PERVASIP CORP
Form 10-K
March 15, 2012

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

FORM 10-K

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

For the fiscal year ended: November 30, 2011

¨ 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 þ

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 þ

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 þ 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 þ 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	þ

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

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, 2011, was $9,318,011. As of March 14, 2012, the registrant has one class of common equity, and the number of shares outstanding of such common equity was 137,101,970.

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 lender which has not demanded repayment of our debt that was due in October 2010;
- 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, our mobile VoIP application, which can be downloaded to any Android smartphone or tablet, gives us a global market and allows us to sell to: (i) traditional telecom carriers that do not wish to lose market share to cloud-based upstarts; (ii) new-age entrants that seek to offer cloud-based voice telephony in addition to our sophisticated video VoIP service; and (iii) individual consumers. We sell our video and voice over Internet Protocol ("IP") telephony product on a wholesale and retail basis to telephone carriers, broadband suppliers, individual corporations and consumers. An incumbent telephone carrier in Africa intends to sell our video VoIP services to its existing customer base, a mobile wallet company intends to sell our VoIP application to its customer base, and hundreds of individual consumers download our mobile VoIP application from the Android Market web site every day, under the brand name of VoX Communications.

The continued growth in both mobile telephone services and video telephone services has resulted in a new mobile VoIP market. Adding VoIP to mobile telephone services allows subscribers to make inexpensive calls from their mobile phones instead of using costly airtime minutes. A consumer who uses our mobile VoIP application can use our telephone service as his or her primary phone line or a secondary phone line. Our application allows unlimited free calling and instant messaging to other VoX Communications customers and provides the consumer with a distinct telephone number with its own voice mail service, free calling features such as 3-way calling and caller ID, online account management, the ability to call any phone number in the world for inexpensive calling rates and the ability to record telephone calls. We have upgraded our mobile VoIP application so that a user can make video calls from his or her Android device to other users who have downloaded the video application. We plan to release the video application for commercial use in the second quarter of 2012.

Adding video calling to mobile devices allows corporations to see their mobile employees 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. We currently sell video broadband phone services that enable fixed broadband users to add digital voice and video communications services to their high-speed Internet connections. Customers choose their own telephone numbers from a list we keep on our web site, or they can ask us to order a telephone number that is affiliated with a specific geographical location. This telephone number is then used for all incoming and outgoing telephone calls. All video telephone accounts come bundled with voice mail, caller ID, call waiting, call forwarding, hold, 3-way video conferencing, web-based access to account controls and online billing. We plan to extend this video calling service over a fixed broadband connection to our mobile application so that consumers can utilize our video calling services from their smartphones and tablet devices. Our voice and our video applications work over 3G and 4G networks, in addition to WiFi networks.

Today we support thousands of active users around the world through our wholesale channel and more than 35,000 people have downloaded our Android application in our direct-to-consumer channel. We have built a privately-managed, state-of-the-art global telecommunications platform using IP technology and we offer a broad suite of private label VoIP products and services, as well as a back-office platform. Our operations management tools include, among others: automated account provisioning; e-commerce-based payment processing systems; billing and

account management; operations management; web development; network management; and customer care. Based on our customizable VoIP solutions, our wholesale customers can offer private label video and voice-over-IP services to their own customer bases under their own brand name, a “white-label” brand (in which no brand name is indicated and different customers can offer the same product), or our own brand, VoX Communications. We are able to provide customized solutions that other VoIP providers, with more financial resources, are not able to provide. 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.

Development of Business

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

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

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

In 2004, we began VoX Communications ("VoX"), which operates in our wholly-owned software company, to pursue the deployment of our own IP network for IP telephony services. In addition to the general cost advantages of IP telephone service, we believe IP communication technologies will continue to advance rapidly and will further the potential for the Internet to become the preferred medium of communication and commerce. Beginning in fiscal 2006, we expended a vast amount of our resources on the planning, development and implementation of our IP network.

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

With the launching of our Mobile VoIP product and our videophone service, we anticipate we will change our focus to the retail smart phone consumer. This consumer could be a customer of VoX, or it could be a person who bought a phone and phone service under a different name, but VoX is providing the service. For example, we have signed an agreement with a person-to-person marketing firm to sell the Ojo Vision Digital Video Phone with VoX service to its membership base. This marketing firm decided to sell the phone service as an agent of VoX, in lieu of selling the service under its own brand name, and therefore, the customers it signs up will become direct customers of VoX. In another instance, a carrier in Africa wants to market the video phone under its own brand name, and have VoX route all non-video calls back to its switch so that it can provide its normal audio-only services to its existing customer base, capturing all the telephone usage, billing, revenue and gross margin. In this instance, the customer is not a direct

customer of VoX, but is a customer of the African carrier that is using VoX's VoIP technology. The VoX video service is an add-on feature and the international carrier pays VoX directly for unlimited video calling from any customer who buys video service.

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 public-switched telephone networks, or 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 popular in 2012 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 to Video calling services. The videophone that we support contains compression technology that allows us to provide real-time video calling with very efficient bandwidth usage. Our ability to customize the video phone to the needs of wholesale customers, such as making video calls to mobile Android devices, sending video ads to the phone, allowing simultaneous ringing to more than one video phone, allowing our video customers to make calls to video phones on a competitors' network, or routing certain calls to a switch specified by the customer, has allowed us to enter discussions and attract customers in several instances where our competitors had no solutions to offer.

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 – TMCnet.com reports on its web site http://www.tmcnet.com/channels/mobile-voip/ that the market for Mobile VoIP is expected to be $32.2 billion by the end of 2013 and that by 2019, half of all mobile calls throughout the world will be made over all-IP networks. According to the analyst firm In-Stat, there will be more than 138 million active mobile VoIP users by 2014. 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.

VoIP and Videophone Services – We introduced our VoIP telephone service in 2005. To obtain the service, the customer must enter into a service agreement with us and select a calling plan based on the anticipated use of the service. Service plans provide alternatives for minutes of usage, up to an unlimited amount, at varying rates for calls in the United States, Canada and Puerto Rico that are made to non-VoX customers. Subscribers are charged at a per-minute rate for international calls to non-VoX customers and, depending on the level of plan selected, may be charged for calls to the PSTN if they exceed the minutes allowed under the chosen plan. All of our plans allow for unlimited calling between VoX customers, regardless of their location. Each subscriber is assigned a telephone number in any of the area codes and underlying rate centers currently offered by the service. We currently offer area codes in all 50 states in the United States, along with telephone number porting from the customer's previous service provider to Vox, for those subscribers who wish to keep their existing telephone number. All VoX customers receive access to a variety of telephone features, including voice mail, caller ID, call forwarding, call waiting, 3-way calling, online account management and billing, call blocking and caller ID blocking. We currently offer enhanced 9-1-1, or E-911, service on all VoX calling plans with a United States service address. Our customer's E-911 call is routed as

9-1-1 emergency traffic and is accompanied by caller information. Subscribers may also have toll-free numbers (e.g., 800 numbers) or virtual numbers. A virtual number is an additional phone number that will ring through to an existing subscriber line. We offer virtual numbers in all of our U.S. rate centers, as well as in certain international countries. We also offer video over IP service the Ojo Vision videophone, which includes all of the voice service plans and features described above plus unlimited video calls to any other VoX videophone subscriber anywhere in the world.

Our Network

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

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

Competition

The communications industry is highly competitive and the market for enhanced Internet and 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 runs;
- 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.