PERVASIP CORP
Form 10-Q
December 16, 2016

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, 2016**

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

430 North Street

White Plains, New York 10605

(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 ý 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 ý 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 ý

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

As of December 15, 2016, the Company has 3,778,005,709 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)	
ASSETS	May 31, 2016	November 30, 2015
Current assets:		
Cash and cash equivalents	$1,510	$8,978
Accounts receivable, net of allowance of $98,739 in 2015	—	7,183
Inventory	25,000	127,650
Restricted securities	40,000	220,000
Prepaid expenses and other current assets	1,814	1,915
Total current assets	68,324	365,726
Equipment and leasehold improvements, net	—	18,817
Restricted cash	22,528	60,000
Total assets	$90,852	$444,543
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Current portion of long-term debt, net of discounts of $692,673 and $491,027 at May 31, 2016 and November 30, 2015, respectively	$2,689,391	$2,932,018
Accounts payable and other accrued liabilities	1,763,592	1,622,649
Accounts payable and other accrued liabilities – related party	606,225	431,313
Due to Pension Benefit Guaranty Corporation	2,157,423	2,104,410
Deposits payable	147,889	147,890
Sales tax payable	5,929	28,665
Related party debt	1,446,948	1,178,311
Derivative liabilities	659,859	692,212
Total current liabilities	9,477,256	9,137,468
Long-term debt less current portion	436,424	409,614
Total liabilities	9,913,680	9,547,082
Redeemable preferred stock Series I, $0.00001 par value 55,000 shares authorized 27,500 and 0 shares issued and outstanding, redemption amount of $275,000	28,070	710
Redeemable preferred stock Series D, $0.00001 par value 51 shares authorized 51 shares issued and outstanding, redemption amount of $51	—	—

Stockholders’ deficit:		
Preferred stock, $0.00001 par value; 144,949 shares authorized	—	—
Convertible preferred stock, $0.00001 par value; 20,800,010 authorized		
Series E: 10 shares issued and outstanding, respectively	—	—
Series F: 10,000,000 shares issued and outstanding, respectively	100	100
Series G: 10,000,000 shares issued and outstanding, respectively	100	100
Series H: 600,000 shares issued and outstanding, respectively	6	6
Series I: 7,500 and 0 shares issued and outstanding	—	—
Series J: 51 and 0 shares issued and outstanding	—	—
Common stock, $0.00001 par value; 8,978,999,990 shares authorized, 3,778,005,709 and 3,652,005,709 shares issued and outstanding in 2016 and 2015, respectively	37,780	36,250
Capital in excess of par value	42,155,375	42,448,241
Accumulated deficit	(52,031,204)	(51,379,820)
Total Pervasip Corp. stockholder’s deficit	(9,837,843)	(8,894,853)
Noncontrolling interest in subsidiary	(13,055)	(208,396)
Total stockholders’ deficit	(9,850,898)	(9,103,249)
Total liabilities and stockholders’ deficit	$90,852	$444,543

Pervasip Corp. and Subsidiaries

Condensed Consolidated Statements of Operations

(Unaudited)

	For the Six Months Ended		For the Three Months Ended	
	May 31, 2016	May 31, 2015 (Restated)	May 31, 2016	May 31, 2015 (Restated)
Revenues	$279,380	$1,821	$—	$927
Costs and expenses:				
Cost of goods sold	191,209	—	—	—
Cost of services	—	12,225	—	11,599
Selling, general and administrative	480,266	167,966	176,115	100,648
Total costs and expenses	671,475	180,191	176,115	112,247
Loss from operations	(392,095)	(178,370)	(176,115)	(111,320)
Other income (expense):				
Interest expense	(325,728)	(589,317)	(162,579)	(234,550)
Amortization of debt discounts	(369,576)	(5,305)	(197,747)	—
Gain on troubled debt restructuring	—	2,065,614	—	1,538,145
Loss on abandonment / theft of assets	(81,466)	—	—	—
Impairment of investment	(180,000)	—	(4,000)	—
Gain on settlement of derivative liabilities	—	1,223,448	—	1,107,495
Gain (loss) on change in derivative liabilities	603,576	(3,017,461)	44,657	(847,720)
Total other income (expense)	(353,194)	(323,021)	(319,669)	1,563,370
Net income (loss)	(745,290)	(501,391)	(495,785)	1,452,050
(Income) loss from noncontrolling interest	121,266	(3,965)	2,445	(3,965)
Net income (loss) attributable to Pervasip Corp.	(624,024)	(505,356)	(493,340)	1,448,085
Accretion of preferred stock dividends - beneficial conversion feature	27,360	87,970	22,036	51,429
Net income (loss) attributable to common stockholders	$(651,384)	$(593,326)	$(515,376)	$1,396,656
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)
Weighted average number of common shares outstanding:				

Basic	3,708,842,666	2,448,541,449	3,765,679,622	3,231,962,508
Diluted	3,708,842,666	2,448,541,449	3,765,679,622	25,626,238,785

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, 2016	May 31, 2015	May 31, 2016	May 31, 2015
		(Restated)		(Restated)
Net income (loss)	$(745,290)	$(501,391)	$(495,785)	$1,452,050
Other Comprehensive income (loss):				
Foreign currency translation adjustment	--	(924,000)	--	(100,000)
Comprehensive income (loss)	$(745,290)	$(1,425,391)	$(495,785)	$1,352,050

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, 2016	May 31, 2015 (Restated)
Operating activities:		
Net loss	$(745,290)	$(501,391)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Stock-based compensation	—	4,000
Loss on abandonment of assets	81,466	—
Amortization of debt discount	369,576	305,153
Amortization of financing costs	—	5,305
Gain on troubled debt restructuring	—	(2,065,614
Impairment of investment	180,000	—
Gain on settlement of derivative liabilities	—	(1,223,448)
Change in fair value of derivative liabilities	(603,576)	3,017,461)
Changes in operating assets and liabilities:		
Accounts receivable	7,183	—
Inventory	40,001	—
Customer deposits	—	65,000
Prepaid expenses and other current assets	101	3,337
Other assets	—	(31,337
Accounts payable and accrued liabilities	141,672	205,417
Accounts payable and accrued liabilities – related party	237,510	148,457
Due to Pension Benefit Guaranty Corporation	53,013	50,434
Net cash used in operating activities	(238,344)	(82,226)
Cash flows from investing activities:		
Cash acquired in Canalytix acquisition	—	303
Decrease in cash placed under restriction	7,499	—
Net cash provided by investing activities	7,499	303
Cash flows from financing activities:		
Proceeds from borrowings	26,810	130,500
Proceeds from related party borrowings	206,039	—
Principal payments of debt	(9,472)	(44,100)
Net cash provided by financing activities	223,377	86,400
Increase (decrease) in cash and cash equivalents	(7,468)	4,477
Cash and cash equivalents at beginning of period	8,978	1,832
Cash and cash equivalents at the end of period	$1,510	$6,309

Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Income taxes	$—	$—
Interest	$27,828	$—
Non-cash financing transactions:		
Fair value of derivative liabilities to discount on debt	$571,223	$193,780
Settlement of payables with common stock	$25,000	$—
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
Excess of purchase price over value of assets	$ —	$410,839

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, 2015 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, 2016, 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, 2015.

For a summary of significant accounting policies (which have not changed from November 30, 2015), see the Company's Annual Report on Form 10-K for the year ended November 30, 2015.

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.

Segment Information

In 2016, the Company operated in one segment, providing gardening products and analytical services to home and commercial gardeners.

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, 2016, the Company has negative working capital of $9,408,932 and a stockholders' deficit of $9,850,898. 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 possible impact of ASU 2014-09, but we do not anticipate that it will have a material impact on the Company's consolidated results of operations, financial position or cash flows.

In August 2014, the FASB issued ASU 2014-15, Presentation of Financial Statements – Going Concern (Subtopic 205-40), Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern. Under this amendment, management is now required to determine every interim and annual period whether conditions or events exist that raise substantial doubt about an entity’s ability to continue as a going concern within one year after the date the financial statements are issued. If management indicates that it is probable the entity will not be able to meet its obligations as they become due within the assessment period, then management must evaluate whether it is probable that plans to mitigate those factors will alleviate that substantial doubt. The guidance is effective for fiscal years, beginning after December 15, 2016. Early adoption is permitted. We do not expect the adoption of ASU 2014-15 to have a significant impact on the Company's consolidated results of operations, financial position or cash flows.

In April 2015, the FASB issued ASU 2015-03, “Simplifying the Presentation of Debt Issuance Costs.” ASU 2015-03 requires debt issuance costs to be presented in the balance sheet as a direct deduction from the associated debt liability. ASU 2015-03 is effective for interim and annual reporting periods beginning after December 15, 2015. The new guidance will be applied on a retrospective basis and early adoption is permitted. The Company chose early adoption of the new guidance, which resulted in an additional debt discount at November 30, 2015 of $258,065, due to financing fees. For the six and three month periods ended May 31, 2015, amortization of deferred finance costs have been reclassified to amortization of debt discount, due to the retrospective application of the guidance.

In November 2015, the FASB issued ASU 2015-17, “Income Taxes (Topic 740) – Balance Sheet Classification of Deferred Taxes.” To simplify the presentation of deferred income taxes, the amendments in this Update require that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. The amendments in this Update apply to all entities that present a classified statement of financial position. The current requirement that deferred tax liabilities and assets of a tax-paying component of an entity be offset and presented as a single amount is not affected by the amendments in this Update. For public business entities, the amendments in this Update are effective for financial statements issued for annual periods beginning after December 15, 2016, and interim periods within those annual periods. For all other entities, the amendments in this Update are effective for financial statements issued for annual periods beginning after December 15, 2017, and interim periods within annual periods beginning after December 15, 2018. Earlier application is permitted for all entities as of the beginning of an interim or annual reporting period. The amendments in this Update may be applied either prospectively to all deferred tax liabilities and assets or retrospectively to all periods presented. If an entity applies the guidance prospectively, the entity should disclose in the first interim and first annual period of change, the nature of and reason for the change in accounting principle and a statement that prior periods were not retrospectively adjusted. If an entity applies the guidance retrospectively, the entity should disclose in the first interim and first annual period of change the nature of and reason for the change in accounting principle and quantitative information about the effects of the accounting change on prior periods. We do not expect the adoption of ASU 2015-17 to have a significant impact on our consolidated results of operations, financial position or cash flows.

In January 2016, the FASB issued ASU 2016-01 – “Financial Instruments – Overall (Subtopic 825-10) – Recognition and Measurement of Financial Assets and Financial Liabilities.” ASU 2016-01, among other changes, requires equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income. This Update also simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment. The amendments in ASU 2016-01 will become effective for public business entities for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. We are currently evaluating the effect of the adoption of ASU 2016-01 will have on our consolidated results of operations, financial position or cash flows.

In February 2016, the FASB issued ASU 2016-02 – “Leases (Topic 842).” Under ASU 2016-02, entities will be required to recognize lease asset and lease liabilities by lessees for those leases classified as operating leases. Among other changes in accounting for leases, a lessee should recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. When measuring assets and liabilities arising from a lease, a lessee (and a lessor) should include payments to be made in optional periods only if the lessee is reasonably certain to exercise an option to extend the lease or not to exercise an option to terminate the lease. Similarly, optional payments to purchase the underlying asset should be included in the measurement of lease assets and lease liabilities only if the lessee is reasonably certain to exercise that purchase option. The amendments in ASU 2016-02 will become effective for fiscal years beginning after December 15, 2018, including interim periods with those fiscal years, for public business entities. We are currently evaluating the effect of the adoption of ASU 2016-02 will have on our consolidated results of operations, financial position or cash flows.

In March 2016, the FASB issued ASC 2016-09 – “Compensation – Stock Compensation (Topic 718) – Improvements to Employee Share-based Payment Accounting.” The areas for simplification in this Update involve several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. In addition to these simplifications, the amendments eliminate the guidance in Topic 718 that was indefinitely deferred shortly after the issuance of FASB Statement No. 123 (revised 2004), Share-Based Payment. The amendments in ASC 2016-09 will become effective for fiscal years beginning after December 15, 2016, and interim periods within those annual periods. Early adoption is permitted for any entity in any interim or annual period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. An entity that elects early adoption must adopt all of the amendments in the same period. We are currently evaluating the effect of the adoption of ASU 2016-09 will have on our consolidated results of operations, financial position or cash flows.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipt and Cash Payments. The new guidance addresses certain classification issues related to the statement of cash flows which will eliminate the diversity of practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The guidance is effective for fiscal years beginning after December 2017. Early adoption is permitted. We are currently evaluating the possible impact of ASU 2016-15, but do not anticipate that it will have a material impact on the Company's consolidated results of operations, financial position or cash flows.

In October 2016, the FASB issued ASU 2016-17, Consolidation (Topic 810): Interests Held through Related Parties That Are under Common Control. The new guidance amends the consolidation guidance on how a reporting entity that is the single decision make of a VIE should treat indirect interests in the entity held through related parties that are under common control with the reporting entity when determining whether it is the primary beneficiary of that VIE. The guidance is effective for fiscal years beginning after December 2016. Early adoption is permitted. We are currently evaluating the possible impact of ASU 2016-17, but do not anticipate that it will have a material impact on the Company's consolidated results of operations, financial position or cash flows.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned and partially owned subsidiaries after elimination of significant intercompany balances and transactions. The operations of a 90% owned subsidiary, Canalytix LLC, is included beginning on March 25, 2015, and the operations of a 60% owned subsidiary, Grow Big Supply, LLC ("GBS") is included beginning on July 6, 2015.

On January 26, 2016, the Company foreclosed on the non-controlling ownership of GBS, which amounted to 40%. As of that date, GBS became a wholly-owned subsidiary. In February 2016, we were provided significant financial incentives from GBS's landlord to close the GBS store and we staged the contents of the store so it could be moved to another location. We laid off our staff at the store, except for our Chief Science Officer and Chief Operating Officer, and we moved our inventory to temporary storage while we searched for a location that would allow us to perform scientific work in the cannabis industry. However, before the contents of the store was moved, a theft occurred that was engineered by approximately 10 individuals. The Company submitted an insurance claim for approximately $296,000, based on the coverages that were stated in our commercial theft insurance policy. The insurance company is offering a settlement of $25,000 based upon the conclusion that a former employee engineered the theft. As a result of the acquisition of the non-controlling interest, which occurred without any additional consideration, the Company recorded the entire amount of the non-controlling interest of $316,607 as a reduction to capital in excess of par value.

Note 4 – Major Customers

During the six-month and three-month periods ended May 31, 2015, two customers accounted for approximately 32% and 27%, respectively, and approximately 27% and 34%, respectively, of the Company's revenues.

As of May 31, 2016 there was no accounts receivable. As of November 30, 2015, one customer accounted for 12% of the gross amount of accounts receivable, and such amount was fully reserved.

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, 2016	Restated Six Months Ended May 31, 2015	Three Months Ended May 31, 2016	Restated Three Months Ended May 31, 2015
Net income (loss) attributable to common stockholders - basic	$(651,384)	$(593,326)	$(515,376)	$1,396,656
Income attributable to convertible notes	—	—	—	(1,413,320)
Interest expense – convertible notes	—	—	—	270,490
Net income (loss) attributable to common stockholders - diluted	$(651,384)	$(593,326)	$(515,376)	$253,826
Weighted average common shares outstanding - basic	3,708,842,666	2,448,541,449	3,765,679,622	3,231,962,508
Effect of dilutive securities	—	—	—	22,394,276,277
Weighted average common shares outstanding – diluted	3,708,842,666	2,448,541,449	3,765,679,622	25,626,238,785
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 38,036,653,389 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, 2016, respectively, because the effect would be anti-dilutive. 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.

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, 2016 and 2015, the Company recorded $0 and $4,000, respectively, in stock-based compensation expense. At May 31, 2016, there is no remaining unrecognized employee stock-compensation expense for previously granted unvested options.

Note 7 – Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consist of trade payables and accrued liabilities that individually are less than 5% of the Company's current liabilities.

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, 2016 and November 30, 2015 was $2,157,423 and $2,104,410, 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 2015. 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, 2016 and 2015.

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 $2,157,423 at May 31, 2016. 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, 2016	November 30, 2015

Senior secured convertible redeemable debenture due to TCA	$570,028	$600,000
Convertible subordinated debt	2,714,271	2,867,461
Convertible debt due to various lenders	320,750	320,750
Other short-term debt due to various lenders	213,439	224,448
Total debt	3,818,488	3,832,659
Less: current portion of long-term debt	(2,689,391)	(2,932,018)
Less: discount on debt	(692,673)	(491,027)
Total long-term debt, net of discount	$ 436,424	$ 409,614

At May 31, 2016, future payments under long-term debt obligations over each of the next five years and thereafter were as follows:

Twelve months ended May 31	
2017	$3,382,064
2018	—
2019	—
2020	436,424
2021	—
Minimum future payments of principal	$3,818,488

Convertible subordinated debt

During February 2013, the Company entered into a securities purchase agreement with 112359 Factor Fund, LLC (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 to Laurus Master Fund ("Laurus") of amounts due under an 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. The Fund did not submit a conversion notice during the six- or three-month periods ended May 31, 2016 and 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 matured 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.

In conjunction with the debt modification agreement for Amended Note 1, the Company recognized a gain on troubled debt restructuring of 2,065,614 and $1,538,145 for the six- and three-month periods ended May 31, 2015.

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. In conjunction with the penalty clauses in the note and default fees due to EXO, on September 8, 2015, the Company issued an amended and restated convertible promissory note to EXO in the amount of $209,847, with the same conversion terms and conditions as the original note issued to Diamond. The note matures on March 31, 2016 and bears interest at a rate of 8% per annum.

On May 11, 2015, the Company signed a $140,000 convertible note agreement with FLUX Carbon Starter Fund (the "Flux Note 1"), which matured on December 31, 2015, and bears interest at an annual rate of 6%. The Flux Note 1 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 interest expense.

On July 1, 2015, in conjunction with the purchase of Plaid Canary Corporation ("PCC") (see Note 14), the Company assumed a secured note payable to FLUX Carbon Starter Fund in the amount of $627,000, (the "Flux Note 2") with an annual interest rate of 20%, that matured on January 31, 2016. The Flux Note 2 can convert into shares of common stock of PCC at the market price of PCC's common stock. The market price is defined as the lowest closing bid price of PCC's common stock during the previous 90 trading days. The Flux Note 2 contains an original issuance discount of $313,500, $53,107 and $0 of which was expensed in the six– and three-month periods ended May 31, 2016.

The Amended Notes, New Note, Flux Note 1, Flux Note 2 and notes payable to EXO (the "Subordinated Debt") are subordinated to any debt payable to TCA. In instances where the Subordinated Debt is past due, the Company is negotiating extended maturity dates. None of the Subordinated Debt holders have issued the Company a default notice. The Company contests the validity and enforceability of the Amended Notes because the asignees of the Amended Notes did not pay the full amount of consideration of $350,000 to Laurus to complete the assignment of the Amended Notes. As noted above, the Company paid $70,000 of the required $350,000 payment, in order to complete the settlement agreement with Laurus.

During the six-month period ended May 31, 2015, the Subordinated Debt holders converted $240,400 of principal into 1,159,047,428 shares of common stock of the Company and recorded a gain of $1,419,661 on the conversions.

At May 31, 2016 and November 30, 2015, the Company owed the Subordinated Debt holders $2,714,271 and $2,687,461, respectively.

Debt due to TCA

On October 14, 2015 the Company entered into a Securities Purchase Agreement ("SPA") with TCA , as lender, pursuant to which TCA agreed to loan the Company up to a maximum of $5 million for working capital and general operating expenses. An initial amount of $500,000 was funded by TCA on October 14, 2015. Any additional funding to be provided to the Company under the SPA will be at the discretion of TCA.

Our obligation to repay the $500,000 borrowed pursuant to the SPA is evidenced by TCA Debenture 1. The repayment of TCA Debenture 1 is secured by a first position security interest in substantially all of the Company's assets and in substantially all of the assets of the Company's subsidiaries, as evidenced by a security agreement between the Company and its subsidiaries and TCA, The Company also pledged the stock it owns in its subsidiaries. TCA Debenture 1 matures on April 14, 2017 and bears interest at the rate of 18% per annum. Interest and principal payments are due in monthly installments beginning in November 2015 and February 2016, respectively.

Upon the occurrence of an event of default, TCA may convert all or any portion of the outstanding principal, accrued and unpaid interest, and any other sums due and payable under TCA Debenture 1 into shares of the Company's common stock at a conversion price equal to 85% of the lowest daily volume weighted average price of the Company's common stock during the five trading days immediately prior to the applicable conversion date, in each case subject to a provision that no conversion may result in TCA becoming the beneficial owner of more than 4.99% of the Company's outstanding common stock.

The Company also borrowed $100,000 from TCA on November 18, 2015, under a debenture with similar terms, except that the $100,000 debenture will mature on November 18, 2016 ("TCA Debenture 2").

Upon the sale of the TCA Debenture 1, the Company also signed an advisory agreement and issued to TCA, as an advisory fee, 27,500 shares of Pervasip Series I Preferred Stock. Each share of Series I Preferred Stock has a stated value of $10, which will be the share's priority interest in the Company's net assets in the event of liquidation. Each share may be converted by the holder into a number of shares of common stock equal to the stated value divided by the average of the five lowest closing bid prices during the ten trading days immediately preceding conversion. The holder of Series I Preferred Stock will have voting rights equivalent to those of the common stock into which the Series I shares are convertible. In the event that TCA does not realize net proceeds from the sale of these Series I preferred shares or the common shares upon conversion of the preferred shares (the "Advisory Fee shares") equal to the $275,000 fee value by the maturity date of the credit facility, these Advisory fee shares will become subject to mandatory redemption by TCA, and the Company shall be liable to TCA for the net proceeds below an aggregate amount of $275,000. The Company also issued to TCA 51 shares of Series J Preferred Stock. The Series J Preferred Stock will give TCA voting control of the Company if the Company defaults on the note and TCA declares the voting control effective.

At May 31, 2016 and November 30, 2015, the Company owed TCA $570,028 and $600,000, respectively.

Convertible Debt due to various lenders

Convertible debt with a fixed conversion rate

At May 31, 2016 and November 30, 2015, 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.

During the year ended November 30, 2014, the Company received $63,000 in convertible debt with a minimum conversion price of $0.00005 per share. The lender 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. At November 30, 2014 the Company owed the lender $63,000. The lender sold this note to EXO, as noted above.

At May 31, 2016 and November 30, 2015, a total of $138,000 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, 2015, 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 was 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, 2016 and November 30, 2015, a total of $115,000 of variable-rate convertible debt that had been issued for cash was outstanding, respectively.

Convertible debt with a variable conversion rate assigned to lenders

At May 31, 2016 and November 30, 2015, 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, 2016 and November 30, 2015, a total of $320,750 of other convertible debt was outstanding, respectively.

Other short-term debt due to various lenders

During the six months ended May 31, 2016 and 2015, the Company received $0 and $50,000, respectively from lenders in exchange for notes payable that had no conversion features.

At May 31, 2016 and November 30, 2015, the Company owed various lenders $213,439 and 224,448, respectively, for non-convertible notes. Cash payments were made on these notes of $11,008 and $60,368 during the six months ended May 31, 2016 and 2015, 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 three months ended May 31, 2016 and 2015, $0 and $97,818, respectively, of amortization of premium from the Cash Advances is included in interest expense. At May 31, 2016 and November 30, 2015, Cash Advances totaled $107,641 and 118,649, respectively. Assets of two subsidiaries 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 $436,424 and $409,614, as of May 31, 2016 and November 30, 2015, respectively, 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 2016, the Company estimated the fair value of the derivatives using the Black-Scholes valuation method with assumptions including: (1) term of 0 to 0.88 years; (2) a computed volatility rate of 348%; (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 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.

Redeemable convertible preferred stock

In 2016, we estimated the fair value of the derivatives using the Black-Scholes valuation method with assumptions including: (1) term reflecting the immediate exercisability; (2) a computed volatility rate of 348% (3) a discount rate of 1% and (4) zero dividends. No preferred stock derivatives existed in fiscal 2015.

Tainted conventional convertible debt

In 2016, the Company estimated the fair value of the derivative using the Black-Scholes valuation method with assumptions including: (1) term of 0 years; (2) a computed volatility rate of 348%; (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 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.

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 2016, the Company estimated the fair value of the derivative using the Black-Scholes valuation method with assumptions including: (1) term of 1.52 to 7.08 years; (2) a computed volatility rate of 348%; (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 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.

Activity for embedded derivative instruments during the six months ended May 31, 2016 was as follows:

	Balance at November 30, 2015	Initial valuation of derivative liabilities upon issuance of new securities during the period	Change in fair value of derivative liabilities	Balance at May 31, 2016
Variable convertible debt	$166,494	$571,223	$(98,850)	$638,867
Redeemable convertible preferred stock	412,500	—	(400,121)	12,379
Tainted convertible debt	95,018	—	(93,616)	1,402
Tainted warrants	18,200	—	(10,989)	7,211
	$692,212	$571,223	$(603,576)	$659,859

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

	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	$2,956,275	$(1,162,262)	$(1,153,545)	$1,475,587

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.

No conversions of debt occurred in the six-month period ended May 31, 2016. 126,000,000 shares of common stock were issued in March 2016 as a finders' fee payment, at a valuation of $25,000, to the firms that introduced the Company to TCA.

A total of 175,000 and 100,000 shares of Series I preferred stock issued to TCA as advisory fees are redeemable upon the occurrence of certain events that are outside the control of the company. These shares (and the common shares into which these shares may be converted, together, "Advisory Fee Shares") are also mandatorily redeemable in the event that TCA has not realized net proceeds from the sale of the Advisory Fee Shares by the earlier of an event of default or on October 14, 2016 and November 18, 2016, for $175,000 and $100,000, respectively, less cash proceeds received from prior sales of Advisory Fee Shares. The total redemption amount of $275,000 is being accreted over the respective twelve month periods using the effective interest method. A total of $27,360 of preferred dividends were accreted for the Series I Preferred Stock issued to TCA during the six months ended May 31, 2016

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 for the six-month period ended May 31, 2015.

Note 12 – Related Party Transactions

At May 31, 2016 and November 30, 2015, we owed our chief executive officer $1,506,004 and $1,380,162, 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.

At May 31, 2016 and November 30, 2015, we owed $547,169 and $222,918, respectively, to a company that is controlled by the entity that owned 60% of our voting control, via ownership of our Series H preferred stock.

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, 2016 and November 30, 2015:

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, 2016				
Restricted securities	$40,000	$40,000	—	—
Derivative liability	$659,859	—	—	$659,859
November 30, 2015				
Restricted securities	$220,000	$220,000		
Derivative liability	$692,212	—	—	$692,212

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

In 2016, we estimated the fair value of the derivative using the Black-Scholes valuation method with assumptions including: (1) term of 0 to 7.08 years; (2) a computed volatility rate of 348% (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 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.

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 - Restatement

The Company restated its financial statements for the six months ended May 31, 2015, to correct certain accounting errors related to revenue recognition. The table below summarizes the impact of the restatement described above on financial information previously reported on the Company’s Forms 10-Q for the period ended May 31, 2015:

	Original	Adjustments	As Restated
Balance Sheet at 5/31/15:			
Deposits	$—	$ 65,000	$65,000
Income Statement for Three Months Ended 5/31/15:			
Revenue	65,927	(65,000)	927
Net income	1,517,050	(65,000)	1,452,050
Earnings per share	0.00	0.00	0.00

Earnings per share - diluted	0.00	0.00	0.00
Income Statement for Six Months Ended 5/31/15:			
Revenue	66,821	(65,000)	1,821
Net loss	(436,391)	(65,000)	(501,391)
Earnings per share	0.00	0.00	0.00
Earnings per share - diluted	0.00	0.00	0.00
Cash Flow Statement for Six Months Ended 5/31/15:			
Net loss	(436,391)	(65,000)	(501,391)

Note 15 - Subsequent Events

On August 24, 2016, Flux Carbon Corporation agreed to return to the Company the 500,000 shares of Series H preferred stock that had been issued for the purchase of Plaid Canary Corporation.

In November 2016, we secured a verbal agreement with a licensed grower and dispensary and we moved inventory from our storage into its warehouse. As a result of our inability to continue operating GBS in manner similar to our fiscal 2015 operations, our sales in 2016 for GBS are limited to approximately $280,000.

On September 20, 2016, the Company received a demand for payment from TCA Global Credit Master Fund, L.P. (the “TCA Fund”) of $1,164,460.50 pursuant to a Senior Secured Convertible Redeemable Debenture, dated June 30, 2015, and effective October 14, 2015; a Securities Purchase Agreement, dated and effective the same, and that Promissory Note, dated and effective the same; a Senior Secured Convertible Redeemable Debenture, dated June 30, 2015, and effective October 14, 2015; and a Securities Purchase Agreement, dated June 30, 2015 and effective November 18, 2015. TCA Fund has also filed suit in the state of Florida to collect this past due amount, plus interest that continues to accrue at the rate of $323.66 per day until the obligation is satisfied.

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 si 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

During fiscal 2015 we transitioned from our cloud-based telecommunications business to pursue a cloud-based business focused on the emerging cannabis industry. We purchased Canalytix LLC, which is developing a cloud-based application to monitor and control greenhouse facilities, providing 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 organized to acquire companies and technologies in emerging agricultural markets. On July 6, 2015, PCC acquired 60% of the membership units of Grow Big Supply LLC ("Grow Big"), which operated a retail supply store in Denver, Colorado targeted at those involved in growing cannabis.

We planned to use part of the Grow Big facility to provide laboratory testing and oil extraction services. The facility, however, was in a warehouse district and it was too difficult to maintain the cleanliness required for laboratory work. In February 2016, we were provided significant financial incentives from Grow Big's landlord to close our Grow Big store and move it to another location. We laid off our staff at the store, except for our Chief Science Officer and Chief Operating Officer, and we moved our inventory to temporary storage while we searched for a location that would allow us to perform scientific work and sell off our remaining inventory. In November 2016, we secured a verbal agreement with a licensed grower and dispensary and we moved inventory from storage into its warehouse. When our existing inventory is sold, we do not plan to continue the sale of gardening products. We believe there is more value in providing scientific analysis and extraction services to entities that are operating under a cannabis license.

We have developed scientific methods for the analysis of cannabinoids in flowers, concentrates, and edibles through the use of available instruments. As our operations expand, we plan to assist medical marijuana specialty production facilities in order to better regulate, calculate proper dosage, and improve consistency in the product.

Results of Operations

For the Six Months Ended May 31, 2016 Compared to the Six Months Ended May 31, 2015

Our revenue for the six-month period ended May 31, 2016 increased by $212,559 to $279,380, as compared to $66,821 reported for the six-month period ended May 31, 2015. The increase in revenues was due to operation of a retail hydroponics store until February 9, 2016, which we acquired in July 2015. We discontinued our hydroponics business in February 2016 and anticipate that we will become a scientific analysis agricultural-products company in fiscal 2017

For the six-month period ended May 31, 2016, our gross profit amounted to $88,171, which was a increase of $33,575 from the gross profit (loss) of $54,596 reported in the six-month period ended May 31, 2015. The increase in gross profit is directly attributable to the hydroponics store operation in fiscal 2016.

Selling, general and administrative expenses increased by $312,300 or 186%, to $480,266 for the six-month period ended May 31, 2016 from $167,966 reported in the same prior-year fiscal period. The increase is directly attributable to the operations of the hydroponics store, with the additional personnel and selling expense, as compared to the first quarter of fiscal 2015, when we operated as a voice over Internet service provider with one employee.

As a result of the above noted changes, our loss from operations for the six-month period ended May 31, 2016 increased by $278,725 to $392,095 from $113,370 reported in the prior-year fiscal period. However, significant non-operating income and expenses also occurred, thus:

- Interest expense, plus amortization of debt discounts, increased by $100,682 to $695,304 for the six-month period ended May 31, 2016 as compared to $594,622 for the prior-year fiscal period. The increase in interest expense is attributable to larger amounts of amortization of debt discount during fiscal 2016.

- 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, 2016. 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 2016.

- For the six-month period ended May 31, 2016, we reported an impairment loss of $180,000 for an “other than temporary” decline in the market value of restricted securities. We had no impairment losses for the six-month period ended May 31, 2015

- For the six-month period ended May 31, 2016, we reported a gain on the settlement of derivative liabilities of $0, as compared to a gain of $1,232,448 in the six-month period ended May 31, 2015. 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. No settlements occurred during the six-months ended May 31, 2016

- For the six-month period ended May 31, 2016, we had a gain from the change in the valuation of derivative liabilities of $603,576, as compared to a loss of $3,017,461 for the period six-month period ended May 31, 2015. 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 2016 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, 2016 was a net loss of $745,290 compared to a net loss of $436,391 reported in the prior-year fiscal period.

For the Three Months Ended May 31, 2016 Compared to the Three Months Ended May 31, 2015

Our revenue for the three-month period ended May 31, 2016 decreased by $927 or 100%, to $0 as compared to $927 reported for the three-month period ended May 31, 2015. The decrease in revenues was due to the closure of our hydroponics store in 2016.

For the three-month period ended May 31, 2016, our gross profit amounted to $0, which was an increase of $10,672 from the gross profit (loss) of $10,672 reported in the three-month period ended May 31, 2015. The increase in gross profit is attributable to the closure of our hydroponics store in 2016.

Selling, general and administrative expenses increased by $75,467 or 75%, to $176,115 for the three-month period ended May 31, 2016 from $100,648 reported in the same prior-year fiscal period. The increase was primarily due to an increase in employees in fiscal 2016.

As a result of the above noted changes, our loss from operations for the three-month period ended May 31, 2016 increased by $129,795 to $176,115 from $46,320 reported in the prior-year fiscal period. However, significant non-operating income and expenses also occurred, thus:

- Interest expense plus the amortization of debt discounts increased by $125,776 to $360,326 for the three-month period ended May 31, 2016 as compared to $234,550 for the prior-year fiscal period. The increase in interest expense is primarily attributable to larger amounts of amortization of debt discount during fiscal year 2016.

- 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, 2016. 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, 2016, we reported a gain on the settlement of derivative liabilities of $0, as compared to $1,107,495 in the three-month period ended May 31, 2015. 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, 2016, we had a gain from the change in the valuation of derivative liabilities of $44,657, as compared to a loss of $847,720 for the period three-month period ended May 31, 2015. The decrease in the loss in three-month periods ended May 31, 2016 compared to 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.

Our net result for the three-month period ended May 31, 2016 was net loss of $495,785 compared to net income of $1,517,050 reported in the prior-year fiscal period.

Liquidity and Capital Resources

At May 31, 2016, we had cash and cash equivalents of $1,510 and negative working capital of $9,408,932.

Operating activities for the six months ended May 31, 2016 used $238,344 of cash, consisting principally of a net loss of $745,290, offset by approximately $27,000 in non-cash income statement charges and approximately $454,000 in changes in operating assets and liabilities. Operating results 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.

Net cash provided by financing activities aggregated $223,377 and $86,400 for the six-month periods ended May 31, 2016 and 2015, respectively. In the six months ended May 31, 2016, cash provided by financing activities resulted from proceeds from borrowings of $26,810 and related party borrowings of $206,039 offset by principal payments of $9,472. For the six months ended May 31, 2015, cash provided by financing activities resulted from proceeds from short-term borrowing of $130,500, offset by principal payments of $44,100.

Net cash provided by investing activities amounted to $7,499 and $303 for the six-month periods ended May 31, 2016 and 2015. . Cash provided during the six months ended May 31, 2015, is the result of a decrease in cash placed under restriction. 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, 2016 and 2015, we had no capital expenditures.

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, 2015 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, except as described in Note 15. Except as described in Note 15, 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, 2016, the Company issued a total of 126,000,000 shares in exchange for payment in full of a liability of $25,000. 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 15 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
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: December 15, 2016	By: /s/ Paul H. Riss
	Name: Paul H. Riss Title: Chief Executive Officer (Principal Executive Officer) (Principal Financial and Accounting Officer)