

PERVASIP CORP  
Form 10-Q  
August 18, 2015

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-Q**

**ý QUARTERLY REPORT UNDER SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended: **May 31, 2015**

OR

**“ TRANSITION REPORT UNDER SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission file number: **000-04465**

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

New York  
(State or other jurisdiction of incorporation or organization)

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

**430 North Street**

**White Plains, New York 10605**

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(Address of principal executive offices)

(914) 750-9339

(Registrant's telephone number, including area code)

Indicate by check whether the registrant (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities and 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  No

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company.

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

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

As of August 17, 2015, the Company had 3,943,106,209 shares of its common stock, par value \$0.00001 per share, issued and outstanding.

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**PART I – FINANCIAL INFORMATION****Item 1. Financial Statements.**

Pervasip Corp. and Subsidiaries

Condensed Consolidated Balance Sheets

	(Unaudited)	
	May 31, 2015	November 30, 2014
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$6,309	\$1,832
Marketable securities	116,000	1,040,000
Prepaid expenses and other current assets	—	3,337
Total current assets	122,309	1,045,169
Other assets		
Excess of purchase price over net assets acquired-Canalytix acquisition	54,151	7,119
Total assets	410,839	—
	\$587,299	\$1,052,288
<b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>		
Current liabilities:		
Current portion of long-term debt, net of discounts of \$149,897 and \$189,270 at May 31, 2015 and November 30, 2014, respectively	\$3,767,499	\$4,631,122
Accounts payable and other accrued liabilities	1,984,308	1,966,224
Accounts payable and other accrued liabilities – related party	351,292	410,333
Due to Pension Benefit Guaranty Corporation	2,052,418	2,001,984
Related party debt	891,576	804,078
Derivative liabilities	1,475,587	639,339
Total current liabilities	10,522,680	10,453,080
Long-term debt less current portion	414,401	—
Total liabilities	10,937,081	10,453,080
Stockholders' deficit:		
Preferred stock, \$0.00001 par value; 21,000,010 shares authorized		
Series D: 51 shares issued and outstanding, respectively	—	—
Convertible preferred stock, \$0.00001 par value;		
Series E: 10 and 0 shares issued and outstanding, respectively	—	—
Series F: 10,000,000 and 0 shares issued and outstanding, respectively	100	—

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Series G: 10,000,000 and 0 shares issued and outstanding, respectively	100	—
Series H: 100,000 and 0 shares issued and outstanding, respectively	1	—
Common stock, \$0.00001 par value; 8,978,999,990 shares authorized, 3,702,630,209 and 1,194,549,997 shares issued and outstanding in 2015 and 2014, respectively	37,026	11,945
Capital in excess of par value	42,225,001	41,750,912
Accumulated deficit	(52,293,158)	(51,764,832)
Accumulated other comprehensive income (loss)	(322,817 )	601,183
Total Pervasip Corp. stockholder's deficit	(10,353,747)	(9,400,792 )
Noncontrolling interest in subsidiary	3,965	—
Total stockholders' deficit	(10,349,782)	(9,400,792 )
Total liabilities and stockholders' deficit	\$587,299	\$1,052,288

## Pervasip Corp. and Subsidiaries

## Condensed Consolidated Statements of Operations

(Unaudited)

	For the Six Months Ended		For the Three Months Ended	
	May 31, 2015	May 31, 2014	May 31, 2015	May 31, 2014
		Restated		Restated
Revenues (includes related party revenue of \$65,000 for the six and three-month periods ended May 31, 2015)	\$66,821	\$451,015	\$65,927	\$237,353
Costs and expenses:				
Cost of services	12,225	237,489	11,599	113,455
Selling, general and administrative	167,966	679,338	100,648	319,782
Total costs and expenses	180,191	916,827	112,247	433,237
Loss from operations	(113,370 )	(465,812 )	(46,320 )	(195,884 )
Other income (expense):				
Interest expense	(589,317 )	(818,552 )	(234,550 )	(299,701 )
Amortization of deferred finance costs	(5,305 )	(42,725 )	—	(24,866 )
Gain on troubled debt restructuring	2,065,614	—	1,538,145	—
Gain on sale of subsidiary	—	640,180	—	—
Gain on settlement of derivative liabilities	1,223,448	300,686	1,107,495	—
Gain (loss) on change in derivative liabilities	(3,017,461 )	14,072	(847,720 )	(239,755 )
Total other income (expense)	(323,021 )	93,661	1,563,370	(564,322 )
Net income (loss)	(436,391 )	(372,151 )	1,517,050	(760,206 )
Income from noncontrolling interest	3,965	—	3,965	—
Net income (loss) attributable to Pervasip Corp.	(440,356 )	(372,151 )	1,513,085	(760,206 )
Accretion of preferred stock dividends - beneficial conversion feature	87,970	—	51,429	—
Net income (loss) attributable to common stockholders	\$(528,326 )	\$(372,151 )	\$1,461,656	\$(760,206 )
Basic earnings (loss) per share	\$(0.00 )	\$(0.00 )	\$0.00	\$(0.00 )
Diluted earnings (loss) per share	\$(0.00 )	\$(0.00 )	\$0.00	\$(0.00 )

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Weighted average number of common shares  
outstanding:

Basic	2,448,541,449	946,116,664	3,231,962,508	1,007,499,997
Diluted	2,448,541,449	946,116,664	25,626,238,785	1,007,499,997

See accompanying notes to the unaudited condensed consolidated financial statements.

Pervasip Corp. and Subsidiaries

Condensed Consolidated Statements of Comprehensive Income (Loss)

(Unaudited)

	For the Six Months Ended		For the Three Months Ended	
	May 31, 2015	May 31, 2014 Restated	May 31, 2015	May 31, 2014 Restated
Net income (loss)	\$(436,391 )	\$(372,151)	\$1,517,050	\$(760,206)
Other Comprehensive income (loss):				
Foreign currency translation adjustment	(924,000 )	—	(100,000 )	—
Comprehensive income (loss)	\$(1,360,391)	\$(372,151)	\$1,417,050	\$(760,206)

See accompanying notes to the unaudited condensed consolidated financial statements.



## Pervasip Corp. and Subsidiaries

## Consolidated Statements of Cash Flows

(Unaudited)

	For the Six Months	
	Ended	
	May 31,	May 31,
	2015	2014
		Restated
Operating activities:		
Net loss	\$(436,391 )	\$(372,151)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Stock-based compensation	4,000	13,297
Provision for bad debts	—	(731 )
Amortization of debt discount	305,153	529,375
Amortization of financing costs	5,305	—
Gain on troubled debt restructuring	(2,065,614)	—
Gain on sale of subsidiary	—	(640,180)
Gain on settlement of derivative liabilities	(1,223,448)	(300,686)
Change in fair value of derivative liabilities	3,017,461	(14,072 )
Changes in operating assets and liabilities:		
Accounts receivable	—	(5,544 )
Prepaid expenses and other current assets	3,337	5,228
Other assets	(31,337 )	44,733
Accounts payable and accrued liabilities	140,417	475,689
Accounts payable and accrued liabilities – related party	148,457	49,653
Due to Pension Benefit Guaranty Corporation	50,434	48,094
Net cash used in operating activities	(82,226 )	(167,301)
Cash flows from investing activities:		
Cash acquired in Canalytix acquisition	303	—
Net cash provided by investing activities	303	—
Cash flows from financing activities:		
Proceeds from borrowings	130,500	276,500
Principal payments of debt	(44,100 )	(101,216)
Net cash provided by financing activities	86,400	175,284
Increase in cash and cash equivalents	4,477	7,983
Cash and cash equivalents at beginning of period	1,832	17,242
Cash and cash equivalents at the end of period	\$6,309	\$25,225
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Income taxes	\$—	\$—
Interest	\$—	\$52,899
Non-cash financing transactions:		
Fair value of derivative liabilities to discount on debt	\$193,780	\$230,837

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Settlement of accrued interest with issuance of preferred stock	\$100,000	\$—
Settlement of payables with issuance of warrants	\$20,000	\$—
Conversion of accrued liabilities to notes payable	\$150,731	\$73,934

See accompanying notes to the unaudited consolidated financial statements.

PERVASIP CORP.

Notes To Condensed Consolidated Financial Statements

Unaudited

Note 1– Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and in accordance with the rules and regulations of the U.S. Securities and Exchange Commission for quarterly reports on Form 10-Q. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. The condensed balance sheet at November 30, 2014 was derived from audited financial statements but does not include all disclosures required by accounting principles generally accepted in the United States of America. Operating results for the six and three-month periods ended May 31, 2015, are not necessarily indicative of the results that may be expected for the year ended November 30, 2015. For further information, refer to the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended November 30, 2014.

For a summary of significant accounting policies (which have not changed from November 30, 2014), see the Company's Annual Report on Form 10-K for the year ended November 30, 2014.

*Marketable securities*

The Company classifies investments in equity securities bought and held primarily to be sold in the short term that have readily determinable fair values, as trading securities. Unrealized holding gains and losses for trading securities are included in earnings. Any unrealized holding gains and losses from available-for-sale securities are excluded from earnings and are recorded in comprehensive income until a gain or loss has been realized.

Note 2 – Going Concern Matters and Realization of Assets

The accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the ordinary course of business. However, the Company has

sustained substantial losses from its operations in recent years and as of May 31, 2015, the Company has negative working capital of \$10,400,371 and a stockholders' deficit of \$10,349,782. In addition, the Company is unable to meet its obligations as they become due and sustain its operations. The Company believes that its existing cash resources are not sufficient to fund its continuing operating losses, debt payments and working capital requirements.

The Company may not be able to raise sufficient additional debt, equity or other cash on acceptable terms, if at all. Failure to generate sufficient revenues, achieve certain other business plan objectives or raise additional funds could have a material adverse effect on the Company's results of operations, cash flows and financial position, including its ability to continue as a going concern, and may require it to significantly reduce, reorganize, discontinue or shut down its operations.

In view of the matters described above, recoverability of a major portion of the recorded asset amounts shown in the accompanying balance sheet is dependent upon continued operations of the Company which, in turn, is dependent upon the Company's ability to meet its financing requirements on a continuing basis, and to succeed in its future operations. The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or amounts and classification of liabilities that might be necessary should the Company be unable to continue in its existence. Management's plans include efforts to preserve current revenue sources, develop new revenue sources and negotiate further debt reductions with creditors.

There can be no assurance that the Company will be able to achieve its business plan objectives or be able to achieve or maintain cash-flow-positive operating results. If the Company is unable to generate adequate funds from operations or raise sufficient additional funds, the Company may not be able to repay its existing debt, continue to operate its network, respond to competitive pressures or fund its operations. As a result, the Company may be required to significantly reduce, reorganize, discontinue or shut down its operations. The financial statements do not include any adjustments that might result from this uncertainty.

Note 3 – Recent Accounting Pronouncements and Accounting Principles

In May 2014, FASB issued ASU 2014-09, "Revenue from Contracts with Customers". This ASU is a comprehensive new revenue recognition model that requires a company to recognize revenue to depict the transfer of goods or services to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods or services. The revised effective date for this ASU is for annual and interim periods beginning on or after December 15, 2017, and early adoption will be permitted, but not earlier than the original effective date of annual and interim periods beginning on or after December 15, 2016, for public entities. We will adopt this ASU when effective. Companies may use either a full retrospective or modified retrospective approach to adopt this ASU and our management is currently evaluating which transition approach to use. We are currently evaluating the impact of adopting ASU 2014-09 on our consolidated financial statements and related disclosures.

In April 2015, FASB issued ASU 2015-03, "Interest-Imputation of Interest". This ASU requires that debt issuance costs be reported in the balance sheet as a direct deduction from the face amount of the related liability, consistent with the presentation of debt discounts. Prior to the amendments, debt issuance costs were presented as a deferred charge (i.e., an asset) on the balance sheet. This ASU is effective for annual reporting periods beginning after December 15, 2015 and interim periods within fiscal years beginning after December 15, 2016. The amendments must be applied retrospectively. All entities have the option of adopting the new requirements as of an earlier date for financial statements that have not been previously issued. Applicable disclosures for a change in an accounting principle are required in the year of adoption, including interim periods. We will adopt this ASU when effective. The adoption of ASU 2015-03 will not have a material impact on our consolidated financial statements and related disclosures.

Principles of Consolidation

The condensed consolidated financial statements include the accounts of Pervasip Corp., its wholly-owned subsidiaries, and its 90% owned subsidiary, Canalytix, LLC. The activities of the Company's newly acquired subsidiary Canalytix, LLC are included in the financial statements since March 25, 2015 (date of acquisition). Any significant inter-company balances and transactions have been eliminated.

Note 4 – Major Customers

For the six-month period ended May 31, 2015, all customers are on a prepaid basis and the Company has no accounts receivable. As of May 31, 2014, one customer constituted 32% of the Company's accounts receivable balance.

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During the six-month and three-month periods ended May 31, 2015, one customer that is a related party accounted for approximately 97% and approximately 99%, respectively, of the Company's revenues.

During the six-month and three-month periods ended May 31, 2014, two customers accounted for approximately 32% and 27%, respectively, and approximately 27% and 34%, respectively, of the Company's revenues.

Note 5 – Net Income (Loss) Per Common Share

Basic net income (loss) per share is computed by dividing net income available to common stockholders (numerator) by the weighted average number of vested, common shares outstanding during the period (denominator). Diluted net income (loss) per share is computed on the basis of the weighted average number of shares of common stock outstanding plus the effect of dilutive potential common shares outstanding during the period using the if-converted method. Dilutive potential common shares include shares issuable upon exercise of outstanding stock options, warrants and convertible debt agreements.

	Six Months Ended May 31, 2015	Six Months Ended May 31, 2014	Three Months Ended May 31, 2015	Three Months Ended May 31, 2014
Net income (loss) attributable to common stockholders - basic	\$(528,326	) \$(372,151	) \$1,461,656	\$ (760,206 )
Income attributable to convertible notes			(1,413,320	)
Interest expense – convertible notes	—	—	270,490	—
Net income (loss) attributable to common stockholders - diluted	\$(528,326	) \$(372,151	) \$318,826	\$ (760,206 )
Weighted average common shares outstanding - basic	2,448,541,449	946,116,664	3,231,962,508	1,007,499,997
Effect of dilutive securities	—	—	22,394,276,277	—
Weighted average common shares outstanding – diluted	2,448,541,449	946,116,664	25,626,238,785	1,007,499,997
Earnings (loss) per common share - basic	\$(0.00	) \$(0.00	) \$0.00	\$ (0.00 )
Earnings (loss) per common share - diluted	\$(0.00	) \$(0.00	) \$0.00	\$ (0.00 )

Approximately 1,224,948,000 and 1,204,948,000 shares of common stock issuable upon the exercise of outstanding stock options, warrants or convertible debt were excluded from the calculation of net income (loss) per share for the six and three-month periods ended May 31, 2015, respectively, because the effect would be anti-dilutive. Also excluded are shares of common stock issuable upon the conversion of our Series E, F, G, and H preferred for the six-month period ended May 31, 2015. At May 31, 2015, Series E and Series H preferred shares could convert into approximately 18,890,521,000 and 2,361,315,130 shares of common stock, respectively. Series F and G preferred shares are not convertible at May 31, 2015. Approximately 1,475,706,000 and 1,485,708,000 shares of common stock issuable upon the exercise of outstanding stock options, warrants or convertible debt were excluded from the calculation of net income (loss) per share for the six and three-month periods ended May 31, 2014, respectively, because the effect would be anti-dilutive.

#### Note 6 – Stock-Based Compensation Plans

The Company issues stock options to its employees, consultants and outside directors pursuant to stockholder-approved and non-approved stock option programs and records the applicable expense in accordance with the authoritative guidance of the Financial Accounting Standards Board. For the six-month periods ended May 31, 2015 and 2014, the Company recorded \$4,000 and \$13,291, respectively, in stock-based compensation expense. At May 31, 2015, there is no remaining unrecognized employee stock-compensation expense for previously granted unvested options.

#### Note 7 – Accounts Payable and Accrued Expenses

When the Company sold certain subsidiaries in December 2006, the Company agreed to reimburse the purchaser for certain disputed claims on the books of the subsidiaries, if the sold subsidiaries were required to pay such claims. At May 31, 2015 and November 30, 2014, the Company has recorded a payable of \$796,499 in conjunction with the sale of the subsidiaries. The subsidiary filed for bankruptcy on September 23, 2008, which is still ongoing. If claims are reduced or eliminated by the subsidiaries, and the purchaser provides the Company with appropriate documentation that the Company's liability has been reduced, such reduction will be reflected on the books of the Company.

#### Note 8 – Defined Benefit Plan

The Company received a letter dated July 27, 2011 from the Pension Benefit Guaranty Corporation, ("PBGC"), stating that the Company's defined benefit pension plan (the "Plan") was terminated as of September 30, 2010, and the PBGC was appointed trustee of the Plan. Pursuant to the agreement, the PBGC has a claim to the Company for the total amount of the unfunded benefit liabilities of the Plan plus accrued interest. The PBGC has notified the Company that the liability is due and payable as of the termination date, and interest accrues on the unpaid balance at the applicable rate provided under Section 6621(a) of the Internal Revenue Code. The total amount outstanding to the PBGC May

31, 2015 and November 30, 2014 was \$2,052,418 and \$2,001,984, respectively, including accrued interest, which is recorded as a current liability. The Company made no payments to the Plan in the six-month periods ended May 15, 2015 and 2014. The Plan covers approximately 40 former employees.

Effective June 30, 1995, the Plan was frozen, ceasing all benefit accruals and resulting in a plan curtailment. As a result of the curtailment, it has been the Company's policy to recognize the unfunded status of the Plan as of the end of the fiscal year with a corresponding charge or credit to earnings for the change in the unfunded liability. There was no pension expense recorded in the six-month periods ended May 31, 2015 and 2014.

Effective January 14, 2015, the Company executed a settlement and release agreement with the PBGC pursuant to which PBGC agreed to accept \$100,000 in full satisfaction of all amounts that had been due from the Company, which amounted to \$2,052,418 at May 31, 2015. The Company agreed to pay the sum of \$100,000 to PBGC in equal installments of \$25,000 on January 31, 2015, April 30, 2015, July 31, 2015 and October 31, 2015. Upon receipt of the settlement amount, the PBGC shall be deemed to have released the Company from any and all employer liability and fiduciary responsibility. No installment payments have been made and the Company has not received a default notice from PBGC.

Note 9 – Debt

	May 31, 2015	November 30, 2014
Debt due to Laurus	\$ 1,832,141	\$ 2,266,186
Convertible debt due to Secured Lender	1,594,010	1,935,190
Secured term loan	414,401	—
Convertible debt due to various lenders	320,750	448,520
Other short-term debt due to various lenders	170,495	170,496
Total debt	4,331,797	4,820,392
Less: current portion of long-term debt	(3,767,499)	(4,631,122)
Less: discount on debt	(149,897 )	(189,270 )
Total long-term debt	\$414,401	\$—



Debt due to Laurus

As of May 31, 2015 and November 30, 2014, the Company owed a third party lender, LV Administrative Services, Ltd., as agent for Laurus Master Fund, Ltd. and various affiliates (“Laurus”), \$1,832,141 and \$2,266,186, respectively. All of such debt became due by its terms on September 28, 2010. Pursuant to two assignment agreements, in which the Company and Laurus agreed to assign the debt to a third party, the interest rate on the debt was changed to zero percent from January 31, 2012 to April 12, 2013. Beginning on April 12, 2013, the interest rate on the Laurus debt reverted to the rate charged in the original note agreements, which ranges from 5.25% to 20% per annum, which amounted to a charge to interest expense of \$63,234 for the six-months ended May 31, 2015. The Company has not made payments of principal or interest when due, and is not in compliance with its agreements with Laurus. Laurus has not issued a default notice and had signed an agreement, on two separate occasions, to sell all of its debt at a discount to a third party, however the third parties did not fulfill all of the terms of the agreements and \$1,832,141 and \$2,266,186 of debt remains due to Laurus at May 31, 2015 and November 30, 2014, respectively.

On December 31, 2014, Laurus and the Company again entered into an agreement (the “Settlement Agreement”) to assign the remaining debt to a third party for \$100,000. In the first quarter of fiscal 2015, \$30,000 of the \$100,000 was paid, and the Company recognized a \$497,279 gain from troubled debt restructuring on the pro-rata reduction of the debt due to Laurus. The Settlement Agreement was then assigned to EXO Opportunity Fund, which has agreed to pay the remaining \$70,000 to Laurus. Such payment would eliminate the balances due from the Company to Laurus and release the security interest and liens filed by Laurus.

Convertible debt due to Secured Lender

In March 2013, 112359 Factor Fund, LLC (the “Fund”), was assigned the \$6,368,078 of outstanding debt owed to Laurus, which the Fund could satisfy in full by making certain payments to Laurus. The Fund did not abide by the contractual terms of the assignment agreement; therefore, at May 31, 2015 and November 30, 2014, the Company is still obligated to Laurus as noted above.

During February 2013, the Company entered into a securities purchase agreement with the Fund pursuant to which the Company issued to the Fund (i) an amended convertible debenture in the principal amount of \$1,000,000 (“Amended Note 1”) and (ii) a second amended convertible debenture in the principal balance of \$1,000,000 (“Amended Note 2” and together with Amended Note 1, the “Amended Notes”). The Amended Notes were sold to the Fund by the Company in exchange for the Fund’s assumption and payment of the Laurus assignment agreement (which required the Fund to make payments totaling \$350,000, of which \$250,000 was paid, to Laurus), payment to the Company of \$150,000, and the agreement to purchase from another lender and cancel an existing convertible debenture in the amount of approximately \$35,000.

The Amended Notes originally matured on December 31, 2014. Amended Note 1 was modified in January 2015 to mature on December 31, 2015 and the Fund agreed that upon payment in full of the remaining balance of Amended Note 1, that Amended Note 2 would be considered paid in full. Interest accrues on the unpaid principal and interest on the notes at a rate per annum equal to 6% for Amended Note 1 and 2% for Amended Note 2.

Principal and interest payments on Amended Note 1 can be made at any time by the Company, with a 30% prepayment premium, or the Fund can elect at any time to convert any portion of Amended Note 1 into shares of common stock of the Company at 100% of the volume weighted average price of the common stock for the 30 trading days immediately prior to the conversion date. During the six months ended May 31, 2014, the Fund converted \$273,400 of principal into 203,000,000 shares of common stock of the Company. The Fund did not submit a conversion notice during the six months ended May 31, 2015.

The conversion price of Amended Note 1 is based on a variable that is not an input to the fair value of a “fixed-for-fixed” option as defined under FASB ASC Topic No. 815 - 40. The fair value of the note was recognized as a derivative instrument at the issuance date and was measured at fair value at each reporting period. The Company determined that the fair value of the notes was \$1,703,423 at the issuance dates. The value of the debt of \$1,000,000 was recorded as a debt discount and is amortized to interest expense over the term of the Notes. The variance to the fair value of \$703,423 was recognized as an initial loss and recorded to interest expense.

Amended Note 2 converts into shares of common stock of the Company in an amount equal to the lesser of the outstanding balance of Amended Note 2 divided by \$0.01. Any principal or interest amount can be paid in cash.

During the year ended November 30, 2013, the Fund also loaned the Company amounts of \$50,000, \$35,000 and \$12,000 (the "Bridge Notes"). In June 2013 the Fund refinanced the Bridge Notes with additional funding into another note for \$665,000 (the "New Note"). The additional funding under the New Note provided cash to purchase two outstanding convertible debentures for an aggregate price of \$99,360; cash for operations of \$60,000 in June 2013; and \$40,000 in cash each month for the months of July 2013 through December 2013. The Company incurred \$68,640 in finder fees and legal fees in connection with the New Note, and a \$100,000 original issuance discount. The New Note bears interest at 6% per annum and is due December 31, 2015. The New Note can be converted at any time into shares of common stock of the Company at 60% of the volume weighted average price of the common stock for the 20 trading days immediately prior to the conversion date, as defined. The Company received an aggregate of \$300,000 in cash under the New Note in the months of June through December 2013 under the New Note.

The conversion price of the \$665,000 of variable conversion price note is based on a variable that is not an input to the fair value of a "fixed-for-fixed" option as defined under FASB ASC Topic No. 815 - 40. The fair value of the conversion feature was recognized as a derivative instrument at the issuance date and is measured at fair value at each reporting period. The Company determined that the fair value of the conversion feature was \$1,103,940 at the issuance date. Debt discount was recorded up to the \$665,000 face amount of the note and is amortized to interest expense over the term of the note. The fair value of the conversion feature in excess of the principal amount allocated to the notes in the aggregate amount of \$478,940 was expensed immediately as additional interest expense.

In conjunction with the New Note, the Company agreed to implement a salary deferral plan to reduce the cash expenditures for personnel, to limit its cash expenditures to certain pre-approved items, and to accrue an additional fee to the Fund of \$150,000, which was included in interest expense and added to the principal balance of Amended Note 1. The Fund agreed to limit its sales of the Company's common stock, to not engage in any short transactions involving the Company's common stock, and to not require the Company to increase its authorized shares of common stock for a certain time period, even though the financing documents require the Company to reserve authorized shares for issuance to the Fund, if the Fund desired to convert existing debt into shares of common stock.

Effective January 20, 2015, the Company signed a debt modification agreement with the Fund. The modification reduced the outstanding balance on Amended Note 1 from \$280,190 to \$250,000, and provided that upon the completion of the payments required to retire Amended Note 1, the outstanding balance of Amended Note 2 would be reduced from \$1,000,000 to \$0. The Fund subsequently assigned the remaining balance of Amended Note 1 and the related security agreements to EXO Opportunity Fund LLC ("EXO"). The Company also received \$25,000 in cash in February 2015, in conjunction with a variable rate convertible debenture payable to EXO ("the EXO Note"), which matures on December 31, 2015, bears interest at an annual rate of 6%, and is subject to the same security agreements as Amended Note 1.

The conversion price of the EXO Note is based on a variable that is not an input to the fair value of a "fixed-for-fixed" option as defined under FASB ASC Topic No. 815 - 40. The fair value of the notes was recognized as a derivative instrument at the issuance date and is measured at fair value at each reporting period. The Company determined that the fair value of the note was \$74,990 at the issuance date. Debt discount was recorded up to the \$25,000 face amount of the note and is amortized to interest expense over the term of the note. The fair value of the conversion feature in

excess of the principal amount allocated to the notes in the aggregate amount of \$49,990 was expensed immediately as additional interest expense.

On January 21, 2015, the Company signed a second debt modification agreement with the Fund. This modification provided for the reduction of the principal balance of the New Note from \$634,600 to \$250,000, subject to certain conditions precedent. The Fund assigned a \$250,000 portion of the New Note and the related security agreements to two new debt holders in equal amounts of \$125,000 each. On March 5, 2015, the Company met the conditions precedent in the debt modification agreement, and recognized a gain of \$1,538,145 in the three-month period ended May 31, 2015. For the six months ended May 31, 2015, as a result of the debt modifications with the Fund and Laurus, the Company recognized a gain on troubled debt restructuring of \$2,126,800.

On April 21, 2015, EXO purchased a \$63,000 convertible note, with a minimum conversion price of \$0.00005 per share that the Company originally issued to Diamond Remark LLC ("Diamond") on September 4, 2014. EXO can elect at any time to convert any portion of the debt into shares of common stock of the Company at a discount of 49% of the price of the common stock as defined in the agreement, subject to a minimum conversion price of \$0.00005 per share. On March 3, 2015, Diamond notified the Company that the Company was in default and that in accordance with the default provisions of the lending agreement, the amount of money that the Company was required to pay back to Diamond had increased due to default fees. The note was due on June 26, 2015, and remains in default. EXO purchased the note for \$97,675. The excess of \$34,675 over the face value of the note is recorded as accrued interest payable.

On May 11, 2015, the Company signed a \$140,000 convertible note agreement with Flux Carbon Starter Fund (the “Flux Note”), which matures on December 31, 2015, bears interest at an annual rate of 6%. The Flux Note can be converted into the Company’s common stock at a price of \$0.002 per share. In conjunction with the Flux Note, the Company received \$68,000 in cash and recorded an original issuance discount of \$72,000 as a debt discount, which is being amortized over the life of the note to interest expense on the effective interest method. Interest expense of \$6,154 was recognized for the three months ended May 31, 2015.

The Amended Notes, New Note, the Flux Note and EXO Note (the “Secured Lenders”) are secured by a blanket lien on substantially all of the Company’s assets pursuant to the terms of security agreements executed by the Company and its subsidiaries in favor of the Fund. In addition, the Company’s chief executive officer pledged his voting control of the Company pursuant to a stock pledge agreement in favor of the Secured Lenders, to further secure the Company’s obligations. If an event of default occurs under the security agreement, the stock pledge agreement, the Amended Notes, the New Note or the EXO Note, the secured parties have the right to accelerate payments under such promissory notes and, in addition to any other remedies available to them, to foreclose upon the assets securing such promissory notes.

At May 31, 2015 and November 30, 2014, the Company owed the Secured Lenders \$1,594,010 and \$1,935,190, respectively.

#### Convertible Debt due to various lenders

#### **Convertible debt with a fixed conversion rate**

At May 31, 2015 and November 30, 2014, the Company owed a lender \$138,000, in connection with two notes that are past due, are in default, bear a default interest rate of 18% per annum, and are convertible at prices of \$0.015 and \$0.02 cents per share.

At November 30, 2014, the Company owed Diamond \$63,000 in convertible debt with a minimum conversion price of \$0.00005 per share. Diamond had the ability to elect at any time to convert any portion of the debt into shares of common stock of the Company at a discount of 49% of the price of the common stock as defined in the agreement, subject to a minimum conversion price of \$0.00005 per share. On April 21, 2015, Diamond assigned the note to EXO.

At May 31, 2015 and November 30, 2014, a total of \$138,000 and \$201,000, respectively, of convertible debt with a fixed conversion rate was outstanding.

**Convertible debt with a variable conversion rate issued for cash**

During the six months ended May 31, 2014, the Company received a total of \$152,500 in cash from two lenders for convertible debt. The convertible debt bears interest at an annual rate of 6% to 8% and is due between June and October 2015. The lender can elect at any time to convert any portion of the debt into shares of common stock of the Company, subject to a limit of 4.99% of the outstanding shares, at a price discount ranging from 30% to 42% of the price of the common stock as defined in the agreements.

The conversion price of the \$152,500 of variable conversion price notes is based on a variable that is not an input to the fair value of a “fixed-for-fixed” option as defined under FASB ASC Topic No. 815 - 40. The fair value of the notes was recognized as a derivative instrument at the issuance date and is measured at fair value at each reporting period. The Company determined that the fair value of the conversion feature was \$163,714 at the issuance dates. The debt was recorded as a debt discount of \$152,102 and is amortized to interest expense over the term of the note. The fair value of the conversion feature in excess of the principal amount allocated to the notes in the aggregate amount of \$11,612 was expensed immediately as additional interest expense.

At May 31, 2015 and November 30, 2014, a total of \$115,000 and \$179,770 of variable-rate convertible debt that had been issued for cash was outstanding, respectively.

### **Convertible debt with a variable conversion rate assigned to lenders**

During the six months ended May 31, 2015 and 2014, no other debt with a variable conversion rate was assigned to a lender. At May 31, 2015 and November 30, 2014, the Company owes one lender \$67,750 as a result of an assignment in fiscal 2012. The convertible debt bears interest at 0% and is past due. The lender can elect at any time to convert any portion of the debt into shares of common stock of the Company at a price discount of 55% of the market price of the Company's common stock as defined in the agreements.

At May 31, 2015 and November 30, 2014, a total of \$320,750 and \$448,520 of other convertible debt was outstanding, respectively.

### **Other short-term debt due to various lenders**

During the six months ended May 31, 2015 and 2014, the Company received \$0 and \$50,000, respectively from lenders in exchange for notes payable that had no conversion features.

At May 31, 2015 and November 30, 2014, the Company owed various lenders approximately \$170,500 for non-convertible notes. Cash payments were made on these notes of \$0 and \$60,368 during the six months ended May 31, 2015 and 2014, respectively. Other short-term debt carries an interest rate of 0% to 17% over the term of the loans, and includes cash advances (the "Cash Advances") from lenders that purchased future sales. The Company agreed to repay the Cash Advances at a premium to the amount received from the lender. For the six months ended May 31, 2015 and 2014, \$0 and \$97,818, respectively, of amortization of premium from the Cash Advances is included in interest expense. At May 31, 2015 and November 30, 2014, Cash Advances totaled \$67,196. Assets of a subsidiary of the Company secure the Cash Advances, which are currently in default.

### **Long-term debt**

The Company acquired 90% of Canalytix LLC on March 25, 2015. Canalytix owes Flux Carbon Starter Fund \$414,401, as of May 31, 2015, under a secured senior term loan agreement, which is included in long-term debt in the Company's consolidated financial statements. The debt bears an annual interest rate of 12% and matures on December 31, 2019. Principal payments are made periodically from cash flow. No principal payments are due until maturity.

Note 10 - Derivative Liabilities

The Company evaluated its convertible note agreements pursuant to ASC 815 and for those notes in which there was no minimum or fixed conversion price resulting in an indeterminate number of shares to be issued in the future, the Company determined an embedded derivative existed and ASC 815 applied for its convertible notes. The Company valued the embedded derivatives using the Black-Scholes valuation model.

*Convertible debt with a variable conversion feature*

In 2015, the Company estimated the fair value of the derivatives using the Black-Scholes valuation method with assumptions including: (1) term of 0 to 0.59 years; (2) a computed volatility rate of 787%; (3) a discount rate of 1%; and (4) zero dividends. Upon settlement the valuation of this embedded derivative was recorded as gain/loss on derivative liability.

In 2014, the Company estimated the fair value of the derivatives using the Black-Scholes valuation method with assumptions including: (1) term of 0 to 0.59 years; (2) a computed volatility rate of 172%; (3) a discount rate of 1%; and (4) zero dividends. Upon settlement the valuation of this embedded derivative was recorded as gain/loss on derivative liability.



*Tainted conventional convertible debt*

In 2015, the Company estimated the fair value of the derivative using the Black-Scholes valuation method with assumptions including: (1) term of .0 to .59 years; (2) a computed volatility rate of 787%; (3) a discount rate of 1%; and (4) zero dividends. The valuation of this embedded derivative was recorded with an offsetting gain/loss on derivative liability.

In 2014, the Company estimated the fair value of the derivative using the Black-Scholes valuation method with assumptions including: (1) term of 0 to 0.59 years; (2) a computed volatility rate of 172%; (3) a discount rate of 1%; and (4) zero dividends. The valuation of this embedded derivative was recorded with an offsetting gain/loss on derivative liability.

*Tainted warrants*

The Company also evaluated all outstanding warrants to determine whether these instruments may be tainted. All warrants outstanding were considered tainted as a result of the tainted equity environment and potential inability of the Company to settle the instruments with shares of the Company's stock as the number of shares issuable cannot be estimated and could exceed the amount of authorized shares available to be issued by the Company. The Company valued the embedded derivatives within the warrants using the Black-Scholes valuation model.

In 2015, the Company estimated the fair value of the derivative using the Black-Scholes valuation method with assumptions including: (1) term of .71 to 8.08 years; (2) a computed volatility rate of 787%; (3) a discount rate of 1%; and (4) zero dividends. The valuation of this embedded derivative was recorded with an offsetting gain/loss on derivative liability.

In 2014, the Company estimated the fair value of the derivative using the Black-Scholes valuation method with assumptions including: (1) term of .50 to 9.08 years; (2) a computed volatility rate of 172%; (3) a discount rate of 1%; and (4) zero dividends. The valuation of this embedded derivative was recorded with an offsetting gain/loss on derivative liability.

Activity for embedded derivative instruments during the six months ended May 31, 2015 was as follows:

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	Balance at November 30, 2014	Initial valuation of derivative liabilities upon issuance of new securities during the period	Change in fair value of derivative liabilities	Conversion of debt to equity	Debt Forgiveness	Balance at May 31, 2015
Variable convertible debt	\$527,781	\$74,990	\$2,698,844	\$(1,162,262)	\$(1,153,545)	\$985,808
Tainted convertible debt	106,246	118,790	169,683	—		394,719
Tainted warrants	5,312	2,000	87,748	—		95,060
	\$639,339	\$195,780	\$3,017,461	\$(1,162,262)	\$(1,214,731)	\$1,475,587

Activity for embedded derivative instruments during the six months ended May 31, 2014 was as follows:

	Balance at November 30, 2013	Initial valuation of derivative liabilities upon issuance of new securities during the period	Change in fair value of derivative liabilities	Conversion of debt to equity	Balance at May 31, 2014
Variable convertible debt	\$1,467,182	\$230,837	\$145,427	\$(300,920)	\$1,542,526
Tainted convertible debt	139,953	—	(136,600)	—	3,353
Tainted warrants	65,209	—	(22,899 )	—	42,310
	\$1,672,344	\$230,837	\$(14,072 )	\$(300,920)	\$1,588,189

Note 11 – Stockholders’ Equity

As discussed in Note 9, the Company entered into various transactions where it issued convertible notes to third parties. Such convertible notes allowed the debt holders to convert outstanding debt principal into shares of the Company’s common stock, par value \$0.00001, (the “Common Stock”) at a discount to the trading price of the Common Stock. To the extent, if any, that there was a beneficial conversion feature associated with these debts, the beneficial conversion feature was bifurcated from the host instrument and accounted for as a freestanding derivative. As a result of such conversions, in the six-month period ended May 31, 2015, \$278,260 of principal and accrued interest was converted into 2,468,080,212 shares of Common Stock. Also during the first quarter of 2015, the Company issued 40,000,000 shares of Common Stock for services rendered, which was valued at \$4,000.

On January 13, 2015, 10 shares of Series E Preferred, 10,000,000 shares of Series F Preferred and 10,000,000 shares of Series G preferred were issued to our chief executive officer in exchange for \$100,000 in debt. The Series E Preferred has voting rights equal to 400% of the sum of the common stock, Series D Preferred, Series F Preferred and Series G Preferred, but no dividend rights and no liquidation rights. The Series E Preferred is convertible into the number of common shares equal to its voting rights.

The Series F Preferred has voting rights equal to 100 million common shares and a liquidation preference of \$10,000,000 over junior securities. Each share of Series F Preferred Stock shall be convertible at any time after their six-month anniversary date, if the Company is current with the filing of public reports pursuant to Section 12 or 15 of the Securities Exchange Act of 1934, or after twelve months if such reports are not filed, into the number of shares of the Corporation's Common Stock, equal to the price of the Series F Preferred Stock of \$2.50 per share, divided by the par value of the Series F Preferred, subject to adjustment as may be determined by the Board of Directors. Shares of Series F Preferred Stock are anti-dilutive to reverse splits, so that in the event of a reverse split, the shares are convertible into the same number of common shares after the reverse split as would have been issued before the reverse split. The conversion rate of Series F Preferred Stock, however, increases proportionately in the case of forward splits, and may not be diluted by a reverse split following a forward split.

The Series G Preferred has voting rights equal to 10 million common shares and a liquidation preference of \$10,000,000 over junior securities. Each share of Series G Preferred Stock shall be convertible, at any time after their six-month anniversary date, if the Company is current with the filing of public reports pursuant to Section 12 or 15 of the Securities Exchange Act of 1934, or after twelve months if such reports are not filed, into 500 shares of the Corporation's Common Stock. Shares of Series G Preferred Stock are anti-dilutive to reverse splits, so that in the event of a reverse split, the shares are convertible into the same number of common shares after the reverse split as would have been issued before the reverse split. The conversion rate of Series G Preferred Stock, however, increases proportionately in the case of forward splits, and may not be diluted by a reverse split following a forward split.

ASC 480, *Distinguishing Liabilities from Equity*, sets forth the requirements for determination of whether a financial instrument contains an embedded derivative that must be bifurcated from the host contract, therefore the Company

evaluated whether the conversion feature for Series E, F and G Preferred Stock would require such treatment; one of the exceptions to bifurcation of the embedded conversion feature is that the conversion feature as a standalone instrument would be classified in stockholders' equity. Management has determined that the newly issued preferred stock is more akin to equity than debt, as the preferred stock has no redemption features and dividends have not been provided for in the preferred stock designations.

Each share of Series F and Series G convertible preferred stock is convertible into 250,000 and 500 shares of Common Stock, respectively, which gives the holder of the Series F and Series G a beneficial conversion price. At the issuance date of January 13, 2015, the effective conversion price was less than the fair value of the Common Stock into which the preferred shares are convertible. Consequently, the Company recognized a beneficial conversion feature ("BCF"). The intrinsic value of the BCF is limited to the basis that is initially allocated to the convertible security. The Company recorded a discount on the preferred stock of \$100,000 from the value of the Series F and Series G shares issued in exchange for outstanding payables to the chief executive officer (see Note 12 – Related Party Transactions). The discount is being accreted to preferred stock dividends over a six-month period, as the preferred stock is convertible after six months (date of earliest conversion). Accretion amounted to \$87,970 and \$51,429 for the six and three-month period ended May 31, 2015.

On March 19, 2015 the Company filed a certificate of amendment of its certificate of incorporation in which the Board of Directors designated the Series H Preferred Stock from the Company's previously authorized preferred stock with a stated value per share of \$0.001. The number of shares of Series H Preferred Stock was set at 800,000 shares. Shares of Series H Preferred Stock have conversion rights into shares of Common Stock. The number of shares of Common Stock to which a holder of Series H Preferred Stock shall be entitled upon a Conversion shall equal the product obtained by (a) multiplying the number of fully-diluted Common Shares by four (4), then (b) multiplying the result by a fraction, the numerator of which will be the number of shares of Series H Preferred Stock being converted and the denominator of which will be the number of authorized shares of Series H Preferred Stock. If the Company delays the issuance of shares of Common Stock beyond three trading days after the Company receives a notice of conversion from a Series H Preferred Stock shareholder, the Company is required to pay for the losses incurred by the Series H Preferred Stock shareholder as a result of the delay.

Each share of Series H Preferred Stock shall entitle the holder thereof, on all matters submitted to a vote of the stockholders of the Corporation, to that number of votes as shall be equal to the aggregate number of shares of Common Stock into which such holder's shares of Series H Preferred Stock are convertible on the record date for the stockholder action.

In the event that the Corporation's Board of Directors declares a dividend payable to holders of any class of stock, the holder of each share of Series H Preferred Stock shall be entitled to receive a dividend equal in amount and kind to that payable to the holder of the number of shares of the Company's Common Stock into which that holder's Series H Preferred Stock could be converted on the record date for the dividend.

Upon the liquidation, dissolution and winding up of the Corporation, the holders of the Series H Preferred Stock shall be entitled to receive in cash out of the net assets of the Corporation, whether from capital or from earnings available for distribution to its stockholders, before any amount shall be paid to the holders of Common Stock or to the holders of any other class or series of equity stock, an amount equal to eighty percent (80%) of said net assets multiplied by a fraction, the numerator of which shall be the number of outstanding shares of Series H Preferred Stock on the record date for the distribution and the denominator of which shall be the number of authorized shares of Series H Preferred Stock.

On March 25, 2015, the Company executed a securities purchase agreement (the "Agreement") with Flux Carbon Corporation ("FCC"), pursuant to which the Company acquired from FCC 90% of the issued and outstanding equity of Canalytix in consideration of the issuance by the Company of 1,000,000,000 shares of Common Stock and 100,000 shares of Series H Preferred Stock, par value \$0.00001 (the "Series H Preferred Stock") of the Company. The sale of 1,000,000,000 shares of Common Stock to FCC was subsequently rescinded and FCC agreed that the issuance of 100,000 shares of Series H Preferred Stock was the sole consideration given by the Company, for the purchase of 90% of Canalytix. The sale of 100,000 shares of the Series H Preferred Stock gives FCC 10% of the voting power and equity in the Company. Canalytix was formed in 2013 to develop and market energy and resource efficiency technologies and products, and is currently focused on doing so for indoor plant growth clients in the Colorado and other qualified markets. Canalytix holds exclusive distribution rights to technology developed by Noveda Technologies, Inc., in hydroponic and other indoor plant growth applications. Noveda is an innovative leader in real-time, web-based energy and water monitoring. Noveda's patented software as a service (SaaS) solutions help reduce energy and water usage, optimize performance of renewable energy systems, and reduce the carbon footprint for customers across commercial/retail, industrial, government, education, and utility sectors. Noveda also offers real-time collaboration tools that leverage social media to educate and empower stakeholder communities and make the smart grid a reality today.

On May 11, 2015 the Company signed a securities purchase agreement with Flux Carbon Starter Fund LLC ("Flux") for the sale of a convertible promissory note (the "Note") in the principal amount of \$140,000. The Note, which is due on December 31, 2015, bears interest at the rate of 6% per annum. All principal and accrued interest on the Note is convertible into shares of the Company's Common Stock at the election of Flux, at a conversion price equal to \$0.002 per share. If the Company desires to exercise its right to prepay any portion of the Note before it matures or is converted into shares of the Company's Common Stock, the Company may deliver a prepayment notice to Flux, three

days before a prepayment is made. The prepayment amount shall equal 130% multiplied by the amount of the outstanding balance paid by the Company.

Note 12 – Related Party Transactions

We paid fees to a third-party intellectual property development firm (the “Consultant”) for the six and three-month periods ended May 31, 2014 of \$96,000 and \$48,000, respectively. One of our former officers performed work for the Consultant, including the function of distributing such funds to appropriate vendors, for which he was not compensated. The fees for software development services performed by the Consultant were deemed to be operating costs.

At May 31, 2015 and November 30, 2014, we owed our chief executive officer \$1,234,098 and \$1,194,021, respectively, for loans he provided to the Company, unpaid salary and unpaid business expenses. During the first quarter of fiscal 2015, the Company settled \$100,000 in outstanding payables to the chief executive officer of by issuing 10,000,000 shares each of the Company’s Series F and G preferred stock and 10 shares of the Company’s Series E stock.

For the six and three-month periods ended May 31, 2015, the Company’s Canalytix subsidiary generated revenues from GS Engineering of \$65,000. An entity that possesses more than 10% voting control of the Company, as of May 31, 2015, also possessed voting control over GS Engineering.

Note 13 – Fair Value

The Fair Value Measurements Topic of the FASB Accounting Standards Codification establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1: inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the company has the ability to access at the measurement date.
  
- Level 2: inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
  
- Level 3: inputs are unobservable inputs for the asset or liability.

Under the Fair Value Measurements Topic of the FASB Accounting Standards Codification, we base fair value on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It is our policy to maximize the use of observable inputs and minimize the use of unobservable inputs when developing fair value measurements, in accordance with the fair value hierarchy. Fair value measurements for assets and liabilities where there exists limited or no observable market data and, therefore, are based primarily upon management's own estimates, are often calculated based on current pricing policy, the economic and competitive environment, the characteristics of the asset or liability and other such factors. Therefore, the results cannot be determined with precision and may not be realized in an actual sale or immediate settlement of the asset or liability. Additionally, there may be inherent weaknesses in any calculation technique, and changes in the underlying assumptions used, including discount rates and estimates of future cash flows that could significantly affect the results of current or future value.

*Valuation Hierarchy*

The table below presents the amounts of assets and liabilities measured at fair value on a recurring basis as of May 31, 2015 and November 30, 2014:

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The fair value of restricted securities are measured with quoted prices in active markets. The fair value of the derivatives that are traded in less active over-the-counter markets are generally measured using pricing models with non-observable inputs. These measurements are classified as Level 3 within the fair value of hierarchy.

	Total	(Level 1)	(Level 2)	(Level 3)
May 31, 2015				
Restricted securities	\$ 116,000	\$ 116,000	—	—
Derivative liability	\$ 1,475,587	—	—	\$ 1,475,587
November 30, 2014				
Restricted securities	\$ 1,040,000	\$ 1,040,000	—	—
Derivative liability	\$ 639,339	—	—	\$ 639,339

The Company has no instruments with significant off balance sheet risk.

In 2015, we estimated the fair value of the derivative using the Black-Scholes valuation method with assumptions including: (1) term of 0 to 8.08 years; (2) a computed volatility rate of 787% (3) a discount rate of 1% and (4) zero dividends. The valuation of this embedded derivative was recorded with an offsetting gain/loss on derivative liability.



In 2014, we estimated the fair value of the derivative using the Black-Scholes valuation method with assumptions including: (1) term of 0 to 9.08 years; (2) a computed volatility rate of 172% (3) a discount rate of 1% and (4) zero dividends. The valuation of this embedded derivative was recorded with an offsetting gain/loss on derivative liability.

Fluctuations in the conversion discount percentage have the greatest effect on the value of the conversion liabilities valuations during each reporting period. As the conversion discount percentage increases for each of the related conversion liabilities instruments, the change in the value of the conversion liabilities increases, therefore increasing the liabilities on the Company's balance sheet. The higher the conversion discount percentage, the higher the liability. A 10% change in the conversion discount percentage would result in more than a \$110,000 change in our Level 3 fair value.

#### Note 14 – Acquisition of Company

The Company acquired 90% of the equity of Canalytix on March 25, 2015 in exchange for 100,000 shares of Series H Preferred Stock. The Company is currently in the process of valuing the acquired assets and liabilities and completing the purchase price allocation. Due to the timing of this acquisition, the purchase price allocation was not complete as of May 31, 2015. Accordingly, the purchase price in excess of the fair value of the net assets acquired of \$410,839 has been recorded in other long-term assets in the accompanying Condensed Consolidated Balance Sheet. Upon the completion of the purchase price allocation, the excess purchase price will be allocated to goodwill, non-controlling interest and other identifiable assets. A presentation of the unaudited proforma income statements of the Company, had the acquisition occurred at the beginning of the fiscal year, for the six and three-month periods ended May 31, 2015 and 2014 is as follows:

	Six Months Ended	Three Months Ended	Six Months Ended	Three Months Ended
	5/31/2015	5/31/2015	5/31/2014	5/31/2014
Revenue	\$113,448	\$80,600	\$451,015	\$237,353
Loss from operations	\$(90,523)	\$(39,324)	\$(826,498)	\$(301,572)
Net income (loss)	\$(326,307)	\$1,659,544	\$(804,451)	\$(901,637)
Income (loss) per share	\$0.00	\$0.00	\$0.00	\$0.00

Note 15 – Restatement

During 2015, the Company determined that it should have recorded and valued tainted derivatives that had not previously been identified as derivatives. As a result, the Company has restated its previously issued financial statements for the six-month period ended May 31, 2014. The restatement resulted in a decrease in beginning Retained Deficit at December 1, 2013 of \$132,826, and a loss of \$372,151 for the six-month period ended May 31, 2014, or a decrease of \$29,866, as compared to a loss of \$342,285 that had previously been reported. The Company also reclassified deferred financing costs of \$42,725 from selling, general and administrative costs, to other expense.

The Company restated its consolidated financial statements as of and for the six months ended May 31, 2014 as follows:

	Six Months Ended May 31, 2014			
	As Originally Reported	Adjustments		As Restated
Selling, general and administrative costs	\$722,063	\$ (42,725 )	(1)	\$679,338
Other expense – deferred finance costs	—	42,725	(1)	42,725
(Gain) loss on value of derivative liabilities	(43,938 )	29,866	(2)	(14,072 )

Adjustments to consolidated financial statements:

- (1) To reclassify deferred finance expense to other expenses.
- (2) To record gain on the settlement of derivative liabilities.

For the six-months ended May 31, 2014, the restatement increased income from continuing operations by \$42,725, decreased net income by \$29,866, and had no effect on earnings per share, which remained at \$0.00.

Note 16 - Subsequent Events

On July 1, 2015, Pervasip Corp. (the “Company”) executed and closed under a securities purchase agreement with Flux Carbon Corporation (the “Buyer”), pursuant to which the Company acquired from Buyer 100% of the issued and outstanding equity of Plaid Canary Corporation, a Delaware corporation (“PCC”), in consideration of the issuance by the Company of 500,000 shares of Series H preferred stock, par value \$0.00001 (the “Series H Preferred Stock”) of the Company.

PCC is the majority owner of Grow Big Supply LLC (“GBS”), a retail supplier of products and services for agricultural facilities. In 2014, GBS recorded, on an unaudited basis, revenues of approximately \$5,700,000 and an operating loss of approximately \$32,000. Beginning on July 1, 2015, the operating activities and financial statements of GBS will be included in the Company’s consolidated financial statements.

PCC and the Company are party to a merger agreement, pursuant to which the Company will be merged into PCC on a one (1) to one (1) basis. Among other things, the merger agreement calls for each share of Series H Preferred Stock issued and outstanding immediately prior to the merger to be converted on a one (1) to one (1) basis into one (1) validly issued, fully paid and nonassessable share of PCC Series A Preferred Stock, which will have the same features as the Series H Preferred Stock. The merger also calls for each share of the Company’s Common Stock issued and outstanding immediately prior to the merger to be converted on a one (1) to one (1) basis, or into one (1) validly issued, fully paid and nonassessable share of PCC Common Stock. Upon the completion of the merger, each share of Company Common Stock and Preferred Stock shall no longer be outstanding and shall automatically be canceled and cease to exist, and each holder of a certificate representing any share of Company Common Stock and Preferred Stock shall cease to have any rights with respect thereto other than the right to receive, as the case may be, PCC Common Stock or Preferred Stock to be issued in exchange therefor upon the surrender of such certificate, properly endorsed to PCC.

On July 9, 2015, a secured lender submitted a conversion notice to convert all of its remaining debt in exchange for 240,476,000 shares of common stock of the Company.

## **Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.**

This quarterly report on Form 10-Q and other reports filed by the Company from time to time with the U.S. Securities and Exchange Commission (collectively, the “Filings”) contain or may contain forward-looking statements and information that are based upon beliefs of, and information currently available to, the Company’s management as well as estimates and assumptions made by Company’s management. Readers are cautioned not to place undue reliance on these forward-looking statements, which are only predictions and speak only as of the date hereof. When used in the Filings, the words “anticipate,” “believe,” “estimate,” “expect,” “future,” “intend,” “plan,” or the negative of these terms and similar expressions as they relate to the Company or the Company’s management identify forward-looking statements. Such statements reflect the current view of the Company with respect to future events and are subject to risks, uncertainties, assumptions, and other factors. Should one or more of these risks or uncertainties materialize, or should the underlying assumptions prove incorrect, actual results may differ significantly from those anticipated, believed, estimated, expected, intended, or planned.

Although the Company believes that the expectations reflected in the forward-looking statements are reasonable, the Company cannot guarantee future results, levels of activity, performance, or achievements. Except as required by applicable law, including the securities laws of the United States, the Company does not intend to update any of the forward-looking statements to conform these statements to actual results.

Our financial statements are prepared in accordance with accounting principles generally accepted in the United States (“GAAP”). These accounting principles require us to make certain estimates, judgments and assumptions. We believe that the estimates, judgments and assumptions upon which we rely are reasonable based upon information available to us at the time that these estimates, judgments and assumptions are made. These estimates, judgments and assumptions can affect the reported amounts of assets and liabilities as of the date of the financial statements as well as the reported amounts of revenues and expenses during the periods presented. Our financial statements would be affected to the extent there are material differences between these estimates and actual results. In many cases, the accounting treatment of a particular transaction is specifically dictated by GAAP and does not require management’s judgment in its application. There are also areas in which management’s judgment in selecting any available alternative would not produce a materially different result. The following discussion should be read in conjunction with our consolidated financial statements and notes thereto appearing elsewhere in this report.

### **Overview**

We develop and deliver proprietary products and technologies to emerging markets, with a focus on emerging agricultural markets. The Company's Canalytix subsidiary is a provider of advanced analytics through an integrated cloud-based platform that allows users to monitor and control greenhouse facilities through the cloud, including real-time data on energy usage, HVAC systems, lighting and costs.

On July 1, 2015, we purchased Plaid Canary Corporation (“PCC”), a special purpose consolidation company focused on acquiring, developing and supporting companies and technologies in emerging agricultural markets. The acquisition of PCC allows us to offer products, services and new technologies to the emerging cannabis and related agricultural markets. PCC’s Grow Big Supply subsidiary operates a 38,000 square foot retail agricultural grow facility supply store based in Denver, Colorado.

### **Plan of Operation**

Our Grow Big subsidiary is a premier retail destination and grower education center, providing agriculture and horticulture grow supplies, advice, and consultation for marijuana growers on both the commercial and hobbyist level. We believe it has become a trusted source of knowledge and products, and a visitor destination. In addition to our Grow Big’s retail business, we are building our first state-regulated testing lab under the brand name Amulet Labs that will provide mandated compliance testing to the retail and medical marijuana businesses in Colorado. We intend to form a new, wholly-owned subsidiary to initiate and administer laboratory operations using conventional analytical equipment, however, we have targeted and plan to acquire the exclusive rights to new patented technologies for advanced, multi-parameter, real-time chemical detection. We believe those technologies and our Analytix analytics technologies to be especially important to analytical challenges faced by retail and medical marijuana businesses. We plan to co-locate Amulet Labs at Grow Big’s retail outlet, providing synergistic overlap in customers and foot traffic, and to leverage our regional presence and capabilities to provide an array of value added, financial, consultive and technology-driven on-site services to residential and commercial growers in the local market. Utilizing these retail and scientific testing platforms, we are also developing a portfolio of technologies and intellectual property assets for new products and services that we intend to test and commercialize within the cannabis industry. We believe our retail and marketing platform combined with our scientific expertise provides us with a compelling opportunity to apply relevant technologies and drive them through to commercialization. While our initial focus is on building the platform in Colorado, we expect to employ similar business models in other states as conditions warrant.

## Results of Operations

*For the Six Months Ended May 31, 2015 Compared to the Six Months Ended May 31, 2014*

Our revenue for the six-month period ended May 31, 2015 decreased by \$384,194, or 85%, to \$66,821, as compared to \$451,015 reported for the six-month period ended May 31, 2014. The decrease in revenues was due to the sale of most of our customers on September 30, 2014. We believe we are now in a better position to rebuild our revenues with our acquisition of Canalytix and Plaid Canary. For the first time in several quarters, we recorded a quarterly increase in revenues. Our second quarter revenues in fiscal 2015 of \$65,927 represented an increase of quarterly revenues of \$65,033, over first quarter revenues of \$894, and was nearly all due to application development sales involving our new Canalytix subsidiary. Beginning in the third quarter of fiscal 2015, our revenues will also include the sales from our Grow Big subsidiary.

For the six-month period ended May 31, 2015, our gross profit amounted to \$54,596, which was a decrease of \$158,930 from the gross profit of \$213,526 reported in the six-month period ended May 31, 2014. The reduction in gross profit is attributable to the sale of most of our customers in the fourth quarter of fiscal 2014.

Selling, general and administrative expenses decreased by \$511,372 or 75%, to \$167,966 for the six-month period ended May 31, 2015 from \$679,338 reported in the same prior-year fiscal period. The decrease was primarily due to a reduction in personnel cost and other cost cutting associated with the sale of most of our customers in the fourth quarter of fiscal 2014.

As a result of the above noted changes, our loss from operations for the six-month period ended May 31, 2015 decreased by \$352,442 to \$113,370 from \$465,812 reported in the prior-year fiscal period. However, significant non-operating income and expenses also occurred, thus:

Interest expense decreased by \$229,235 to \$589,317 for the six-month period ended May 31, 2015 as compared to \$818,552 for the prior-year fiscal period. The decrease in interest expense is attributable to less debt outstanding and large borrowings in the first quarter of fiscal 2014 in which debt discounts equaled or exceeded the face value of new promissory notes, resulting in significant amounts of amortization of debt discount.

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For the six-month period ended May 31, 2015, we reported a gain on troubled debt restructuring of \$2,065,614, as compared to no transactions reported in the six-month period ended May 31, 2014. In the first quarter of fiscal 2015 we negotiated two debt modification agreements and one debt assignment agreement that produced a gain on troubled debt restructuring, whereas no such transactions occurred in the prior-year fiscal period.

For the six-month period ended May 31, 2014, we reported a gain on the sale of a subsidiary of \$640,180, as compared to \$0 reported in the six-month period ended May 31, 2015. No such gain occurred in the six-month period ended May 31, 2015.

For the six-month period ended May 31, 2015, we reported a gain on the settlement of derivative liabilities of \$1,223,448, as compared to a gain of \$300,686 in the six-month period ended May 31, 2014. Each instance of a liability settlement is contingent upon the valuation of the derivative at the time of the settlement, as compared to its value at the previous measurement date.

For the six-month period ended May 31, 2015, we had a loss from the change in the valuation of derivative liabilities of \$3,017,461, as compared to a gain of \$14,072 for the period six-month period ended May 31, 2014. The loss in six-month period ended May 31, 2015 is due to the higher market value of embedded derivatives in our debt instruments, at the end of the fiscal quarter, because of the rising price per share of our common stock at the end of the fiscal quarter. The gain in fiscal 2014 is due to the lower market value of embedded derivatives in our debt instruments, at the end of the fiscal quarter, in comparison with the market value when the debt originated.

Our net result for the six-month period ended May 31, 2015 was a net loss of \$436,391 compared to a net loss of \$372,151 reported in the prior-year fiscal period.

*For the Three Months Ended May 31, 2015 Compared to the Three Months Ended May 31, 2014*

Our revenue for the three-month period ended May 31, 2015 decreased by \$171,426, or 72%, to \$65,927, as compared to \$237,353 reported for the three-month period ended May 31, 2014. The decrease in revenues was due to the sale of most of our customers on September 30, 2014. We believe we are now in a better position to rebuild our revenues because our operating losses have decreased and we have relevant products and services for agricultural industry customers

For the three-month period ended May 31, 2015, our gross profit amounted to \$54,328, which was a decrease of \$69,570 from the gross profit of \$123,898 reported in the three-month period ended May 31, 2014. The reduction in gross profit is attributable to the sale of most of our customers in the fourth quarter of fiscal 2014.

Selling, general and administrative expenses decreased by \$219,134 or 69%, to \$100,648 for the three-month period ended May 31, 2015 from \$319,782 reported in the same prior-year fiscal period. The decrease was primarily due to a reduction in personnel cost and other cost cutting associated with the sale of most of our customers in the fourth quarter of fiscal 2014.

As a result of the above noted changes, our loss from operations for the three-month period ended May 31, 2015 decreased by \$149,564 to \$46,320 from \$195,884 reported in the prior-year fiscal period. However, significant non-operating income and expenses also occurred, thus:

Interest expense decreased by \$65,151 to \$234,550 for the three-month period ended May 31, 2015 as compared to \$299,701 for the prior-year fiscal period. The decrease in interest expense is attributable to less debt outstanding and larger borrowings in the first quarter of fiscal 2014 in which debt discounts equaled or exceeded the face value of new promissory notes, resulting in larger amounts of amortization of debt discount during fiscal year 2014.

For the three-month period ended May 31, 2015, we reported a gain on troubled debt restructuring of \$1,538,145, as compared to no transactions reported in the three-month period ended May 31, 2014. In fiscal 2015 we negotiated two debt modification agreements and one debt assignment agreement that produced a gain on troubled debt restructuring, whereas no such transactions occurred in the prior-year fiscal period.

For the three-month period ended May 31, 2015, we reported a gain on the settlement of derivative liabilities of \$1,107,495, as compared to no transactions in the three-month period ended May 31, 2014. Each instance of a liability settlement is contingent upon the valuation of the derivative at the time of the settlement, as compared to its value at the previous measurement date.



For the three-month period ended May 31, 2015, we had a loss from the change in the valuation of derivative liabilities of \$847,720, as compared to a loss of \$239,755 for the period three-month period ended May 31, 2014. The increase in the loss in three-month periods ended May 31, 2015 compared to 2014 is due to the higher market value of embedded derivatives in our debt instruments, at the end of the fiscal quarter, because of the rising price per share of our common stock at the end of the fiscal quarter.

Our net result for the three-month period ended May 31, 2015 was net income of \$1,517,050 compared to a net loss of \$760,206 reported in the prior-year fiscal period. In fiscal 2015, however, the net income occurred primarily because of the gains we realized when we settled debt with our creditors, which exceeded the losses we incurred from the remainder of our business.

### **Liquidity and Capital Resources**

At May 31, 2015, we had cash and cash equivalents of \$6,309 and negative working capital of \$10,400,371.

Operating activities for the six months ended May 31, 2015 used \$82,226 of cash, consisting principally of a net loss of \$436,391, offset by approximately \$43,000 in non-cash income statement charges and approximately \$311,000 in changes in operating assets and liabilities. Operating results for the six months ended May 31, 2014 used \$167,301 of cash, consisting principally of a net loss of \$372,151 and approximately \$413,000 in non-cash income statement charges, offset by approximately \$618,000 in changes in operating assets and liabilities.

Net cash provided by financing activities aggregated \$86,400 and \$175,284 for the six-month periods ended May 31, 2015 and 2014, respectively. In the six months ended May 31, 2015, cash provided by financing activities resulted from proceeds from borrowings of \$130,500, offset by principal payments of \$44,100. For the six months ended May 31, 2014, cash provided by financing activities resulted from proceeds from short-term borrowing of \$276,500, less repayments of debt of \$101,216.

Net cash provided by investing activities amounted to \$303 and \$0 for the six-month periods ended May 31, 2015 and 2014. Cash provided during the six months ended May 31, 2015, is the cash acquired in the acquisition of Canalytix. For the six months ended May 31, 2015 and 2014, we had no capital expenditures. We are seeking to make equipment purchases for lab activities in our Plaid Canary subsidiary before the end of fiscal 2015.

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. Our operating losses have been funded through the issuance of equity securities and borrowings. Management anticipates that we will be dependent, for the near future, on our ability to obtain additional capital to fund our operating expenses and anticipated growth. The report of our independent registered public accounting firm, included in our Form 10-K for the year ended November 30, 2014 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 have improved our balance sheet with transactions to settle our debt, we continue to have liabilities in excess of our assets. We are working to settle our remaining liabilities and to raise cash to support our operating loss, and we continually consider a variety of possible 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. If we are unable to generate sufficient revenues or raise additional capital, our operations will terminate.

### **Item 3. Quantitative and Qualitative Disclosures about Market Risk.**

We are a smaller reporting company as defined by Rule 12b-2 of the Securities Exchange Act of 1934, as amended, and are not required to provide information under this item.

### **Item 4. Controls and Procedures.**

*(a) Disclosure Controls and Procedures.*

The Company's management, with the participation of the Company's principal executive officer ("PEO") / principal financial officer ("PFO"), evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this report. Based on this evaluation, the PEO / PFO concluded that, as of the end of such period, the Company's disclosure controls and procedures were not effective to ensure that information that is required to be disclosed by the Company in the reports it files or submits under the Exchange Act is (i) recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms and (ii) accumulated and communicated to the Company's management, including the PEO / PFO, as appropriate, to allow timely decisions regarding required disclosure. The material weaknesses in our disclosure controls and procedures consisted of:

There is a lack of accounting personnel with the requisite knowledge of Generally Accepted Accounting Principles in the US ("GAAP"), 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.

*(b) Changes in Internal Control Over Financial Reporting*

There have not been any changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during our most recently completed fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## **PART II – OTHER INFORMATION**

### **Item 1. Legal Proceedings.**

We are currently not involved in any litigation that we believe could have a material 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 companies or our subsidiaries' officers or directors in their capacities as such, in which an adverse decision could have a material adverse effect.

### **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, and are not required to provide information under this item.

### **Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.**

During the three months ended May 31, 2015, the Company issued a total of 1,298,571,428 shares to the Company's various convertible debt holders upon their conversion of convertible debenture in the aggregate amount of \$174,390. The sales were exempt pursuant to Section 4(2) of the Securities Act since the sales were not made in a public offering and were made to entities whose principals had access to detailed information about the Company and were acquiring the shares for the entity's own account. There were no underwriters.

### **Item 3. Defaults Upon Senior Securities.**

Except for matters described in Note 9 and Note 16 of the consolidated financial statements, there have been no defaults in the payment of principal, interest, sinking or purchase fund installment, or any other material default, with respect to any indebtedness of the Company.

### **Item 4. Mine Safety Disclosures**

Not applicable.

**Item 5. Other Information.**

None

**Item 6. Exhibits.**

Exhibit No. Document

4.1	Secured Term Note dated March 25, 2015 issued in favor of FLUX Carbon Starter Fund LLC
10.1	Amended Distribution Agreement by and between Noveda Technologies, Inc. and Canalytix LLC
31	Rule 13a-14(a) Certification
32	Rule 13a-14(b) Certification
101.INS	XBRL Instance
101.SCH	XBRL Schema
101.CAL	XBRL Calculation
101.DEF	XBRL Definition
101.LAB	XBRL Label
101.PRE	XBRL Presentation

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

PERVASIP CORP.

Date:

August  
17,  
2015

By: /s/ Paul H. Riss

Name: Paul H. Riss

Title: Chief Executive Officer

(Principal Executive Officer)

(Principal Financial and

Accounting Officer)

