PERVASIP CORP
Form 10-K
March 15, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended: November 30, 2012

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

For the transition period from __________ to __________

Commission File Number: 000-04465

PERVASIP CORP.
(Exact name of registrant as specified in its charter)

New York	13-2511270
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

75 South Broadway, Suite 400
White Plains, NY 10601
(Address of Principal Executive Offices)

(914) 620-1500
(Registrant's telephone number, including area code)

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 $0.001 per share

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

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No ý

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes ý No ¨

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

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

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

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

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

The aggregate market value of registrant's voting and non-voting common equity held by non-affiliates (as defined by Rule 12b-2 of the Exchange Act) computed by reference to the average bid and asked price of such common equity on May 31, 2012, was $4,691,658. As of March 15, 2013, the registrant has one class of common equity, and the number of shares outstanding of such common equity was 532,438,834.

Documents Incorporated By Reference: None.

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Special Note Regarding Forward Looking Statements

Included in this Form 10-K are "forward-looking" statements, as well as historical information. Although we believe that the expectations reflected in these forward-looking statements are reasonable, we cannot assure you that the expectations reflected in these forward-looking statements will prove to be correct. Our actual results could differ materially from those anticipated in forward-looking statements as a result of certain factors, including matters described in the section titled "Risk Factors." Forward-looking statements include those that use forward-looking terminology, such as the words "anticipate," "believe," "estimate," "expect," "intend," "may," "project," "plan," "will," "shall, similar expressions, including when used in the negative. Although we believe that the expectations reflected in these forward-looking statements are reasonable and achievable, these statements involve risks and uncertainties and we cannot assure you that actual results will be consistent with these forward-looking statements. Important factors that could cause our actual results, performance or achievements to differ from these forward-looking statements include the following:

- The availability of additional funds to successfully pursue our business plan;
- The cooperation of our lenders;
- 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;
- Our 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;
- The impact of adverse tax or regulatory rulings or actions affecting our operations, including the imposition of taxes, fees and penalties;
- 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 statements about our intentions contained in this document are statements of our intentions as of the date of this document and are 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.

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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 video and voice over Internet Protocol, or VoIP, telephony services. The nature of our technology is cloud-based computing, and therefore our target market is not limited to our physical presence in the United States. In particular, we have transformed our VoIP service to a downloadable digital product, which coupled with our fully-automated back office, allows us to sell our voice, video and messaging services instantly to a large variety of mobile devices around the world. We sell under the brand name of VoX Communications, VoX or VoX Mobile.

The continued growth in both mobile telephone services and video telephone services has resulted in a rapidly growing mobile VoIP market that allows subscribers to make inexpensive calls from their mobile phones or tablets instead of using costly airtime minutes. We offer our mobile VoIP service to Android users and we plan to release our voice and video services application to iPhone and iPad users in the next 30 to 60 days. With these new products, we will be one of the few application providers that enables video telephone calls from an Apple device to an Android device, and also allows users to make a telephone call to any person on the public switched telephone network (the "PSTN").

Adding video calling to mobile devices provides corporate managers the ability to see their mobile employees, agents or customers when a telephone call is made, and provides families with the ability to see loved ones who are otherwise inaccessible to visual contact. Our VoIP platform enables a user to access and utilize our voice, video and messaging services and features regardless of how they are connected to the Internet, including connections over the 3G, 4G, WiFi, cable, DSL or satellite broadband networks.

Today we support tens of thousands of active users around the world, in more than 160 countries, through our wholesale and retails channels. More than 150,000 people have downloaded our Android application to a mobile phone or tablet. We have built a privately-managed, state-of-the-art global telecommunications platform using Internet Protocol ("IP") technology and we offer a broad suite of private label VoIP products and services, for both wholesale and retail users.

We are able to provide our services at a cost per user that is generally lower than that charged by traditional service providers because we minimize our network costs by using efficient packet-switched technology and interconnecting to a wide variety of termination options, which allows us to benefit from pricing differences between vendors to the same termination points.

Having built a fully-automated and scalable VoIP and video calling platform, that began as a wholesale platform for broadband carriers, our growth initiative is mobile services. We believe the launching of our mobile services for Apple products in the second quarter and our planned utilization in the fourth quarter of Web Real-Time Communication ("WebRTC"), which enables browser to browser applications for voice calling, video chat and file sharing, will generate expeditious growth in our subscriber base and revenues.

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 1998 we began reselling telephone services and in 1999, we divested our handbag and luggage operations, and focused entirely on telephone operations.

In 2004 we started to build our own IP telephone network, and, 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.

Our initial IP telephone efforts focused on providing wholesale digital voice services to other carriers. 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 service provider’s customer with its voice product. This wholesale model contains cost advantages for us, especially with regard to customer acquisition costs, because we do not incur marketing costs to the end-users, who typically are already utilizing broadband services from our wholesale customer.

With the launching of our VoIP product for mobile phone users and our videophone service, we have changed our focus to the retail consumer. We are actively marketing to individual consumers via social networking websites, video websites, classified ad postings, press release distributions, blogs and article writing. We offer a free calling application to call the PSTN in 60 countries for 60 minutes and we offer a free videophone application. We incur a per-minute charge for any calls made to the PSTN in conjunction with the 60 free minutes of calling that we offer. The free videophone application has no costs of sales attributable to it because the call runs over the Internet, which has no per-minute costs. We plan to encourage people to use the free video-calling application and the free 60 minutes of voice calling so that consumers can experience our high-quality product. We believe that we will be able to contact users of our free products to convert a percentage of them into using our revenue-generating product.

Available Information

We maintain a corporate website with the address http://www.pervasip.com/ and VoX maintains a corporate website with the address http://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 U.S. Securities and Exchange Commission (the “SEC”). You can also read and copy any materials we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. You can obtain additional information about the operation of the Public Reference Room by calling the SEC at 1.800.SEC.0330. In addition, the SEC maintains a website (www.sec.gov) that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC, including all of our filings.

Industry Background

The technology we employ to deliver our service, known as Voice over Internet Protocol (VoIP), enables communications over the Internet through the compression of voice, video and/or other media into data packets that can be efficiently transmitted over data networks and then converted back into the original media at the other end. Data networks, such as the Internet or local area networks, have always utilized packet-switched technology to transmit information between two communicating terminals (for example, a PC downloading a page from a web server, or one computer sending an e-mail message to another computer). IP is the most commonly used protocol for communicating on these packet-switched networks. VoIP allows for the transmission of voice and data over these same packet-switched networks, providing an alternative to traditional telephone networks that use a fixed electrical path to carry voice signals through a series of switches to a destination.

As a result of the potential cost savings and added features of VoIP and video VoIP, consumers, enterprises, traditional telecommunication service providers and cable television providers view VoIP and video VoIP as the future of telecommunications. VoIP has experienced significant growth in recent years due to:

- Demand for lower cost telephone service;

- Improved quality and reliability of VoIP calls due to technological advances, increased network development and greater bandwidth capacity;
- Ability to download a VoIP application to a mobile device and utilize the 3G or 4G networks of the wireless phone carriers to provide consumers with mobile VoIP calling;
- Ability to download a VoIP application to a mobile device and utilize a WiFi network for mobile VoIP or mobile video calling; and
- New product innovations such as video calling that allow VoIP providers to offer services not currently offered by traditional telephone companies.

The traditional telephone networks maintained by many local and long distance telephone companies, known as the PSTN, were designed solely to carry low-fidelity audio signals with a high level of reliability. Although these traditional telephone networks are very reliable for voice communications, we believe these networks are not well-suited to service the explosive growth of digital communication applications for the following reasons:

- They are expensive to build because each subscriber's telephone must be individually connected to the central office switch, which is usually several miles away from a typical subscriber's location;
- They transmit data at very low rates and resolutions, making them poorly suited for delivering high-fidelity audio, entertainment-quality video or other rich multimedia content;
- They use dedicated circuits for each telephone call which allot fixed bandwidth throughout the duration of each call, whether or not voice is actually being transmitted which is an inefficient use of the investment in the network; and
- They demonstrate limitations in providing new or differentiated services or functions, such as video communications, that the network was not originally designed to accommodate.

Historically, packet-switched networks were built mainly for carrying non real-time data, although they are now fully capable of transmitting real-time data. The advantages of such networks are their efficiency, flexibility and scalability. Bandwidth is only consumed when needed. Networks can be built in a variety of configurations to suit the number of users, client/server application requirements and desired availability of bandwidth, and many terminals can share the same connection to the network. As a result, significantly more traffic can be transmitted over a packet-switched network, such as a home network or the Internet, than a circuit-switched telephony network. Packet-switching technology allows service providers to converge their traditionally separate voice and data networks and more efficiently utilize their networks by carrying voice, video, facsimile and data traffic over the same network. The improved efficiency of packet switching technology creates network cost savings that can be passed on to the consumer in the form of lower telephone rates.

The growth of the Internet in recent years has proven the scalability of these underlying packet-switched networks. As broadband connectivity, including cable modem and digital subscriber line (or DSL), has become more available and less expensive, it is now possible for service providers like us to offer voice and video services that run over these IP networks to businesses and residential consumers. Providing such services has the potential to both substantially lower the cost of telephone service and equipment to these customers and increase the breadth of features available to our subscribers. Services like full-motion, two-way video are now supported by the bandwidth spectrum commonly available to broadband customers, whether business or residential. We believe that televisions using the Android operating system will become increasingly popular and that these televisions will accommodate two-way video so that consumers will be making video calls from their Android televisions, using a video application such as the one we have developed.

Business Strategy

Our objective is to provide reliable, scalable and profitable worldwide cloud-based communications services with unmatched quality by utilizing our Linux-based software technologies to deliver innovative mobile and video telephone offerings at competitive prices. We intend to bring the best possible voice and video products and services, at an affordable price, to businesses and residential consumers and enhance the ways in which these customers connect, communicate and collaborate with each other on a worldwide basis. 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.

Specific strategies to accomplish this objective include:

Capitalize on our technology expertise to support new products and features. Our proprietary VoIP technology gives us the ability to offer leading-edge services and control our product development cycle. Our ability to quickly test new IP devices on our network, including videophones, 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.

Focus on offering enhanced calling features for Video calling services. Our mobile video application contains compression technology that allows us to provide real-time video calling with very efficient bandwidth usage to many models of Android phones and tablets. Our anticipated ability to customize our videophone application for iPhone users, will allow iPhone users to make mobile video calls to mobile Android devices. Many iPhone users enjoy calling each other, but they have not been able to make video calls to friends and family on devices made by other manufacturers. We believe that our free video app will draw significant attention to our product and allow us to provide some of our revenue-generating services to iPhone users.

Continue to utilize back-office automation. 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 Services

Our VoX services work over virtually any high-speed Internet connection worldwide to allow calls to or from any phone in the world, whether that phone is an IP phone or a PSTN phone. Our VoX service utilizes IP customer premise equipment to enable plug and play installation and a familiar dial tone user interface. Our service also uses web-based technologies to enable Internet fax, account setup, account management, billing and customer support. We have developed proprietary implementation of standards-based technologies underlying our service, which works with third party carriers to terminate VoIP calls on the PSTN network. As part of the VoX service, we currently resell analog telephone adapters, mobile phones and IP videophones that can utilize our unique VoIP software so that a user can make high-quality telephone calls on our VoIP network. We continue to enhance and develop new functionality in our software code so that our services can be downloaded to additional devices.

Mobile VoIP – Mobility has become central to our development priorities. Over the past 18 months, we have built a mobile platform that has the ability to deliver high-quality voice, messaging and video communication, across wired and wireless data networks. We are offering our mobile VoIP product, as a downloadable application, on several web sites. We primarily market it as a second line on a consumer's mobile device, although we do have customers who use an Internet tablet and our mobile VoIP is their only telephone line. We believe that as consumers adopt mobile VoIP and transition away from the circuit-switched networks now in use, consumers will find that having a second phone line on their mobile devices will be helpful to distinguish between business and personal calls. Also, a second or third phone line becomes very useful to people who do not want to give out their permanent mobile phone number to someone they have recently met. A mobile VoIP number from VoX comes with its own voice mail account so the customer with a VoX number can have a professional voice mail message or a personal voice mail greeting, depending on the preferences of the customer.

Our mobile VoIP application provides free calling and messaging between users who have the application, as well as low-cost international calling to more than 200 countries to any other phone. In addition, VoX subscribers who use smart phones with a front facing camera are able to make free videos calls to other VoX subscribers.

Our mobile VoIP application has calling plans that offer some of the lowest international calling rates in the world. Calls can be made for $0.07 a minute to a cell phone in Britain, Vietnam, Pakistan or Mexico, and for $0.12 per minute to Brazil. Most wireless carriers charge significantly more for these routes. The application also offers unlimited calling to more than 60 countries for $29.95 per month, or a "Pay and Go" plan that charges a user per minute and does not charge a monthly subscription fee and line fee. With our Pay and Go plan, consumers only pay for the calls they make, using international rates that are frequently 80% less than the large U.S. carriers, and domestic rates that are $0.029 per minute.

We recently launched a pinless calling product, which makes use of the same VoIP platform, and directly competes with traditional calling card services. We are in the process of making international calling cards for retailers to sell directly to their customers, and we have supplied one retain chain with downloadable UPC codes so that their customers have a document that can be scanned by the store's cash register to pay for and activate the calling application.

VoIP over Fixed Broadband Services – Our home telephone replacement services are offered to residential, small office and home office customers through several service plans with different pricing structures. The service plans include an array of basic and enhanced features, and customers have the opportunity to purchase premium features for an additional fee. We also charge for local and international calling outside of plan limits. Each of our residential, small office and home office calling plans provides a number of basic features including call waiting, caller ID with name, call forwarding, and voicemail. We also offer, in some cases for additional fees, a number of enhanced services that we believe help differentiate our service from our competitors

In order to access our residential, small office, and home office services, a customer need only connect a standard telephone to a broadband Internet connection through a small VoX-enabled device. After connecting the device, our customers can use their telephone to make and receive calls. Many of our adapters include a networking router and generally permit a subscriber to connect up to two VoX lines through a high-speed Internet connection. VoX-enabled devices allow customers to use the Internet connection for their computer and telephones at the same time while ensuring a high quality calling experience. Our plug-and-play VoX-enabled devices permit portability as customers can take their VoX device to different locations where broadband service is available. We generally have not charged new residential customers for the adapters permitting use of our service, but we do charge our wholesale customers.

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, SILK and AMR codecs yield 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 cloud-based communications services is new and rapidly evolving. We believe the primary competitive factors that will determine our success in the Internet and cloud-based 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;
Quality of data service, provided by wireless telephone companies, over which our applications run;
Ability to provide E911 and 911 service;
Bundled service offerings;
Innovative features;
Ease of use;
Accurate billing;
Brand recognition; and
Quality of analog telephone adapter supported by us and used by our customer.

Future competition could come from a variety of companies in both 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.

We anticipate that competition also will come from several traditional telecommunications companies, including industry leaders, such as Verizon Communications Inc., AT&T Inc., Sprint Nextel Corporation and Deutsche Telekom AG, 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.

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Operations

We have a centrally managed platform consisting of data management, monitoring, control and billing systems that support all of our products and services. We have invested substantial resources to develop and implement our real-time call management information system. Key elements of this system include automated customer provisioning, customer access, fraud control, network security, call routing, call monitoring, media processing and normalization, call reliability, and detailed call records. Our platform monitors our process of digitizing and compressing voice and video into packets and transmitting these packets over data networks around the world. We maintain a call switching platform in software that manages call admission, call control, call rating and routes calls to an appropriate destination or customer premise equipment. Unless the recipient is using an Internet telephony device, the packets (representing a voice and/or video call initiated by a VoX subscriber) are sent to a gateway belonging to one of our partner telecommunications carriers, where they are reassembled and the call is transferred to the PSTN and directed to a regular telephone anywhere in the world. Our billing and back office systems manage and enroll customers and bill calls as they originate and terminate on the service.

Network Operations Center – We maintain a network operations center in Orlando Florida and employ a staff of 6 individuals with experience in voice and data operations to provide 24-hour operations support, 7 days per week. We use various tools to monitor and manage all elements of our network and our partners' networks in real-time. We also monitor the network elements of some of our larger business customers. Additionally, our network operations center provides technical support to troubleshoot equipment and network problems. We also rely upon the network operations centers and resources of our telecommunications carrier partners to augment our monitoring and response efforts.

Customer and Technical Support – We maintain call center operations in Orlando, Florida and White Plains, New York and have a staff of 4 employees and contractors that provide customer service and technical support to customers. Customers who access our services directly through our web site receive customer service and technical support through multilingual telephone communication, web-based and "chat" sessions and e-mail support.

Interconnection Agreements – We are a party to telecommunications interconnect and service agreements with VoIP providers and PSTN telecommunications carriers, such as Level (3) Communications and Broadvox Networks. Pursuant to these agreements, VoIP calls originating on our network can be terminated on other VoIP networks or the PSTN. Correspondingly, calls originating on other VoIP networks and the PSTN can be terminated on our network. While we believe that relations with these providers and carriers are good, we have no assurance that these partners will be able or willing to supply services to us in the future.

Research and Development

The VoIP market is characterized by rapid technological changes and advancements. Accordingly, we make substantial investments in the design and development of new products and services, as well as the development of enhancements and features to our existing mobile VoIP applications and services. Future development also will focus on the use and interoperability of our products and services with emerging audio and video telephony standards and protocols, quality and performance enhancements to multimedia compression algorithms, support of new customer premise equipment, and wireless and mobile applications. We believe that the development of new products and services and the enhancement of existing products and services are essential to our success.

Major Customer

We had one customer that accounted for 29% of our revenues in fiscal 2012 and 24% of our revenues in fiscal 2011.

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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 are 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, like us, 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 May 13, 2009, the FCC adopted an order that reduced to one business day the amount of time that an interconnected VoIP provider such as us have to port a telephone number to another provider. If we, or third parties we rely upon for porting, have difficulty executing the one-day porting requirement, we could be subject to FCC enforcement action.

On February 9, 2011, the FCC released a Notice of Proposed Rulemaking on reforming universal service and the intercarrier compensation ("ICC") system that governs payments between telecommunications carriers primarily for terminating traffic. In particular, the FCC indicated that it has never determined the ICC obligations for VoIP service and sought comment on a number of proposals for how VoIP should be treated in the ICC system. The FCC's adoption of an ICC proposal will impact our costs for telecommunications services. On October 27, 2011, the FCC adopted an order reforming universal service and ICC. The FCC order provides that VoIP originated calls will be subject to interstate access charges for long distance calls and reciprocal compensation for local calls that terminate to the PSTN. It also subjected PSTN originated traffic directed to VoIP subscribers to similar ICC obligations. The termination charges for all traffic, including VoIP originated traffic, will transition over several years to a bill and keep arrangement (i.e., no termination charges). Numerous parties filed appeals of the FCC order in multiple federal circuit courts of appeal. The 10th Circuit Court of Appeals was selected by lottery to decide the appeals. The appeals are pending. We cannot yet predict what, if any, impact the ICC regulations will have on our costs.

On April 30, 2012, the FCC released a Further Notice of Proposed Rulemaking on reforming federal USF contributions. Currently USF contributions are assessed on the interstate and international revenue of traditional telephone carriers and interconnected VoIP providers like us. The level of USF assessments on these providers has been going up over time because of decreases in the revenue subject to assessment due to substitution of non-assessable services such as non-interconnected VoIP services. If the FCC does reform USF contributions, we are unsure as to whether our contribution burden will increase or decline.

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 March 15, 2013, we had eight employees. We are not subject to any collective bargaining agreement and we believe our relationship with our employees is good. We plan to operate with a small number of employees until our revenues increase further or until we are able to attract additional financing that has money earmarked for sales and marketing expense.

Item 1A. Risk Factors

We are a smaller reporting company as defined by Rule 12b-2 of the Securities Exchange Act of 1934, as amended (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 as of March 14, 2012.

Location	Use	Approximate Square Feet	Annual Rent
75 South Broadway White Plains, NY 10601	Office	200	$ 12,000

The lease for our office space in White Plains, NY is approximately $1,000 per month and is renewable every three months. We maintain two employees at this location, and we plan to maintain this location in 2013. Most of our employees work from home offices. We are aware of vacant office space if the need arises to have employees working together in the same office.

Item 3. Legal Proceedings.

We are currently not involved in any litigation that we believe could have a materially adverse effect on our financial condition or results of operations. There is no action, suit, proceeding, inquiry or investigation before or by any court, public board, government agency, self-regulatory organization or body pending or, to the knowledge of the executive officers of our company or any of our subsidiaries, threatened against or affecting our company, our common stock, any of our subsidiaries or of our company's or our company's subsidiaries' officers or directors in their capacities as such, in which an adverse decision could have a material adverse effect.

Item 4. Mine Safety Disclosures.

Not applicable.

PART II

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

(a) Market Information

Our common stock currently trades on the OTCQB marketplace under the symbol PVSP. The high and low closing price for each quarterly period of our last two fiscal years are listed below:

The following table sets forth the high and low trade information for our common stock for each quarter during the past two fiscal years. The prices reflect inter-dealer quotations, do not include retail mark-ups, markdowns or commissions and do not necessarily reflect actual transactions.

Quarter ended	High Price	Low Price
1st Quarter 2011	$ 0.07	$ 0.05
2nd Quarter 2011	$ 0.095	$ 0.0099
3rd Quarter 2011	$ 0.0589	$ 0.0115
4th Quarter 2011	$ 0.018	$ 0.0055
1st Quarter 2012	$ 0.0551	$ 0.012
2nd Quarter 2012	$ 0.032	$ 0.0186
3rd Quarter 2012	$ 0.0264	$ 0.0075
4th Quarter 2012	$ 0.0117	$ 0.0026

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.

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.

On September 19, 2012, we issued 4,779,922 shares of common stock, valued at $24,378, for payment on outstanding promissory notes of $17,000.

On September 24, 2012, we issued 3,076,923 shares of common stock, valued at $19,077, for payment on an outstanding promissory note of $10,000.

On October 2, 2012, we issued 4,800,000 shares of common stock, valued at $12,480, for payment on an outstanding promissory note of $12,000.

On October 3, 2012, we issued 6,400,000 shares of common stock, valued at $17,920, for payment on an outstanding promissory note of $10,000.

On October 4, 2012, we issued 29,687,250 shares of common stock, at a price of $0.02 per share, in exchange for proceeds of $593,745.

On October 9, 2012, we issued 9,777,778 shares of common stock, valued at $43,022, for payment on an outstanding promissory note of $17,600.

On October 23, 2012, we issued 4,651,639 shares of common stock, valued at $25,584, for payment on an outstanding promissory note of $14,885.

On October 24, 2012, we issued 4,347,826 shares of common stock, valued at $26,087, for payment on an outstanding promissory note of $10,000.

On November 8, 2012, we issued 5,000,000 shares of common stock, valued at $39,500, for payment on an outstanding promissory note of $15,000.

On November 13, 2012, we issued 9,300,000 shares of common stock, valued at $37,200, for payment on an outstanding promissory note of $31,620.

On November 16, 2012, we issued 6,225,200 shares of common stock, valued at $23,666, for payment on an outstanding promissory note of $16,186.

On November 19, 2012, we issued 3,076,923 shares of common stock, valued at $15,077, for payment on an outstanding promissory note of $8,000.

On November 27, 2012, we issued 5,684,211 shares of common stock, valued at $17,621, for payment on an outstanding promissory note of $9,500.

On November 29, 2012, we issued 9,828,877 shares of common stock, valued at $32,435, for payment on an outstanding promissory note of $18,380.

On November 29, 2012, we issued 8,000,000 shares of common stock, valued at $26,400, for payment on outstanding debt obligations of $20,866.

(b) Holders

As of March 15, 2013, a total of 532,438,834 shares of the Company’s common stock are currently outstanding held by approximately 178 shareholders of record.

Transfer Agent and Registrar

The transfer agent and registrar for our common stock is Worldwide Stock Transfer, LLC with its business address at 433 Hackensack Ave., Level L, Hackensack, NJ 07601.

(c) Dividends

We have not declared or paid any dividends on our common stock and intend to retain any future earnings to fund the development and growth of our business. Therefore, we do not anticipate paying dividends on our common stock for the foreseeable future. Our secured term loans with our primary lender prohibit us from paying dividends to stockholders.

(d) Securities Authorized for Issuance under Equity Compensation Plans

The following table provides information as of November 30, 2012, 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:			
1996 Restricted Stock Plan(1)			40,000
2007 Equity Incentive Plan (2)	43,000	$ 2.49	109,500
2010 Equity Incentive Plan (2)	-	-	20,000,000
Subtotal	43,000		20,149,500
Equity compensation plans not approved by security holders:			
Employee stock options	150,000	1.50	-
2004 Equity Incentive Plan (2)	7,500	2.50	11,500
2009 Equity Incentive Plan (2)	150,000	1.00	21,000
2011 Equity Incentive Plan (2)	14,100,000	.02	5,900,000
Subtotal	14,407,500		5,932,500
Total	14,450,500		26,082,000

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

(2) Our 2004, 2007, 2009, 2010 and 2011 Equity Incentive Plans allow for the granting of share options to members of our board of directors, officers, non-officer employees and consultants.

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.

THE FOLLOWING DISCUSSION OF OUR PLAN OF OPERATION AND RESULTS OF OPERATIONS SHOULD BE READ IN CONJUNCTION WITH THE FINANCIAL STATEMENTS AND RELATED NOTES TO THE FINANCIAL STATEMENTS INCLUDED ELSEWHERE IN THIS ANNUAL REPORT. THIS DISCUSSION CONTAINS FORWARD-LOOKING STATEMENTS THAT RELATE TO FUTURE EVENTS OR OUR FUTURE FINANCIAL PERFORMANCE. THESE STATEMENTS INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS THAT MAY CAUSE OUR ACTUAL RESULTS, LEVELS OF ACTIVITY, PERFORMANCE OR ACHIEVEMENTS TO BE MATERIALLY DIFFERENT FROM ANY FUTURE RESULTS, LEVELS OF ACTIVITY, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY THESE FORWARD-LOOKING STATEMENTS.

Overview

We are a provider of voice and video communications services that connect people through broadband devices worldwide. We rely significantly on our network, which is a flexible, scalable Session Initiation Protocol (SIP) based Voice over Internet Protocol, or VoIP, network. We market attractively priced voice and messaging services throughout the world under the brand name of VoX Communications.

We began selling our VoIP services as a landline telephone business. Over the past two years we have leveraged our technology to offer services and applications for mobile devices, such as smart phones and tablets. In 2011 we introduced mobile applications, under the name of VoX Mobile, that allow free calling and messaging between users who have the application, as well as low-cost calling from anywhere in the world to anywhere in the world. Our mobile applications work over 3G, 4G and WiFi and can be downloaded in any country.

In 2011, we began selling video VoIP services that run over a fixed broadband connection, and in February 2012, we added the video calling functionality to our mobile audio calling application. Consumers who use certain Android phones or tablets with a front facing camera can now make free video calls on the VoX mobile network.

We plan to launch the same mobile calling app, with audio, messaging and video functionality, for iPhone and iPad devices in the second quarter of fiscal 2013,

We have managed a significant strategic shift to mobile VoIP while transforming the cost structure of our core business to drive significant improvements in our gross profit percentage from 34% in fiscal 2010 to 41% in fiscal 2011 and 55% in fiscal 2012. In addition to reducing ongoing costs, we have contracted with an international carrier that gives us low international termination costs and allows us to be a low-cost mobile service carrier for several international calling destination.

We have made significant financial progress over the past year and again in the first quarter of fiscal 2013, by reducing our debt and providing an improved financial foundation for the future. In fiscal 2012, we reduced the debt that we owe to our secured lenders by more than 50%, lowering it from $13,177,587 to $6,368,078, and reduced our interest rate on the remaining secured debt to zero percent.

Plan of Operation

We are focused on growth in three primary areas that target existing revenue streams with significant addressable markets.

Services to mobile and other connected devices. We are developing next-generation services to meet the increasing demand for VoIP telephony and messaging services by users of smart phones, tablets and other connected devices. We believe that we can capitalize on favorable trends in the mobile Internet market, including the worldwide proliferation of low cost 3G and 4G services and low or no-cost WiFi broadband, and the accelerating rate of smart phone and tablet adoption. In 2013 we expect to expand our mobile service offerings to include voice and video calling from iPhone and iPad devices. We anticipate our Android voice and video application will continue in popularity as our addressable market grows. In October 2012 Google reported that 1,300,000 Android devices are activated each day and there are currently more than 1 billion mobile Android devices roaming the world.

International long distance calling. The markets for international long distance are large and growing and we plan to leverage our VoIP network by offering consumers a low-cost and convenient alternative to the international services offered by telephone and cable companies and international calling cards. Industry data estimates the international long distance calling market to be $80 billion annually, with up to 15% of such calling originating in the United

States. An increasing proportion of our customer base consists of international callers. We target substantial market opportunities by offering calling rates to mobile phones in Mexico, Britain, Brazil, Vietnam and Pakistan at rates that are more than 65% lower than the major wireless carriers.

Low-end domestic. While our primary emphasis remains mobile calling, the domestic-only calling segment, with more than 40 million broadband households, is a sizeable opportunity that we expect to target with Android-based home phones. We currently support this segment with an analog telephone adapter device that we sell with our monthly VoIP service plan, similar to many of our competitors. Several manufactures are now making a cordless Android home-phone that runs on the household's WiFi connection, and we intend to use this new device to further penetrate the low-end domestic market. We believe this segment represents a large incremental market opportunity for light users who want to keep their home phone number, but no longer want to pay a monthly recurring line fee for the benefit of having a landline or a VoIP line in their home. By using our Pay and Go application, these users can pay for calls as they make them, from an Android-based cordless phone, port their existing phone number to our VoIP platform, and not have to pay the monthly recurring line charges that subscription-based plans require of users.

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 satellite broadband carrier. 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 2012 and 2011.

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. In January 2011, we began selling video phones to retail customers, and these phones are considered customer equipment. Unlike the ATA, we charge the customer for the videophone. Frequently, a customer will purchase a videophone from a third-party and use our video VoIP service. In these instances, we have no equipment revenue.

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Cost of Revenues

Direct cost of telephony services. Direct cost of telephony services primarily consists of fees 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 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

Our revenues for fiscal 2012 decreased by approximately $292,000, or approximately 23%, to approximately $1,000,000 as compared to approximately $1,292,000 reported for fiscal 2011. The decrease in revenues was mainly due to the loss of lower margin wholesale business during the year, which we consider less desirable than our higher margin wholesale business or our mobile VoIP product. Our sales representatives and our advertising are now focusing only on the growth of our mobile app product, which we anticipate will see significant gains in fiscal 2013. We measure the growth in number of credit card payments each day from app users and in the number of daily calls made by mobile customers. In early January 2013 we averaged three credit card payments a day and in March 2013 we average 14 payments a day. We have had as many as 29 credit card charges in one day, and we believe that we can continue to grow our mobile app customer base and reach 50 payments a day soon after our iPhone app is released. We believe our automated back office and VoIP platform can easily support thousands of transactions each day and we continue to search for new ways to market our product. Beginning in February 2013, our mobile app customers make more than 1,000 calls per day.

Our gross profit for fiscal 2012 increased by approximately $28,000 to approximately $552,000 from a gross profit of approximately $524,000 reported in fiscal 2011, and our gross profit percentage of 55% in fiscal 2012, as compared to 41% in fiscal 2011, increased by 14 percentage points. Although we had a reduction of revenue due to the loss of some wholesale customers, we had an increase in gross profit due to the higher gross profit percentage that we achieved. We were able to reduce our cost of completing calls to phone numbers that are not on our network and to increase some of the fees we charge to our customers.

Selling, general and administrative expenses (“SG&A”) decreased by approximately $17,000, or approximately 1%, to approximately $2,094,000 for fiscal 2012 from approximately $2,111,000 reported in the prior year fiscal period. The decrease is attributable to general overhead cuts, primarily in salaries and consulting fees of approximately $278,000, which were offset by a financing charge of approximately $261,000.

Bad debt expense decreased by approximately $7,000 to approximately $6,000 for fiscal 2012 as compared to approximately $13,000 for the prior fiscal year. There were no large delinquencies in fiscal 2012.

Interest expense decreased by approximately $1,382,000 to approximately $2,196,000 for the year ended November 30, 2012 as compared to approximately $3,578,000 for the prior fiscal year. Our borrowings in fiscal 2012 were significantly less than in fiscal 2011 due to the reduction of outstanding debt to our secured debt holder, in conjunction with a debt settlement arrangement. The debt settlement agreement resulted in a troubled debt restructuring gain in fiscal 2012 of approximately $6,339,000. Additionally, our principal lender reduced our interest rate to zero percent effective February 1, 2012.

For the year ended November 30, 2012, we recorded a gain on the settlement of liabilities of approximately $314,000 as compared to a gain of approximately $107,000 in the prior fiscal period. In fiscal 2011 we recorded a gain on the extinguishment of a derivative liability of $497,667.

For the year ended November 30, 2012, we recorded income from a mark-to-market gain of $92,872, as compared to a mark-to-market gain of $101,474 in fiscal 2011.

Liquidity and Capital Resources

At November 30, 2012, we had cash and cash equivalents of approximately $12,000 and negative working capital of approximately $11,817,000 as compared to cash and cash equivalents of approximately $10,000 and negative working capital of approximately $18,805,000 at November 30, 2011.

Net cash used in operating activities aggregated approximately $870,000 and $625,000 in fiscal 2012 and 2011, respectively. The principal source of cash from operating activities in 2012 was the net income for the year of approximately $3,174,000 and amortization of debt discount of approximately $1,783,000. These amounts were offset primarily by a gain from debt reductions of approximately $6,339,000. The principal use of cash from operating activities in fiscal 2011 was the loss for the year of approximately $4,450,000. The use of cash was offset in part by an increase in accounts payable of approximately $2,303,000 and amortization of debt discount of approximately $2,061,000.

Net cash provided by financing activities aggregated approximately $872,000 and $603,000 in fiscal 2012 and 2011, respectively. The principal sources of cash from financing activities were net proceeds from short-term borrowings of approximately $413,000 and proceeds from issuances of common stock of approximately $581,000. Uses of cash consisted of payments of debt of approximately $122,000. The principal sources of cash from financing activities in fiscal 2011 were net proceeds from short-term borrowings of approximately $397,000 and proceeds from issuances of common stock of approximately $210,000.

In fiscal 2012 and 2011, there were no expenditures for capital assets.

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 several years, and we have very 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 issuance of equity securities and borrowings.

Although we are not yet profitable and we are not generating cash from operations, we believe we have short-term financing available to fund our monthly cash-flow deficit from a group of investors (the "Investors") that expended a total of approximately $500,000 in February and March of 2013 to help our operations and improve our balance sheet. Included in the expenditures made by the Investors was a $250,000 payment to our secured lender, $150,000 in working capital for the Company, a buy out of a convertible debenture holder of approximately $37,000 and payments for closing costs on a financing. The payment of $250,000 to our secured lender resulted in a reduction of debt that we owe our secured lender of approximately $5,000,000 under the terms of a debt assignment agreement. The Investors have indicated to us that they believe they can be helpful to us in our operations by having us write applications for other businesses in which they have made investments. In our agreement with the Investors, we are allowed to obtain financing from other sources so long as we ask the Investors for their consent, which consent will not be withheld for reasonable financings.

Although we have significantly improved our balance sheet with the transaction with the Investors, we continue to have liabilities in excess of our assets. We are working to settle our remaining liabilities and consequently 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 or raise additional capital will have an adverse impact on our ability to achieve our longer-term business objectives, and will adversely affect our ability to continue operating as a going concern.

New Accounting Standards

The new accounting pronouncements in Note 1 to our consolidated financial statements, which are included in this Report, are incorporated herein by reference thereto.

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with generally accepted accounting principles ("GAAP") in the United States requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. The most significant estimates include:

revenue recognition and estimating allowance for doubtful accounts;
valuation of derivative liabilities; and
income tax valuation allowance.

We continually evaluate our accounting policies and the estimates we use to prepare our consolidated financial statements. In general, the estimates are based on historical experience, on information from third party professionals and on various other sources and assumptions that are believed to be reasonable under the facts and circumstances at the time such estimates are made. Management considers an accounting estimate to be critical if:

it requires assumptions to be made that were uncertain at the time the estimate was made; and changes in the estimate, or the use of different estimating methods, could have a material impact on our consolidated results of operations or financial condition.

Actual results could differ from those estimates. Significant accounting policies are described in Note 1 to our consolidated financial statements, which are included in this Report. In many cases, the accounting treatment of a particular transaction is specifically dictated by GAAP. There are also areas in which management's judgment in selecting any available alternative would not produce a materially different result.

Certain of our accounting policies are deemed “critical”, as they require management's highest degree of judgment, estimates and assumptions. The following critical accounting policies are not intended to be a comprehensive list of all of our accounting policies or estimates:

Revenue Recognition

We recognize revenue from telecommunication services in the period that the service is provided. We estimate amounts earned for carrier interconnection and access fees based on usage.

Allowance for Doubtful Accounts

We maintain allowances for doubtful accounts for estimated losses that result from the inability or unwillingness of our customers to make required payments. We base our allowances on our determination of the likelihood of recoverability of trade accounts receivable based on past experience and current collection trends that are expected to continue. In addition, we perform ongoing credit evaluations of our significant customers and we require most of our wholesale customers to post a deposit, typically an amount between $2,500 and $5,000, which may be refunded after several months of prompt payments. Our mobile VoIP customers are required to pay in advance and we have no allowance for doubtful accounts associated with these customers.

Impairment of Long-Lived Assets

Financial Accounting Standards Board (“FASB”) authoritative guidance requires that certain assets be reviewed for impairment and, if impaired, remeasured at fair value whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. Impairment loss estimates are primarily based upon management’s analysis and review of the carrying value of long-lived assets at each balance sheet date, utilizing an undiscounted future cash flow calculation. During fiscal 2009 we recognized an impairment loss as we concluded the carrying amount of internally developed capitalized software was not be recoverable. In fiscal 2012 we purchased new equipment for our VoIP platform and we carry the equipment on our books at its salvage value. As a result of these actions we do not carry any plant and equipment assets on our books.

Income Taxes

We estimate the degree to which tax assets and loss carryforwards will result in a benefit based on expected profitability by tax jurisdiction. A valuation allowance for such tax assets and loss carryforwards is provided when it is determined that such assets will more likely than not go unused. If it becomes more likely than not that a tax asset or loss carry-forward will be used, the related valuation allowance on such assets is reversed. If actual future taxable income by tax jurisdiction varies from estimates, additional allowances or reversals of reserves may be necessary.

Share-Based Payment

We account for our stock-based compensation under the FASB authoritative guidance. Equity classified stock-based compensation cost is measured at grant date, based on the fair value of the award and is recognized as expense over the requisite service period. Liability classified stock-based compensation cost is re-measured at each reporting date and is recognized over the requisite service period. We calculate the fair value of our employee stock options using the Black-Scholes option pricing model. The fair value of non-employee options and warrants are calculated based upon the cost of the services provided to us. Compensation expense for awards with graded vesting provisions is recognized on a straight-line basis over the requisite service period of each separately vesting portion of the award. Compensation expense for contingent stock option awards is recognized when it is probable that the contingent event will occur.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk.

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 8. Financial Statements and Supplementary Data.

Our Consolidated Financial Statements required by this Item are included herein, commencing on page F-1.

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

Not applicable.

Item 9A. Controls and Procedures.

(a) Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures designed to ensure that information required to be disclosed in the reports we file pursuant to the Securities Exchange Act of 1934, as amended (the "Exchange Act") are recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC, and that such information is accumulated and communicated to our Principal Executive Officer / Principal Financial Officer ("PEO"), to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can only provide a reasonable assurance of achieving the desired control objectives, and in reaching a reasonable level of assurance, management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Management designed the disclosure controls and procedures to provide reasonable assurance of achieving the desired control objectives.

We carried out an evaluation, under the supervision and with the participation of our management, including our PEO, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this Annual Report. Based upon that evaluation, the PEO concluded that the Company's disclosure controls and procedures were ineffective.

(b) Management's Assessment of Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in the Exchange Act Rules 13a-15(f). A system of internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Under the supervision and with the participation of management, including the PEO, the Company's management has evaluated the effectiveness of its internal control over financial reporting as of November 30, 2012, based on the criteria established in a report entitled "Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission" and the interpretive guidance issued by the Commission in Release No. 34-55929. Based on this evaluation, the Company's management has evaluated and concluded that the Company's internal control over financial reporting was ineffective as of November 30, 2012, and identified the following material weaknesses:

There is a lack of accounting personnel with the requisite knowledge of Generally Accepted Accounting Principles in the US ("GAAP"), telecom taxation requirements and the financial reporting requirements of the SEC;

There are insufficient written policies and procedures to insure the correct application of accounting and financial reporting with respect to the current requirements of GAAP and SEC disclosure requirements; and

There is a lack of segregation of duties, in that we only had one person performing all accounting-related duties.

Notwithstanding the existence of these material weaknesses in our internal control over financial reporting, our management believes that the consolidated financial statements included in its reports fairly present in all material respects the Company's financial condition, results of operations and cash flows for the periods presented.

The Company will continue its assessment on a quarterly basis. We plan to hire personnel and resources to address these material weaknesses. We believe these issues can be solved with hiring in-house accounting support and plan to do so as soon as we have funds available for this purpose.

This annual report does not include an attestation report of the Company's independent registered public accounting firm regarding internal control over financial reporting. The Company's registered public accounting firm was not required to issue an attestation on its internal controls over financial reporting pursuant to the rules of the SEC. The Company will continue to evaluate the effectiveness of internal controls and procedures on an on-going basis.

(c) Changes in Internal Control over Financial Reporting

There have been no changes in our internal controls over financial reporting (as such term is defined in Rule 13a-15(f) and 15d-15(f) under the Securities Exchange Act) during the year ended November 30, 2012, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information.

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

Directors and Executive Officers

The following table and biographical summaries set forth information, including principal occupation and business experience, about our directors and executive officers as of March 14, 2013. There is no familial relationship between or among the nominees, directors or executive officers of the Company.

Name	Age	Position
Paul H. Riss	57	Chief Executive Officer, Chief Financial Officer, Treasurer and Chairman
Greg M Cooper	53	Director
Mark Richards	53	Chief Information Officer and Director
Cherian Mathai	56	Director
Scott Widham	55	Director

Our Amended and Restated Certificate of Incorporation provides that a director shall hold office until the annual meeting for the year in which his or her term expires except in the case of elections to fill vacancies or newly created directorships. While each director is typically elected for a one-year term, we did not have an annual stockholders meeting for the election of directors in 2012. The Company's officers serve at the discretion of the Company's board of directors, until their death, or until they resign or have been removed from office.

There are no agreements or understandings for any director or officer to resign at the request of another person and none of the directors or officers is acting on behalf of or will act at the direction of any other person. The activities of each director and officer are material to the operation of the Company. No other person's activities are material to the operation of the Company.

Paul H. Riss, age 57, Chief Executive Officer, Chief Financial Officer, Treasurer and Chairman

Paul H. Riss has served as a director since 1995; Chairman of our board of directors since March 2005; our Chief Executive Officer since August 1999 and our Chief Financial Officer and Treasurer since November 1996. He has served on the board of four telecom companies and has more than 25 years of entrepreneurial business and management experience including the engineering of his own leveraged buyout in 1987 and the audit of numerous public companies at Ernst & Young. He is a CPA in New York State and earned an MBA with distinction from the Stern School of Business at New York University and a magna cum laude BA with distinction from Carleton College. We believe Mr. Riss's qualifications to serve as a director include his tenure as our Chief Executive Officer and as a member of our Board, and his more than 15 years of service to us with extensive experience in financings, contract negotiations, acquisitions, budgeting, external reporting and accounting.

Greg M Cooper, age 53, Director

Greg M Cooper has served as a director since April 2004; He has been the managing partner for more than five years of Cooper, Niemann & Co., CPAs, LLP, certified public accountants; a member of the board of directors, since 1997, of Mid Hudson Cooperative Insurance Company in Montgomery, New York, a privately-held insurance company; a member of the American Institute of Certified Public Accountants since 1982; a member of the New York State Society of Certified Public Accountants since 1982; and a member of the Pennsylvania Institute of Certified Public Accountants since 2003. He received a BBA from Pace University in 1980. We believe Mr. Cooper's qualifications to serve on the board include his extensive experience in accounting and taxation and his experience serving business clients.

Mark Richards, age 53, Chief Information Officer and Director

Mark Richards has been a director since January 2008 and our Chief Information Officer since October 2004. Previously, Mr. Richards was the Chief Operating Officer of a VoIP carrier, Volo Communications. He also served as acting Chief Executive Officer for Epicus Communications, a competitive local exchange carrier ("CLEC"). Prior to that, he held executive positions with a variety of CLEC and telecom start-ups, including NET-Tel, TCCF, and American Network Exchange. Mr. Richards also served as a consultant to numerous Fortune 500 companies in the U.S. and abroad, including Citibank Card Services, CitiCorp Karten Services, Citibank London, D.G. Durham London, B.P. UK, and Citibank Japan. We believe Mr. Richard's qualifications to serve on the board include his tenure as our Chief Information Officer and his extensive experience in the development and sale of communications technologies and services, including video processing algorithms, videophone technology, Android operating systems, data packet processing and programming know-how.

Cherian Mathai, age 56, Director

Cherian Mathai has served as a director since March 2008. Mr. Mathai serves as the Chief Financial Officer of dotSport LLC since 2007 and as President of Sophia Associates Inc., a management consulting and advisory firm since 2007; Co-founded and served as Chief Operating Officer of Tralliance Corporation, the registry for .travel Internet Top Level Domain from January 2002 to June 2007 and co-founded fareone, Inc. in 1999. Both companies that he co-founded were conceived, developed and sold to larger entities. We believe Mr. Mathai's qualifications to serve on the board include his expertise in structuring project finance deals, identifying business opportunities and creating successful business enterprises, in addition to his global business experience, completing transactions in the United Kingdom, Canada, Mexico and India.

Scott Widham, age 55, Director

Scott Widham has served as a director since March 2008. Mr. Widham serves as the Chief Executive Officer of Alpheus Communications since December 2011. Previously, Mr. Widham was the Chief Executive Officer at Cobridge Communications LLC, an operator of cable telecommunication systems, from March 2010 – January 2012; a principal in CAS, LLC, a technology and telecom consulting company since 2007; and the President – Sales and Marketing, President – Corporate Development and Co-CEO of Broadwing Corporation, a voice, data and video service provider from 2001 to 2007; He has a BBA degree in marketing from the University of Texas at Austin. We believe that Mr. Widham's qualifications to serve on the board include his extensive experience in the telecom industry and as a president and co-CEO of a publicly traded company.

Board Meetings and Committees; Management Matters

Our amended and restated certificate of incorporation provides that the number of members of our Board of Directors shall be not less than three and not more than five. There are currently five directors on the Board. At each annual meeting of stockholders, directors are elected to hold office for a term of one year and until their respective successors are elected and qualified.

Our board of directors held 6 meetings during the fiscal year ended November 30, 2012. During fiscal 2012, each director attended at least 75% of the board of directors and committee meetings of which he was a member during such time as he served as a director. From time to time, the members of our board of directors act by unanimous written consent pursuant to the laws of the State of New York. No fees are paid to directors for attendance at meetings of the board of directors.

Compensation Committee

We have a compensation committee currently composed of Greg M Cooper and Scott Widham. Mr. Widham is the Chairman of the committee. The compensation committee establishes remuneration levels for our executive officers. The compensation committee did not meet during the fiscal year ended November 30, 2012.

Nominating Committee

Our board of directors does not have a nominating committee. Our entire board of directors is responsible for this function. Due to the relatively small size of our company and the resulting efficiency of a board of directors that is also limited in size, our board of directors has determined that it is not necessary or appropriate at this time to establish a separate nominating committee. Our board of directors intends to review periodically whether such a nominating committee should be established.

Our board of directors uses a variety of methods for identifying and evaluating nominees for director. It regularly assesses the appropriate size of the board of directors, and whether any vacancies exist or are expected due to retirement or otherwise. If vacancies exist, are anticipated or otherwise arise, our board of directors considers various potential candidates for director. Candidates may come to their attention through current members of our board of directors, shareholders or other persons. These candidates are evaluated at regular or special meetings of our board of directors, and may be considered at any point during the year.

Qualifications for consideration as a director nominee may vary according to the particular areas of expertise that may be desired in order to complement the qualifications that already exist among our board of directors. Among the factors that our directors consider when evaluating proposed nominees are their independence, financial literacy, business experience, character, judgment and strategic vision. Other considerations would be their knowledge of issues affecting our business, their leadership experience and their time available for meetings and consultation on company matters. Our directors seek a diverse group of candidates who possess the background skills and expertise to make a significant contribution to our board of directors, our company and our shareholders.

Audit Committee

We have an audit committee that, during the fiscal year ended November 30, 2012, was composed of Greg M Cooper, Cherian Mathai and Scott Widham. Each audit committee member is an independent director as defined by the rules of the National Association of Securities Dealers. A written charter approved by our board of directors and attached as Annex A to our 2007 proxy statement, which was filed with the SEC on May 15, 2007, governs the audit committee.

Our board of directors has determined that Greg M Cooper qualifies as an “audit committee financial expert,” as defined under the rules of the Commission adopted pursuant to the Sarbanes-Oxley Act of 2002. Our board of directors has determined that Mr. Mathai and Mr. Widham are financially literate and experienced in business matters and fully qualified to monitor the performance of management, the public disclosures by our company of our financial condition and performance, our internal accounting operations, and our independent auditors.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act of 1934, requires our directors and executive officers, and persons who own more than ten percent of a registered class of our equity securities (“10% Shareholders”), to file with the Commission initial reports of ownership and reports of changes in ownership of our common stock and other equity securities. Officers, directors and 10% Shareholders are required by Commission regulation to furnish us with copies of all Section 16(a) forms they file.

Based solely on our review of the copies of such reports received by us, we believe that for the fiscal year ended November 30, 2012, all Section 16(a) filing requirements applicable to our officers, directors and 10% shareholders were complied with.

Code of Ethics

We have adopted a code of business conduct and ethics for our directors, officers and employees, including our chief executive officer and chief financial officer. In addition, we have adopted a supplemental code of ethics for our financial executives and all employees in our accounting department. The text of our codes are posted on our Internet website at www.pervasip.com.

Item 11. Executive Compensation.

Summary Compensation Table

The following table sets forth, for the fiscal years indicated, all compensation awarded to, earned by or paid to Mr. Paul H. Riss, our Chairman, Chief Executive Officer and Chief Financial Officer, and Mr. Mark Richards, our Chief Information Officer (collectively, the "Named Executives"). We have no other executive officers.

Fiscal 2011 Summary Compensation Table

Name and Principal Position	Year	Salary ($) (1)	Bonus ($)	Stock Awards ($)(2)	Option Awards ($)(3)	Non-Equity Incentive Plan Compensation ($)	Change in Pension Value and Non-Qualified Deferred Comp Earnings ($)	All Other Compensation ($)(4)	Total ($)
Paul H. Riss			$ 0		$ 9,190		$ 0		$ 184,190
Chairman, Chief Executive	2012	$ 175,000	0	$ 0	246	$ 0	0	$ 0	175,246
Officer	2011	165,000	0	10,000	0	0	0	0	175,000
and Chief Financial Officer	2010	175,000		0		0		0	
Mark Richards	2012	180,000	0	0	61,330	0	0	0	241,330
Chief Information Officer	2011	180,000	0	0	71,520	0	0	0	251,520
	2010	5,000	0	120,000	71,520	0	0	55,000	251,520

(1) Amounts in this column include unpaid salary to Mr. Riss and Mr. Richards of $318,946 and $23,465, respectively, at November 30, 2012.

(2) Amounts in this column reflect the expense recognized for financial reporting purposes for the indicated fiscal year, in accordance with FASB authoritative guidance, with respect to awards of restricted shares of common stock, which may include awards made during earlier years as well as the indicated year.

(3) Amounts in this column reflect the expense recognized for financial reporting purposes for the indicated fiscal year, in accordance with FASB authoritative guidance, with respect to awards of options to purchase common stock, which may include awards made during earlier years as well as the indicated year.

(4) Mr. Richards received consulting fees from one of our vendors amounting to $55,000 in fiscal 2010.

Outstanding Equity Awards at Fiscal Year End

The following table sets forth certain information with respect to stock options outstanding as of November 30, 2012, for each of the named executive officers. The Named Executives did not exercise any options in Fiscal 2012.

Option Awards

Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Equity Incentive Plan Awards (1): Number of Securities Underlying Unexercised Unearned Options (#)	Option Exercise Price	Option Expiration Date
Paul H. Riss	1,333,333	2,666,666		$ 0.01	11/21/2016
Mark Richards	150,000		-	$ 1.50	10/09/2014

Stock Option Grants

There were no stock option grants or exercises is fiscal 2012.

Board of Directors Compensation

We do not currently compensate directors in cash for service on our board of directors. On May 26, 2011, we granted each of our three independent directors a stock option to purchase 100,000 shares of our common stock at a price of $0.10. On November 21, 2011, we granted each of our three independent directors a stock option to purchase 500,000 shares of our common stock at a price of $0.01. The options vest over a three-year period and expire five years from the date of grant. For both sets of option grants the exercise price was higher than the market price of our common stock on the day of the grant. We maintain a Non-Employee Director Stock Option Plan (the “Director Option Plan”). Under the Director Option Plan, each non-employee director is granted a non-statutory option to purchase 1,000 shares of our common stock on the date on which he or she is elected, re-elected or appointed to our board of directors. Our existing directors were last re-elected on May 13, 2009. Options granted pursuant to the Director Option Plan will vest in full on the one-year anniversary of the grant date, provided the non-employee director is still our director at that time. The exercise price granted under the Director Option Plan is 100% of the fair market value per share of the common stock on the date of the grant as reported on the OTC Marketplace.

Director Compensation

Name	Fees Earned or Paid in Cash ($)	Stock Awards ($)	Option Awards ($) (1)	Non-Equity Incentive Plan Compensation ($)	Non-qualified Deferred Compensation Earnings (4)	All Other Compensation ($)	Total ($)
Greg Cooper	-	-	$11,445	-	-	-	$11,445
Cherian Mathai	-	-	11,445	-	-	-	11,445
Scott Widham	-	-	11,445	-	-	–-	11,445

(1) Dollar amounts reflect the aggregate grant date fair value computed in accordance with FASB authoritative guidance.

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

As of March 14, 2013, there were 532,438,834 shares of our common stock issued and outstanding. Each share of common stock entitles the holder thereof to one vote with respect to each item to be voted on by holders of the shares of common stock. We have 51 shares of Series C Preferred stock outstanding, held by our Named Executives, as detailed in the chart below.

The following table sets forth information with respect to the beneficial ownership of shares of our common stock as of March 15, 2013, by:

Each person whom we know beneficially owns more than 5% of the common stock;
each of our directors individually;
each of our named executive officers individually; and
all of our current directors and executive officers as a group

Unless otherwise indicated, to our knowledge, all persons listed below have sole voting and investment power with respect to their shares of common stock. Each person listed below disclaims beneficial ownership of their shares, except to the extent of their pecuniary interests therein. Shares of common stock that an individual or group has the right to acquire within 60 days of March 15, 2013, pursuant to the exercise of options or restricted stock are deemed to be outstanding for the purpose of computing the percentage ownership of such person or group, but are not deemed outstanding for the purpose of calculating the percentage owned by any other person listed.

Name and Address	Number of Shares of Common Stock Beneficially Owned	Percent of Shares of Common Stock Beneficially Owned	Number of Shares of Series C Preferred Stock Beneficially Owned (7)	Percent of Shares of Series C Preferred Stock Beneficially Owned
G3 Connect, LLC 321 Newark Street 3rd Floor Hoboken, NJ 07030	96,947,250 (1)	16.17 %		
Paul H. Riss Pervasip Corp. 75 South Broadway, Suite 400 White Plains, New York 10601	23,271,866 (2)	4.31 %	48 (8)	94.12 %
Mark Richards 75 South Broadway, Suite 400 White Plains, New York 10601	6,774,333 (3)	1.80 %	3 (9)	5.88 %
Greg M. Cooper Cooper, Niemann & Co., CPAs, LLP PO Box 190 Mongaup Valley, New York 12762	171,667 (4)	*		
Scott Widham	167,667 (5)	*		

Alpheus Communications 1301 Fannin, 20th Floor Houston, Texas 77002							
Cherian Mathai 75 South Broadway, Suite 400 White Plains, New York 10601	167,667	(6)	*				
All directors and executive officers as a group (five individuals)	30,553,200		5.64	%	51	100	%

* Less than 1%.

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(1) Includes 7,239,333 shares of common stock subject to warrants and options that are presently exercisable or exercisable within 60 days after March 15, 2013.

(2) Includes 1,500,000 shares of common stock subject to options and warrants that are presently exercisable or exercisable within 60 days after March 14, 2012.

(3) Includes 12,000 shares of common stock subject to options that are presently exercisable or exercisable within 60 days after March 15, 2013.

(4) Includes 21,000 shares of common stock subject to options that are presently exercisable or exercisable within 60 days after March 15, 2013.

(5) Includes 11,000 shares of common stock subject to options that are presently exercisable or exercisable within 60 days after March 15, 2013.

(6) Each one share of Series C Preferred has voting rights equal to (x) 0.019607 multiplied by the total issued and outstanding Common Stock eligible to vote at the time of the respective vote (the "Numerator"), divided by (y) 0.49, minus (z) the Numerator.

(7) Mr. Paul Riss owns 48 shares of Series C Preferred Stock, which is representative of 296,987,537 shares solely for voting purposes.

(8) Mr. Mark Richards owns 3 shares of Series C Preferred Stock, which is representative of 18,561,721 shares solely for voting purposes.

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

Certain Relationships and Related Transactions

We paid fees to an intellectual property development firm ("Consultant") of $192,000 in fiscal 2012 and 2011, respectfully. All such work performed by the Consultant is the property of our company. An officer of our company has performed work for the Consultant, including disbursement services, in which funds that were remitted by us to the Consultant were subsequently transferred to a company controlled by the officer to distribute such funds to appropriate vendors.

At November 30, 2012 the total amount due to our chief executive officer, including loans, unpaid salary, interest and expenses amounted to $752,755

At November 30, 2012, unpaid salary owed to our chief information officer amounted to $23,465.

We paid fees of $2,000 in fiscal 2012 and $4,000 in fiscal 2011 to Cooper, Neimann & Company CPA, LLP for preparation of our federal and state income tax returns, and we owe $4,800 in unpaid fees. Our board member, Greg Cooper, is a partner in this firm.

At November 30, 2012 and 2011, we owed G3 Connect LLC, $5,548 and $1,967 in unpaid commissions, respectively.

Director Independence

Our common stock is currently quoted on the OTCQB marketplace and is not listed on the Nasdaq Stock Market or any other national securities exchange. Accordingly, we are not currently subject to the Nasdaq continued listing requirements or the requirements of any other national securities exchange. Nevertheless, in determining whether a director or nominee for director should be considered “independent” the board utilizes the definition of independence set forth in Rule 4200(a)(15) of the Nasdaq Marketplace Rules. Greg M Cooper, Cherian Mathai and Scott Widham qualify as “independent” under this rule.

Item 14. Principal Accounting Fees and Services.

The following table presents fees for professional audit services rendered by Nussbaum Yates Berg Klein & Wolpow LLP for the audit of our annual financial statements for the years ended November 30, 2012 and 2011, and fees billed for other services rendered by Nussbaum Yates Berg Klein & Wolpow LLP during those periods.

	2012	2011
Audit fees	$ 97,500	$ 97,500
Audit related fees	–	–
Tax fees	–	–
All other fees	–	
Total	$ 97,500	$ 97,500

In the above table, in accordance with the SEC’s definitions and rules, “audit fees” are fees we paid Nussbaum Yates Berg Klein & Wolpow LLP for professional services for the audit of our annual financial statements and review of financial statements included in our quarterly reports filed with the SEC, as well as for work generally only the independent auditor can reasonably be expected to provide, such as statutory audits and consultation regarding financial accounting and/or reporting standards; “audit-related fees” are fees billed by Nussbaum Yates Berg Klein & Wolpow LLP for assurance and related services that are reasonably related to the performance of the audit or review of our financial statements; “tax fees” are fees for tax compliance, tax advice and tax planning; and “all other fees” are fees billed by Nussbaum Yates Berg Klein & Wolpow LLP for any services not included in the first three categories.

Policy on Audit Committee Pre-Approval of Audit and Permissible Non-Audit Services of Independent Auditors

Consistent with SEC policies regarding auditor independence, the Audit Committee has responsibility for appointing, setting compensation and overseeing the work of the independent auditor. In recognition of this responsibility, the Audit Committee has established a policy to pre-approve all audit and permissible non-audit services provided by the independent auditor.

Prior to engagement of the independent auditor for the next year's audit, management will submit an aggregate of services expected to be rendered during that year for each of four categories of services to the Audit Committee for approval.

1. Audit services include audit work performed in the preparation of financial statements, as well as work that generally only the independent auditor can reasonably be expected to provide, including comfort letters and reviews of our financials statements included in our Quarterly Reports on Form 10-Q.

2. Audit-Related services are for assurance and related services that are traditionally performed by the independent auditor, including due diligence related to mergers and acquisitions, employee benefit plan audits, and special procedures required to meet certain regulatory requirements.

3. Tax services include all services performed by the independent auditor's tax personnel except those services specifically related to the audit of the financial statements, and includes fees in the areas of tax compliance, tax planning, and tax advice.

4. Other services are those associated with services not captured in the other categories. We generally do not request such services from the independent auditor.

Prior to engagement, the Audit Committee pre-approves these services by category of service. The Audit Committee may delegate pre-approval authority to one or more of its members. The member to whom such authority is delegated must report, for informational purposes only, any pre-approval decisions to the Audit Committee at its next scheduled meeting.

PART IV

Item 15. Exhibits, Financial Statement Schedules.

Exhibit No.	Document
3.1	Certificate of Incorporation, as amended, incorporated by reference to our Registration Statement on Form S-1 filed with the SEC on August 27, 1969 under Registration Number 2-34436.
3.2	Certificate of Amendment of the Certificate of Incorporation, incorporated by reference to our definitive proxy statement filed with the SEC in connection with our Annual Meeting of Shareholders held in May 1984.
3.3	Certificate of Amendment to the Certificate of Incorporation, incorporated by reference to Exhibit 3(b) to our Annual Report on Form 10-K for the year ended November 30, 1988.
3.4	Certificate of Amendment to the Certificate of Incorporation, incorporated by reference to Exhibit 3(e) to our Annual Report on Form 10-K for the year ended November 30, 1994, as amended.
3.5	Certificate of Amendment of the Certificate of Incorporation, incorporated by reference to Exhibit 3 to our Quarterly Report on Form 10-Q for the quarter ended August 30, 1995.
3.6	Certificate of Amendment of the Certificate of Incorporation, incorporated by reference to Exhibit 3(f) to our Annual Report on Form 10-K for the year ended November 30, 1998.
3.7	Certificate of Amendment of the Certificate of Incorporation, incorporated by reference to Exhibit 3.2 to our Quarterly Report on Form 10-Q for the quarter ended August 31, 1998.
3.8	Certificate of Amendment of the Certificate of Incorporation, incorporated by reference to Exhibit 3(1) to our Current Report on Form 8-K dated November 16, 1999.
3.9	Certificate of Amendment of the Certificate of Incorporation, incorporated by reference to Exhibit 3(1) to our Current Report on Form 8-K dated December 28, 2007.
3.10	Certificate of Amendment of the Certificate of Incorporation, incorporated by reference to Exhibit 3.1 to our Current Report on Form 8-K dated January 23, 2012.
3.11	Certificate of Amendment of the Certificate of Incorporation, incorporated by reference to Exhibit 3.1 to our Current Report on Form 8-K dated August 21, 2012.
3.12	Certificate of Amendment of the Certificate of Incorporation, incorporated by reference to Exhibit 3.1 to our Current Report on Form 8-K dated January 18, 2013.
3.13	By-laws, amended and restated as of December 1996, incorporated by reference to Exhibit 3(e) to our Annual Report on Form 10-K for the year ended November 30, 1996.
4.1	Secured Term Note, dated as of September 28, 2007, issued in favor of Calliope Capital Corporation (as filed as Exhibit 10.2 to the Company's Current Report on Form 8-K, as filed with the SEC on October 4,

	2007).
4.2	Secured Term Note, dated as of September 28, 2007, issued in favor of Valens Offshore SPV II, Corp. (as filed as Exhibit 10.3 to the Company's Current Report on Form 8-K, as filed with the SEC on October 4, 2007).
4.3	Third Amended and Restated Secured Term Note, dated as of September 28, 2007, issued in favor of Laurus Master Fund, Ltd. (as filed as Exhibit 10.6 to the Company's Current Report on Form 8-K, as filed with the SEC on October 4, 2007).

4.4	Amended and Restated Secured Term Note, dated as of September 28, 2007, issued in favor of Laurus Master Fund, Ltd. (as filed as Exhibit 10.7 to the Company's Current Report on Form 8-K, as filed with the SEC on October 4, 2007).
4.5	Secured Term Note, dated as of May 28, 2008, issued in favor of Valens Offshore SPV II, Corp. (as filed as Exhibit 10.2 to the Company's Current Report on Form 8-K, as filed with the SEC on May 28, 2008).
4.6	Amended and Restated Secured Term Note, dated as of May 28, 2008, issued in favor of Valens Offshore SPV I, Corp. (as filed as Exhibit 10.3 to the Company's Current Report on Form 8-K, as filed with the SEC on May 28, 2008).
4.7	Amended and Restated Secured Term Note, dated as of May 28, 2008, issued in favor of Valens Offshore SPV II, Corp(as filed as Exhibit 10.4 to the Company's Current Report on Form 8-K, as filed with the SEC on May 28, 2008).
4.8	Fourth Amended and Restated Secured Term Note, dated as of May 28, 2008, issued in favor of Valens Offshore SPV I, Ltd. (as filed as Exhibit 10.6 to the Company's Current Report on Form 8-K, as filed with the SEC on May 28, 2008).
4.9	Second Amended and Restated Secured Term Note, dated as of May 28, 2008, issued in favor of Valens Offshore SPV I, Ltd. (as filed as Exhibit 10.7 to the Company's Current Report on Form 8-K, as filed with the SEC on May 28, 2008).
4.10	Secured Term Note, dated as of October 15, 2008, issued in favor of Valens Offshore SPV I, Corp. (as filed as Exhibit 10.2 to the Company's Current Report on Form 8-K, as filed with the SEC on October 15, 2008).
4.11	Second Amended and Restated Secured Term Note, dated as of December 12, 2008, issued in favor of Valens Offshore SPV I, Corp. (as filed as Exhibit 10.2 to the Company's Current Report on Form 8-K, as filed with the SEC on December 12, 2008).
4.12	Secured Term Note, dated February 18, 2009, issued in favor of Valens Offshore SPV I, Corp. (as filed as Exhibit 10.2 to the Company's Current Report on Form 8-K, as filed with the SEC on February 18, 2009).