PERVASIP CORP
Form 10-K
March 15, 2010

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-K

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

For the fiscal year ended November 30, 2009

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE 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 registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes __ No X

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

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 X No __

Check whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding twelve months (or for such shortest time that the registrant was required to submit and post such files). Yes __ No

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Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-K 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-K or any amendment to this Form 10-K. ____

Check whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act) Yes __ No X

Check whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a small reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "small reporting company" in Rule 12b-2 of the Exchange Act.

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

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

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, 2009 was approximately $6,218,000.

The number of shares outstanding of the registrant's classes of common stock, as of February 28, 2010, was 30,358,519.

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Special Note Regarding Forward Looking Statements

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 cooperation of our lender who has waived non-payment defaults on a monthly basis and has not accelerated our debt;
- 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-K, 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, which 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 also works efficiently over mobile phone networks. In lieu of routing a call from a mobile phone over the voice side of a mobile phone network, we route the call over the data side of the network. The data side of the mobile phone network is simply another avenue upon which we can run our IP telephony services. It is a low-cost method of delivering telephone service. We believe it will attract a significant number of subscribers to our service from the large and expensive mobile phone carriers. We refer to our use of the data-side of mobile phone networks as voice-over-IP enabled mobile phone service ("Mobile VoIP").

We believe that Mobile VoIP, a wireless telephone service, will demonstrate rapid growth. We utilize the Global System for Mobile communications ("GSM") standard for Mobile VoIP calls. GSM is the most popular standard for mobile phones in the world, with 4.3 billion users, in more than 200 countries and territories. We operate our Mobile VoIP on two different smart phones, the Linux-based Nokia N900 and the Windows Mobile-based HTC Touch Pro 2. We are a Linux based software company and prefer operating on Linux-based devices, however, we plan to run over multiple smart phones, by developing a downloadable application for the Android mobile operating system and for the BlackBerry line of wireless mobile devices. When we operate our Mobile VoIP over a non-Linux smart phone, we license a software program from a third party. The program is loaded on the smart phone and it instructs the phone to send a radio wave to the data side of the cell phone network when a call is dialed, instead of sending a signal to the voice side of the cell phone network. When the consumer makes a Mobile VoIP telephone call, the entire operation is seamless to the cell phone user, who receives no indication that the call is a VoIP call. We also sell our VoIP as an application that can be downloaded to a smart phone that is already in use.

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 to 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 IP telephony services. In addition to the general cost advantages of IP 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, since fiscal 2006, 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 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 VoIP 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.

With the launching of our Mobile VoIP product, we anticipate we will change our focus to the retail smart phone consumer. This consumer could be a customer of VoX, or it could be a person who bought a phone and phone service under a different name, but VoX is providing the service. For example, we have provided an HTC smart phone with our Mobile VoIP service to Best Buy Corp., which has expressed an interest in selling a smart phone that it makes under its own brand name. We have also shown a smart phone with our Mobile VoIP to the US Military exchange services for military and retired military personnel. Furthermore, we have developed our Mobile VoIP as an application that can be purchased on our website and downloaded to a Nokia N900 smart phone.

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-K 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.

Our approach to VoIP does not require expensive network equipment to provide telephony services. Instead we rely on our proprietary software and a "server cluster" or "server farm" architecture. Unlike the typical telecom model where one large expensive machine performs almost every task, we have a server farm comprised of a cluster of Dell servers and Cisco routers, where each machine performs a different task and has from one to three backup machines to ensure that services never go down. By not relying on the equipment and related software of telecom equipment vendors, we are able to control our own destiny and scale without the limitations and delays associated with equipment financing, installation and the integration of new machines and source code updates that equipment vendors impose on VoIP carriers. Our philosophy is that VoIP is an application and should be treated the same way that companies such as Google, Inc. process their data. Consequently, data servers and routers are the appropriate vehicle on which to process our VoIP calls.

Our approach to VoIP makes it possible for us to provide VoIP as an application that a consumer can download over the Internet to his or her smart phone. We believe the U.S. is in the early stages of a smart phone revolution. A smart phone is a mobile telephone offering advanced capabilities, including PC-like functionality. The growth in demand for smart phones with powerful processors, plentiful memory, open operating systems, sizeable video screens, and the ability to tether the smartphone to an even larger PC or television screen, has outpaced the sales growth of mobile phones. We believe the smart phone revolution is a significant component of an even larger mobile Internet revolution. We believe we can participate and benefit from the mobile Internet revolution by providing our Mobile VoIP service to smart phone users. We currently provide our Mobile VoIP service on two smart phones: an HTC Touch Pro 2 and a Nokia N900. These devices allow us to deliver voice, data and video services, or what is known as a "mobile triple-play," to the consumer. Just like cable carriers have introduced television, high-speed Internet access and telephone service to landline consumers, we plan to deliver videos (including television stations on some smart phones), high-speed wireless access and voice services to the mobile consumer. Our high-speed wireless service is not limited to a WiFi-hot spot, but is available on the 3G mobile network or the EDGE network – basically anywhere that a GSM carrier can provide service.

Overall, the market for online content, mobile broadband and mobile devices has experienced significant growth during the past few years. This growth is expected to continue, with certain sub-segments, including the market for Internet video, expected to contribute significantly to the trend. Many smart phone users are also heavy data users, and they currently complain that data usage costs are too high. For example, when iPhone users go over a predetermined monthly limit, they incur excess data usage charges from the service provider, AT&T. The smart phones and services that we provide run on a national network that allows users to enjoy unlimited data usage. Consequently, we are selling unlimited data, voice and text messaging for approximately $80 a month, including taxes. Consumers are even encouraged to tether their smart phone to a laptop or a television screen so that the consumer can watch videos on a screen that is larger than the smart phone screen. Our voice and data service run over the data portion of the GSM network. The possibilities of additional services for consumers are endless once we have thousands of consumers on a smart phone, each with a fixed IP address that we know. For example, a text message, email or recorded call could be sent to a smartphone with GPS functionality to alert the driver of a car that a Starbucks store is just 30 seconds away on the right side of the road. The mobile triple-play service is especially an important entrée to the consumer because it offers the best price-to-value data and voice service on a smart phone, by utilizing VoIP technology over the GSM network. Analysts at Gartner Group predict that 50 percent of mobile voice will be VoIP by 2019, and that 30 percent of the mobile voice traffic will be initiated or terminated through third-party mobile portals such as Google, Facebook, MySpace and Yahoo, all of which are anticipated to adopt VoIP service as a part of their basic features. TMCnet.com notes that the global mobile voice market is currently $692.6 billion in annual revenues to the incumbent carriers. Almost $350 billion in annual revenues are therefore projected to be moving to Mobile VoIP carriers. This transfer of mobile voice traffic to Mobile VoIP presents us with a timely opportunity to capture those customers for data downloads of videos, music, games and hundreds of applications

We believe that the increasing demand for Mobile VoIP services and our approach to providing a mobile triple-play at what is currently the best cost-to-value ratio in the industry presents a compelling reason for us to focus our product development and marketing efforts on Mobile VoIP. We believe the following areas are important to our business plan:

- Growth Strategy – We plan to expand in both the wholesale and retail markets. We have launched our own service on an HTC Touch Pro 2 phone and we sell our VoIP as an application for the Nokia N900 phone. We are set-up, however, to enable other entities to sell the data and VoIP service on a smart phone under their own name, if they so desire. These entities can have their own brand name and choose which additional applications they want to offer to their customers. Currently, we are offering our service in the U.S. and we are testing it in Canada. We believe it will work in more than 100 countries.

- Scalability – Unlike many of our competitors, our growth is not limited by the architecture design of our network. We can expand our network in $100,000 increments by adding or expanding a server farm to support an additional 20,000 new VoIP lines and new applications. We know of no other VoIP platform that has network equipment costs as low as our cost of $5 per subscriber.

- Technology Advantage – Our proprietary VoIP technology gives us the ability to offer disruptive leading-edge services and control our product development cycle. Our ability to quickly test vendor devices on our network, including video softphones, IPTV, WiFi enabled VoIP phones and Mobile VoIP phones, allows us to continuously offer the best and newest products as they become available. We are not dependent upon one or two device manufacturers, which has resulted in considerable cost savings, greater capacity and flexibility per port, and the ability to provide convergent solutions with new features, services and service creation capabilities in a timely manner.

- Market Potential – According to GSMworld.com, there were 4.3 billion users of GSM mobile services in the world as of February 28, 2010. Our Mobile VoIP product runs over the GSM network, and every GSM user is a potential customer for our Mobile VoIP. The addressable market in our initial launch on a Windows Mobile phone and a Nokia Linux phone is significant enough to create a successful business.

Principal Products and Markets

Our IP telephony offerings are tailored to meet the specific needs of unique wholesale customers and Mobile VoIP users. We have focused 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. Because of a limited amount of capital that is available to us, we anticipate that in fiscal 2010 we may abandon the above types of wholesale customers and focus almost exclusively on the development of our Mobile VoIP business. We believe our ability to participate in the mobile Internet revolution will provide the best opportunity for our company to become profitable.

Mobile VoIP – We are negotiating with entities that desire to sell Mobile VoIP or a mobile triple-play. We believe the basic strategy of these companies is to attract the customer base of the large incumbent mobile phone companies by offering a carrier grade service at significantly reduced prices. Our Mobile VoIP product has been demonstrated to large retail chains and to the United States military stores. A large distributor that sells telephone systems to small and medium sized businesses has purchased a Nokia N900 phone from us that utilizes our VoIP and data service to demonstrate our Mobile VoIP product to its corporate accounts.

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.

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.

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.

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 analog telephone adapter 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 had one customer that accounted for 34% of our revenues in fiscal 2009 and 32% of our revenue in fiscal 2008. This customer has moved its lines to a larger competitor of ours. Loss of this account is hurtful to us, as it represented approximately $63,000 in monthly revenues. We hope to replace this lost revenue by increasing services to existing customers and with the addition of Mobile VoIP customers.

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 communication 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 communication 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. The FCC's generic rulemaking proceeding could result in the FCC determining, for instance, that certain types of Internet telephony should be regulated like landline telecommunications services. Thus, Internet telephony would no longer be exempt from more onerous telecommunications-related regulatory obligations, or other economic regulations typically imposed on traditional telecommunications carriers.

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.

On August 6, 2007 and effective November 2007, the FCC adopted an Order concerning the collection of regulatory fees requiring the collection of such fees from interconnected VoIP providers. Interconnected VoIP providers pay regulatory fees based on interstate and international revenues. The Regulatory Fees Order became effective in November 2007.

On November 8, 2007, the FCC released an Order relating to local number portability imposing local number portability and related obligations on interconnected VoIP Providers like us. The Order requires interconnected VoIP providers to contribute to shared numbering administration costs. Additionally, the Order mandates that we port telephone numbers within certain timeframes. As a result of the steps we have taken, we believe that we comply with the FCC's order regarding local number portability.

The FCC is considering enhancing proposed reforms of the intercarrier compensation system, which is a set of FCC rules and regulations by which telecommunications carriers compensate each other for the use of their respective networks. These rules and regulations affect the prices we pay to our suppliers for access to the facilities and services that they provide to us, such as termination of calls by our customers onto the public switched telephone network ("PSTN"). In addition, proceedings have been initiated to determine what intercarrier compensation charges should apply to the termination of VoIP traffic. We currently operate under various commercial agreements with carriers who complete calls from our customers to the PSTN. We cannot predict what, if any, intercarrier compensation regulations the FCC's order may impose on VoIP providers.

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.

Some state and local regulatory authorities believe they retain jurisdiction to regulate the provision of, and impose taxes, fees and surcharges on, intrastate Internet and VoIP telephony services, and have attempted to impose such taxes, fees and surcharges, such as a fee for providing E-911 service. Rulings by the state commissions on the regulatory considerations affecting Internet and IP telephony services could affect our operations and revenues, and we cannot predict whether state commissions will be permitted to regulate the services we offer in the future.

In addition, it is possible that we will be required to collect and remit taxes, fees and surcharges in other states and local jurisdictions for virtual data products, based upon a billing address or phone number of a VoIP customer and such authorities may take the position that we should have collected such taxes, fees and surcharges even though we did not. If so, they may seek to collect those past taxes, fees and surcharges from us and impose fines, penalties or interest charges on us. Our payment of these past taxes, fees and surcharges, as well as penalties and interest charges, could have a material adverse effect on us.

Employees

As of February 28, 2010, we had 9 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 continued to operate our business and improve our VoIP product with a small number of employees, but our sales and marketing efforts have been limited. We plan to operate with a small number of employees until our revenues increase further.

Item 1A. Risk Factors

We are a smaller reporting company as defined by Rule 12b-2 of the Exchange Act and are not required to provide information under this item.

Item 1B. Unresolved Staff Comments

There are no unresolved staff comments

Item 2. – Properties

The following table sets forth pertinent facts concerning our office leases at February 28, 2010.

Location	Use	Approximate Square Feet	Annual Rent
75 South Broadway White Plains, NY 10601	Office	500	$28,000
12249 Science Drive Orlando, Florida 32826	Office	1,600	$22,000

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 2010. Our lease for our office space in Orlando, Florida is under a sub-lease agreement that expires on October 31, 2010. There is available space in the buildings that

we currently occupy that we anticipate renting if we have such need. We are also aware of other vacant office space if the need arises.

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.

PART II

ItemMarket for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities 5.

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 2009			
	1st Quarter	$ 0.25	$ 0.07
	2nd Quarter	0.37	0.09
	3rd Quarter	0.40	0.15
	4th Quarter	0.21	0.10
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 28, 2010, there were 182 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.

During the fourth quarter of fiscal 2009, we issued a total of 300,000 shares of common stock to two officers of our Company in lieu cash payments for services rendered.

The following table provides information as of November 30, 2009 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)	165,000	$0.42	-
1996 Restricted Stock Plan(2)	-		400,000
2007 Equity Incentive Plan(3)	855,000	0.23	1,145,000
Subtotal	1,020,000		1,545,000
Equity compensation plans not approved by security holders:			
Employee stock options	1,500,000	0.15	-
2004 Equity Incentive Plan (3)	828,000	0.34	172,000
2007 Contingent Option Plan (4)	7,893,506	0.18	-
2009 Equity Incentive Plan (3)	2,100,000	0.10	1,389,000
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	-
Subtotal	14,021,506		1,561,000
Total	15,041,506		3,106,000

(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, 2007 and 2009 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.

Item 6. – Selected Financial Data

We are a smaller reporting company as defined by Rule 12b-2 of the Exchange Act and are not required to provide information under this item.

Item 7. - Management's Discussion and Analysis of Financial Condition and Results 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 deliver wholesale voice over IP ("VoIP") telephone services for the residential and small business markets. In addition to being a provider of wholesale VoIP telephone services, we are the first VoIP carrier to deploy an unlimited data and voice service plan on a smart phone that runs on a nationwide GSM network in the United States. We have developed our technology to allow us to sell our VoIP as an application that can be downloaded over the Internet to the Nokia N900 smart phone for $29.95 a month. We are selling smart phones, at our cost, along with unlimited voice and data services in the United States for only $69.95 a month and the lowest international rates in the mobile phone industry. Our data service includes unlimited downloads of files, unlike other carriers who advertise unlimited web access, but charge overage fees if more than 5 gigabyte of content is downloaded in one month to the smart phone. We use a nationwide GSM cell phone network for our VoIP, unlike other VoIP carriers that can only use the limited range of the WiFi network when running on a smart phone.

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 is not 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.

We believe our Mobile VoIP product is a significant development in the mobile Internet industry and we plan to continue to use our existing resources to develop this business. Our access to capital has been limited, and we may abandon our existing wholesale VoIP business in order to further develop and sell our Mobile VoIP services. We launched our Mobile VoIP in December of 2009, and we plan to have our service working on a variety on mobile devices in 2010.

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 analog telephone adapter ("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 2009 and 2008.

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. Beginning in December 2009 we are selling smart phones to retail customers, and these phones are considered customer equipment. Unlike the ATA, we charge the customer for the smart phone.

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 2009 Compared to Fiscal Year 2008

Our revenues for fiscal 2009 increased by approximately $148,000, or approximately 7%, to approximately $2,242,000 as compared to approximately $2,094,000 reported for fiscal 2008. The increase in revenues correlates with the increase in the number of wholesale customers using our IP telephony service. In November 2009, we billed 98 wholesale customers, as compared to 90 in November 2008. Our revenue will be lower in the first quarter of fiscal 2010 because our largest customer, who accounted for approximately $60,000 a month in revenues, moved its VoIP lines to a larger VoIP carrier. However, we just launched our Mobile VoIP product on a Nokia N900 phone and we have our monthly service available to new phone purchasers and to existing N900 customers as an application that can be downloaded over the Internet. We cannot predict yet what future Mobile VoIP revenues will be, but we are encouraged that our low monthly pricing, which includes unlimited voice service and data downloads in the United States will attract a significant number of users.

Our gross profit for fiscal 2009 increased by approximately $396,000 to approximately $505,000 from a gross profit of approximately $109,000 reported in fiscal 2008, while our gross profit percentage of 22.5% in fiscal 2009, as compared to 5.2% in fiscal 2008, increased by 17.3 percentage points. Higher revenues have improved our gross margins. With higher revenues, we are able to cover our fixed network costs and buy minutes at a lower cost. We also implemented more sophisticated least-cost-routing strategies that allowed us to increase our gross margin percentage.

Selling, general and administrative expenses (“SG&A”) decreased by approximately $935,000, or approximately 25%, to approximately $2,809,000 for fiscal 2009 from approximately $3,744,000 reported in the prior year fiscal period. The decrease is attributable to overhead cuts is salaries, rent and consulting fees that were implemented in February 2009. We were able to operate the remainder of the year with the reduced SG&A costs and reduce our monthly operating loss.

Bad debt expense increased by approximately $129,000 to approximately $146,000 for fiscal 2009 as compared to approximately $17,000 for the prior fiscal year. In fiscal 2009, several customers who had been paying their bills on time became d