 2009. There is available space in the buildings that we currently occupy that we anticipate renting when we have such need.

Item 3. - Legal Proceedings

We are subject to legal proceedings and claims that arise in the ordinary course of business. In the opinion of management, the amount of ultimate liability, if any, is not likely to have a material effect on our financial condition, results of operations or liquidity. However, as the outcome of litigation or legal claims is difficult to predict, significant changes in exposures could occur.

Item 4. - Submission of Matters to a Vote of Security Holders

None.

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PART II

Item 5. - Market for Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market for Securities

Our common stock currently trades on The OTC Bulletin Board® (“OTCBB”) under the symbol PVSP. Prior to February 21, 2008 our common stock traded on the OTCBB under the symbol ELEC. The high and low closing price for each quarterly period of our last two fiscal years are listed below:

| | High | Low |
|-------------|--------|--------|
| Fiscal 2007 | | |
| 1st Quarter | \$0.41 | \$0.23 |
| 2nd Quarter | 0.37 | 0.23 |
| 3rd Quarter | 0.34 | 0.16 |
| 4th Quarter | 0.26 | 0.12 |
| Fiscal 2008 | | |
| 1st Quarter | \$0.31 | \$0.14 |
| 2nd Quarter | 0.31 | 0.19 |
| 3rd Quarter | 0.24 | 0.12 |
| 4th Quarter | 0.40 | 0.14 |

The quotations set forth in the table above reflect inter-dealer prices, without retail mark-up, mark-down or commission, and may not necessarily represent actual transactions. As of February 15, 2009, there were 190 holders of record of our common stock and approximately 2,000 beneficial holders.

We have never paid dividends on our common stock and do not expect to do so in the foreseeable future. Our loan agreements with our lender does not allow us to directly or indirectly declare or pay any dividends so long as certain amounts of our secured term notes remain outstanding.

Recent Issuances of Unregistered Securities

The issuances described in this Item 5 were made in reliance upon the exemption from registration set forth in Section 4(2) of the Securities Act relating to sales by an issuer not involving any public offering. None of the foregoing transactions involved a distribution or public offering.

In December 2008, we issued 300,000 shares of common stock to a company in exchange for investor relation services.

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The following table provides information as of November 30, 2008 with respect to shares of our common stock that are issuable under equity compensation plans.

| Plan Category | Number of securities to be issued upon exercise of outstanding options, warrants and rights (a) | Weighted-average exercise price of outstanding options, warrants and rights (b) | Number of Securities remaining available to future issuance under equity compensation plans (excluding securities reflected in column (a)) (c) |
|---|--|--|---|
| Equity compensation plans approved by security holders: | | | |
| 1995 Stock Option Plan(1) | 310,000 | \$0.40 | - |
| 1996 Restricted Stock Plan(2) | - | | 400,000 |
| 2007 Equity Incentive Plan(3) | 825,000 | 0.23 | 1,175,000 |
| Subtotal | 1,135,000 | | 1,575,000 |
| Equity compensation plans not approved by security holders: | | | |
| Employee stock options | 1,000,000 | 0.25 | - |
| 2004 Equity Incentive Plan (3) | 903,000 | 0.33 | 97,000 |
| 2007 Contingent Option Plan (4) | 7,893,506 | 0.18 | - |
| Institutional Marketing Services, Inc. (5) | 100,000 | 0.63 | - |
| Investor Relations International (5) | 1,500,000 | 0.67 | - |
| Guilford Securities, Inc. (6) | 100,000 | 0.40 | - |
| Just Our Luck, Inc. (7) | 750,000 | 0.17 | - |
| Syntax Group (7) | 1,000,000 | 0.17 | - |
| Subtotal | 13,246,506 | | 97,000 |
| Total | 14,381,506 | | 1,672,000 |

(1) Options are no longer issuable under our 1995 Stock Option Plan.

(2) Our Restricted Stock Plan provides for the issuance of restricted share grants to officers and non-officer employees.

(3) Our 2004 and 2007 Equity Incentive Plans allow for the granting of share options to members of our board of directors, officers, non-officer employees and consultants.

(4) The contingent options vest only if three consecutive months of positive cash flow from operations is achieved before their expiration in November 2012.

(5) Warrants were issued for investor relations services.

(6) Warrants were issued for consulting services.

(7) Contingent options vest only if various monthly revenue levels are exceeded.

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Item 6. - Management's Discussion and Analysis or Plan of Operations

Certain statements set forth below under this caption constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Please refer to page 1 of this Report for additional factors relating to such statements.

Overview

We offer a customized wholesale IP telephone solution to other service providers. This type of telephone service is also referred to as digital telephone service or voice-over-IP, or VoIP. Because of the intense competition on the retail level and the high marketing costs that digital voice providers have incurred to acquire a subscriber, we decided that we would not compete in the retail arena. Our goal is to obtain several significant wholesale customers that will private label and resell our digital voice services to their customer bases. We target companies that are already providing high-speed Internet services, such as cable operators, Internet service providers, WiFi and fixed wireless broadband providers, broadband-over-powerline companies, satellite broadband providers, and most recently, a Mobile VoIP provider. Our technology is very flexible and customizable and, consequently, we have been able to attract what we believe will become a significant Mobile VoIP customer that is capable of providing our VoIP service over the data side of the cell phone network.

Cell phone networks provide both voice and data services. In a traditional cell phone service, we speak over the voice side of the network and we receive email messages and obtain Internet access over the data side of the network. With our service, the voice transmission runs over the data side of the cell phone networks, and the voice side would not be used. The data side of the cell phone network is simply another avenue upon which we can run our IP telephony services. However, it is a cost-invasive method of delivering telephone service and it threatens to take away a significant number of subscribers from the large and more expensive cell phone carriers. We refer to our use of the data side of the cell phone networks as voice-over-IP enabled mobile phone service, or as Mobile VoIP.

Our Mobile VoIP wholesale customer, UTGI, plans to utilize the GSM network. UTGI has advised us that the use of the GSM network will allow it to be a service provider in 130 countries. Most cell phone plans charge relatively high rates per minute for completing international calls from or to a cell phone. We plan to terminate all calls made on the Mobile VoIP phones sold by UTGI at low international rates, as the call will be treated as a VoIP call, not a cell phone call. These calls will not register as phone calls on the voice side of the mobile phone network because these calls will travel over the Internet. In some instances, UTGI will be able to charge international cell phone rates that are 90% less than the standard per-minute rates charged by most major cell phone carriers. In addition to low rates for subscribers, since Mobile VoIP calls travel over the Internet without being handed off to local cell phone carriers, there are no roaming charges as the person travels from country to country. As a result, a person using a UTGI mobile phone, who lives in New York and has a New York telephone number will still be treated as though he is calling from New York, even if he is driving through Europe and moving through several countries. There will be no roaming charges to this consumer, as he did not have his telephone call handed off to several local mobile phone companies. Instead, the call will stay on UTGI's virtual private network and run over the Internet.

We anticipate that UTGI will launch its product in the second quarter of 2009. It has not given us a launch date, but we believe it is working to establish publicity for any launch it does. Employees of UTGI continue to make test calls on our network and UTGI has provided us with a Mobile VoIP telephone so that we can make test calls and monitor the quality of the calls. We believe the voice service has been working at a carrier-grade level. UTGI has informed us that its Mobile VoIP product has been very well received by cell phone distributors, and that it has signed take-or-pay contracts with approximately 100 distributors that have in the aggregate committed to purchase a minimum of 500,000 Mobile VoIP lines within 12 months of the launch of the product. Although UTGI has only guaranteed to pay us for 50,000 Mobile VoIP lines at the end of 12 months, it cautions us that we should be ready to expand to handle 800,000 to 1 million Mobile VoIP lines within 12 months. UTGI has advised us that it plans to continue to market to new dealers once it has launched the product and it expects to have much higher minimum take-or-pay quantities after it

launches the product. As UTGI has not yet launched its product offerings or received any revenues to date from its proposed Mobile VoIP service, there can be no assurance that UTGI will be successful in its marketing efforts or that it will be able to meet its contractual obligations under its wholesale agreement with us.

Revenues

Revenues consist of telephony services revenue and customer equipment revenue.

Telephony services revenue. The majority of our operating revenues are telephony services revenues. We offer several bundled plans, unlimited plans and basic plans for wholesale and retail customers. The wholesale plans do not change much from customer to customer as the plan we offer to a cable operator is typically the same plan we offer to a WiFi carrier, Internet service providers or Mobile VoIP company. Each of our unlimited plans offers unlimited domestic calling, subject to certain restrictions, and each of our basic plans offers a limited number of calling minutes per month. Under our basic plans, we charge on a per-minute basis when the number of calling minutes included in the plan is exceeded for a particular month. For all of our U.S. plans, we charge on a per-minute basis for international calls to destinations other than Canada. These per-minute fees are not included in our monthly subscription fees. Any plan we offer to our wholesale customers is also available to an individual end-user at a higher price that approximates the retail-selling price that most of our wholesale customers charge. We also have products that are on a per-minute usage basis, such as toll-free telephone numbers to businesses and international cell phone termination.

We derive most of our telephony services revenue from usage fees and monthly subscription fees we charge our customers under our service plans. We also offer a fax service over broadband, virtual phone numbers, toll free numbers and other services, for each of which we may charge an additional monthly fee. We automatically charge service fees monthly in advance to the credit cards of all of our retail customers. Our wholesale customers typically do not pay by credit card, but are required to give us a deposit. Depending on the volume of revenue generated by a wholesale customer, we bill them either weekly or monthly.

We charge retail customers a fee for activating service. Further, since we do not charge a retail customer for the cost of an ATA, we generally charge a disconnect fee to customers who do not return their ATA to us upon termination of service, if the length of time between activation and termination is less than one year. Disconnect fees are recorded as revenue and are recognized at the time the customer terminates service. These revenues were nominal in fiscal 2008 and 2007.

Customer equipment revenue. Customer equipment revenue consists of revenue from sales of customer equipment to our wholesalers or directly to customers. In addition, customer equipment revenue includes the fees we charge our customers for shipping any equipment to them.

Cost of Revenues

Direct cost of telephony services. Direct cost of telephony services primarily consists of fees that we pay to third parties on an ongoing basis in order to provide our services. These fees include:

- Access charges we pay to other telephone companies to terminate digital voice calls on the public switched telephone network (“PSTN”). When a VoX subscriber calls another VoX subscriber, we do not pay an access charge, as the call routes through our network without touching the PSTN.
- The cost of leasing interconnections to route calls over the Internet and transfer calls between the Internet and the PSTN of various long distance carriers.
- The cost of leasing from other telephone companies the telephone numbers we provide to our customers. We lease these telephone numbers on a monthly basis.
- The cost of co-locating our connection point equipment in third-party facilities owned by other telephone companies.
- The cost of providing local number portability, which allows customers to move their existing telephone numbers from another provider to our service. Only regulated telecommunications providers have access to the centralized number databases that facilitate this process. Because VoX is not a regulated telecommunications provider, we must pay other telecommunications providers to process our local number portability requests.
- The cost of complying with the new FCC regulations regarding emergency services, which require us to provide enhanced emergency dialing capabilities to transmit 911 calls for all of our customers. This cost may increase in future periods.
- Taxes we pay on our purchases of telecommunications services from our suppliers.

Direct cost of customer equipment and shipping. Direct cost of equipment sold primarily consists of costs we incur when a customer first subscribes to our service. These costs include:

- The cost of the equipment we provide to customers who subscribe to our service through our direct sales channel, in each case in excess of activation fees.
- The cost of shipping and handling for customer equipment, together with the installation manual, we ship to customers.

Results of Operations

Fiscal Year 2008 Compared to Fiscal Year 2007

Our revenues for fiscal 2008 increased by approximately \$1,095,000, or approximately 110%, to approximately \$2,094,000 as compared to approximately \$999,000 reported for fiscal 2007. The increase in revenues was directly related to the increase in the number of wholesale customers using our IP telephony service. In November 2008, we billed 90 wholesale customers, as compared to 48 in November 2007. Furthermore, our monthly revenue continues to grow, as our existing customers continue to put more digital telephone lines on our network. In December 2008, we billed approximately \$226,000, as compared to approximately \$92,000 in December 2007. As a result, we anticipate that our revenue for fiscal 2009 will be significantly higher than our revenue in fiscal 2008. We anticipate that all revenue growth in fiscal 2009 will come from existing customers, including the launch of UTGI’s Mobile VoIP product, as we have eliminated our sales and marketing personnel in February 2009 at the request of our lender.

Our gross profit for fiscal 2008 increased by approximately \$355,000 to approximately \$109,000 from a negative gross profit of approximately (\$246,000) reported in fiscal 2007, while our gross profit percentage of 5.2% in fiscal 2008, as compared to (24.6%) in fiscal 2007, increased by 29.8 percentage points. Higher revenues have improved, and should continue to improve, our gross margins. With higher revenues, we are able to cover our fixed network costs and buy minutes at a lower cost. We also have implemented more sophisticated least-cost-routing strategies that will allow us to increase our gross margin percentage going forward.

Selling, general and administrative expenses ("SG&A") increased by approximately \$745,000, or approximately 24.8%, to approximately \$3,744,000 for fiscal 2008 from approximately \$2,999,000 reported in the prior year fiscal period. The increase is attributable (i) a \$300,000 reserve taken on a deposit in 2008; (ii) an increase in marketing costs and commission expense of approximately \$127,000; (iii) an increase in consulting fees of approximately \$224,000; (iv) increased rent expense of approximately \$78,000 and (v) increased salary expense of approximately \$58,000. In February 2009, we reduced the number of our employees from 19 to 11 and we project that our monthly cash expenditures for salary will decrease from approximately \$144,000 in February 2009 to approximately \$78,000 in March 2009. We are also reducing our rent expense by approximately \$4,000 a month and our consulting expense by approximately \$25,000 a month beginning in March 2009. We believe these reductions in selling, general and administrative costs will reduce our cash loss from operations to approximately \$75,000 a month before the end of the second quarter.

Depreciation and amortization expense decreased by approximately \$71,000 to approximately \$518,000 for fiscal 2008 as compared to approximately \$589,000 for the prior fiscal year. Deferred financing costs related to the debt financings we completed in November 2005, May 2006, September 2007, May 2008 and October 2008 (See Note 6) decreased by approximately \$99,000 and depreciation of our IP telephony platform increased approximately \$28,000.

Interest expense increased by approximately \$265,000 to approximately \$1,011,000 for the year ended November 30, 2008 as compared to approximately \$746,000 for the prior fiscal year, primarily as a result of our increase in borrowing in May 2008 and October 2008 financings (see Note 6).

Other income (expense) amounted to approximately \$10,000 expense for the year ended November 30, 2008 as compared to \$24,000 income for the prior fiscal year. In fiscal 2008, other income (expense) consisted of interest income from a restricted cash account amounting to \$10,000 as compared to a write off of marketable securities of \$25,000. In fiscal 2007, other income resulted primarily from commission income.

For the year ended November 30, 2008, we recorded an expense of approximately \$191,000, which resulted from the change in the market value of the warrants issued to our primary lender (see Note 6). In fiscal 2007, we recorded income of \$573,000.

For the fiscal year ended November 30, 2007, we recorded a gain on the sale of our CLECs of approximately \$1,197,000, which consisted of the excess of the liabilities assumed over the assets purchased by the buyer. The CLECs generated pretax losses of approximately (\$171,000) in fiscal 2007. There was no such activity in fiscal 2008.

Liquidity and Capital Resources

At November 30, 2008, we had cash and cash equivalents of approximately \$130,000 and negative working capital of approximately \$1,375,000 as compared to cash and cash equivalents of approximately \$132,000 and negative working capital of approximately \$533,000 at November 30, 2007.

Net cash used in operating activities aggregated approximately \$3,384,000 and \$2,252,000 in fiscal 2008 and 2007, respectively. The principal use of cash from operating activities in fiscal 2008 was the loss for the year of approximately \$5,382,000, which included non-cash items for a mark-to-market adjustment of approximately \$191,000, depreciation and amortization of approximately \$518,000 and amortization of debt discount of approximately \$688,000. The principal use of cash in 2007 was the loss of approximately \$2,993,000.

Net cash used in investing activities aggregated approximately \$83,000 and \$305,000 in fiscal 2008 and 2007, respectively. The principal use of cash from investing activities in fiscal 2007 was the purchase of property and equipment of approximately \$83,000. The principal use of cash from investing activities in fiscal 2007 was the purchase of property and equipment of approximately \$129,000 and cash that was included in the sale of subsidiaries of approximately \$175,000.

Net cash provided by financing activities aggregated approximately \$3,466,000 and \$1,351,000 in fiscal 2008 and 2007, respectively. The principal source of cash from financing activities in fiscal 2008 was a drawdown of approximately \$3,618,000 from the restricted cash account that was established from the sale of secured term notes. In fiscal 2007, our principle source of cash from financing activities was the drawdown from the restricted account of approximately \$1,042,000.

In fiscal 2008 and 2007, we spent approximately \$93,000 and \$129,000, respectively, on capital expenditures, primarily for software, servers and routers related to our IP network. We believe we also will make capital expenditures for our IP platform in fiscal 2009, and that capital additions will be flexible depending upon the number of customers we are able to attract to our network.

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles, which contemplate continuation of our company as a going concern. However, we have sustained net losses from operations during the last three years, and we have limited liquidity. Management anticipates that we will be dependent, for the near future, on additional capital to fund our operating expenses and anticipated growth and the report of our independent registered public accounting firm expresses doubt about our ability to continue as a going concern. Our operating losses have been funded through the sale of non-operating assets, the issuance of equity securities and borrowings, including borrowings from our primarily lender eight times over the past four years. We continually evaluate our cash needs and growth opportunities and we believe we require additional equity or debt financing in order to achieve our overall business objectives. We completed a \$600,000 round of funding with our primary lender on February 18, 2009, that added an additional \$578,755 to our restricted cash account, which amount will be available to us to fund our operating expenses, subject to certain restrictions, through June 2009. In connection with such funding, our lender required us to reduce our overhead and eliminate certain salaried employees to cut our negative cash flow before interest and debt payments to approximately \$75,000 a month beginning in March 2009. In conjunction with such cost reductions, our Chief Executive Officer's salary is being accrued for, but he is not taking any compensation from the latest round of funding to help us conserve our cash balances. As in the past, cash will be released to us from a restricted cash account solely in the discretion of our lender so that our lender can evaluate the individual items upon which we make cash expenditures. Although we are not yet profitable and we are not generating cash from operations, our lender has indicated verbally that it plans to continue funding us, but such commitment is not in writing, and we cannot rely on our lender to continue to fund us in the future. While we continually look for other financing sources, in the current economic environment, the procurement of outside funding is extremely difficult and there can be no assurance that such financing will be available, or, if available, that such financing will be at a price that will be acceptable to us. Failure to generate sufficient revenues, raise additional

capital, or renegotiate payment terms of our debt would have an adverse impact on our ability to achieve our longer-term business objectives, and would adversely affect our ability to continue operating as a going concern.

New Accounting Standards