

PERVASIP CORP  
Form 10-Q  
November 14, 2014

**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: **August 31, 2014**

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**

Edgar Filing: PERVASIP CORP - Form 10-Q

(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 November 13, 2014, the Company had 1,194,549,997 shares of its common stock, par value \$0.00001 per share, issued and outstanding.

---



**TABLE OF CONTENTS**

|                                                                                               | Page |
|-----------------------------------------------------------------------------------------------|------|
| PART I—FINANCIAL INFORMATION                                                                  |      |
| Item 1. Financial Statements                                                                  | 3    |
| Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations | 19   |
| Item 3. Quantitative and Qualitative disclosures about Market Risk                            | 23   |
| Item 4. Controls and Procedures                                                               | 23   |
| PART II—OTHER INFORMATION                                                                     |      |
| Item 1. Legal Proceedings                                                                     | 24   |
| Item 1A. Risk Factors                                                                         | 24   |
| Item 2. Unregistered Sales of Equity Securities and Use of Proceeds                           | 24   |
| Item 3. Defaults Upon Senior Securities                                                       | 24   |
| Item 4. Mine Safety Disclosures                                                               | 24   |
| Item 5. Other Information                                                                     | 24   |
| Item 6. Exhibits                                                                              | 24   |
| Signatures                                                                                    | 25   |

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

Pervasip Corp. and Subsidiaries

Consolidated Balance Sheets

(Unaudited)

|                                                                                                                        | August 31,<br>2014 | November 30,<br>2013 |
|------------------------------------------------------------------------------------------------------------------------|--------------------|----------------------|
| <b>ASSETS</b>                                                                                                          |                    |                      |
| Current assets:                                                                                                        |                    |                      |
| Cash and cash equivalents                                                                                              | \$7,244            | \$17,242             |
| Marketable securities                                                                                                  | 69,120             | —                    |
| Accounts receivable, net                                                                                               | 23,222             | 67,919               |
| Prepaid expenses and other current assets                                                                              | 15,548             | 26,123               |
| Total current assets                                                                                                   | 115,134            | 111,284              |
| Other assets                                                                                                           | 27,141             | 90,108               |
| Total assets                                                                                                           | \$142,275          | \$201,392            |
| <b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>                                                                           |                    |                      |
| Current liabilities:                                                                                                   |                    |                      |
| Accounts payable and other accrued liabilities                                                                         | \$2,143,997        | \$2,409,194          |
| Accounts payable and other accrued liabilities – related party                                                         | 466,406            | 303,454              |
| Due to Pension Benefit Guaranty Corporation                                                                            | 1,987,255          | 1,914,392            |
| Current portion of long-term debt                                                                                      | 4,239,230          | 3,766,468            |
| Related party debt                                                                                                     | 804,078            | 634,756              |
| Derivative liabilities – current portion                                                                               | 1,145,345          | 362,389              |
| Total current liabilities                                                                                              | 10,786,311         | 9,390,653            |
| Long-term debt, less current portion                                                                                   | —                  | 13,660               |
| Derivative liabilities – long term portion                                                                             | —                  | 1,309,955            |
| Total liabilities                                                                                                      | 10,786,311         | 10,714,268           |
| Stockholders' deficit:                                                                                                 |                    |                      |
| Preferred stock, \$0.00001 par value; 21,000,010 shares<br>authorized, 51 shares issued and outstanding                | —                  | —                    |
| Common stock, \$0.00001 par value; 8,978,999,990 shares<br>authorized, 1,007,549,997 and 799,549,997 shares issued and |                    |                      |

Edgar Filing: PERVASIP CORP - Form 10-Q

|                                             |              |              |
|---------------------------------------------|--------------|--------------|
| outstanding in 2014 and 2013, respectively  | 10,076       | 7,996        |
| Capital in excess of par value              | 41,521,933   | 41,215,776   |
| Accumulated deficit                         | (52,177,228) | (51,737,831) |
| Accumulated other comprehensive income      | 1,183        | 1,183        |
| Total stockholders' deficit                 | (10,644,036) | (10,512,876) |
| Total liabilities and stockholders' deficit | \$ 142,275   | \$ 201,392   |

See accompanying notes to the unaudited consolidated financial statements.

## Pervasip Corp. and Subsidiaries

## Consolidated Statements of Operations

(Unaudited)

|                                                          | For the Nine Months Ended<br>August 31,<br>2014 |                               | For the Three Months Ended<br>August 31, 2014 |                                  |
|----------------------------------------------------------|-------------------------------------------------|-------------------------------|-----------------------------------------------|----------------------------------|
|                                                          |                                                 | August 31, 2013<br>(Restated) | August 31, 2014                               | August 31,<br>2013<br>(Restated) |
| Revenues                                                 | \$478,593                                       | \$698,240                     | \$27,578                                      | \$228,348                        |
| Costs and expenses:                                      |                                                 |                               |                                               |                                  |
| Cost of services                                         | 268,590                                         | 318,419                       | 31,101                                        | 107,347                          |
| Selling, general and administrative                      | 909,876                                         | 1,227,722                     | 187,813                                       | 411,342                          |
| Total costs and expenses                                 | 1,178,466                                       | 1,546,141                     | 218,914                                       | 518,689                          |
| Loss from operations                                     | (699,873 )                                      | (847,901 )                    | (191,336 )                                    | (290,341 )                       |
| Other income (expense):                                  |                                                 |                               |                                               |                                  |
| Interest expense                                         | (1,193,984 )                                    | (2,484,778 )                  | (375,432 )                                    | (808,192 )                       |
| Gain on troubled debt restructuring                      | —                                               | 2,714,461                     | —                                             | —                                |
| Gain on sale of subsidiary                               | 640,180                                         | —                             | —                                             | —                                |
| Gain on settlement of derivative liabilities             | 300,686                                         | 1,493,608                     | —                                             | 149,282                          |
| Gain (loss) on change in derivative liabilities          | 456,915                                         | (68,855 )                     | 412,977                                       | 80,100                           |
| Other income (expense)                                   | 56,679                                          | (150,000 )                    | 56,679                                        | (150,000 )                       |
| Total other income (expense)                             | 260,476                                         | 1,504,436                     | 94,224                                        | (728,810 )                       |
| Net income (loss)                                        | \$(439,397 )                                    | \$656,535                     | \$97,112                                      | \$(1,019,151 )                   |
| 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<br>outstanding: |                                                 |                               |                                               |                                  |
| Basic                                                    | 967,371,815                                     | 556,328,538                   | 1,007,549,997                                 | 729,759,164                      |
| Diluted                                                  | 967,371,815                                     | 1,243,316,035                 | 1,007,549,997                                 | 729,759,164                      |

See accompanying notes to the unaudited consolidated financial statements.



## Pervasip Corp. and Subsidiaries

## Condensed Consolidated Statements of Cash Flows

(Unaudited)

|                                                                                      | For the Nine Months<br>Ended |                                  |
|--------------------------------------------------------------------------------------|------------------------------|----------------------------------|
|                                                                                      | August 31,<br>2014           | August 31,<br>2013<br>(Restated) |
| Operating activities:                                                                |                              |                                  |
| Net income (loss)                                                                    | \$(439,397)                  | \$656,535                        |
| Adjustments to reconcile net income (loss) to net cash used in operating activities: |                              |                                  |
| Stock-based compensation                                                             | 19,937                       | 20,161                           |
| Change in fair value of marketable securities                                        | (57,120 )                    | —                                |
| Amortization of debt discount                                                        | 744,406                      | 2,575,610                        |
| Amortization of financing costs                                                      | 67,069                       | 43,529                           |
| Gain on troubled debt restructuring                                                  | —                            | (2,714,461)                      |
| Gain on sale of subsidiary                                                           | (640,180)                    | —                                |
| Gain on settlement of derivative liabilities                                         | (300,686)                    | (1,493,608)                      |
| Change in fair value of derivative liabilities                                       | (456,915)                    | 68,855                           |
| Changes in operating assets and liabilities:                                         |                              |                                  |
| Accounts receivable                                                                  | 44,697                       | (2,850 )                         |
| Marketable securities                                                                | (12,000 )                    | —                                |
| Prepaid expenses and other current assets                                            | 10,575                       | (8,761 )                         |
| Other assets                                                                         | (4,102 )                     | (95,338 )                        |
| Accounts payable and accrued liabilities                                             | 455,089                      | 239,192                          |
| Accounts payable and accrued liabilities – related party                             | 294,199                      | 1,140                            |
| Due to Pension Benefit Guaranty Corporation                                          | 72,863                       | 69,325                           |
| Net cash used in operating activities                                                | (201,565)                    | (640,671 )                       |
| Cash flows from financing activities:                                                |                              |                                  |
| Proceeds from borrowings                                                             | 354,575                      | 602,000                          |
| Principal payments of debt                                                           | (163,008)                    | (36,034 )                        |
| Proceeds from exercise of stock warrants                                             | —                            | 68,000                           |
| Net cash provided by financing activities                                            | 191,567                      | 633,966                          |
| Decrease in cash and cash equivalents                                                | (9,998 )                     | (6,705 )                         |
| Cash and cash equivalents at beginning of period                                     | 17,242                       | 12,366                           |
| Cash and cash equivalents at the end of period                                       | \$7,244                      | \$5,661                          |
| Supplemental disclosure of cash flow information:                                    |                              |                                  |
| Cash paid during the period for:                                                     |                              |                                  |
| Income taxes                                                                         | \$—                          | \$—                              |
| Interest                                                                             | \$59,835                     | \$7,182                          |
| Non-cash financing transactions:                                                     |                              |                                  |
| Fair value of derivative liabilities to discount on debt                             | \$230,836                    | \$3,292,892                      |

Edgar Filing: PERVASIP CORP - Form 10-Q

|                                                         |           |             |
|---------------------------------------------------------|-----------|-------------|
| Conversion of accrued liabilities to debt               | \$249,190 | \$—         |
| Conversion of debt to equity                            | \$287,500 | \$1,291,878 |
| Conversion of embedded derivative liabilities to equity | \$300,920 | \$1,983,334 |

See accompanying notes to the unaudited consolidated financial statements.

5

---

PERVASIP CORP.

Notes To Consolidated Financial Statements

Unaudited

Note 1– Basis of Presentation

The accompanying unaudited 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. Operating results for the nine-month period ended August 31, 2014, are not necessarily indicative of the results that may be expected for the year ended November 30, 2014. 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, 2013.

During the nine months ended August 31, 2014, the Company sold a non-operating subsidiary for \$100. In connection with the sale, the Company recorded a gain of \$640,180, which represented the difference of the proceeds received and the net liabilities of the subsidiary that was sold.

For a summary of significant accounting policies (which have not changed from November 30, 2013), see the Company's Annual Report on Form 10-K for the year ended November 30, 2013.

*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.

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 continuing operations in recent years and as of August 31, 2014, the Company has negative working capital of \$10,671,177 and a stockholders' deficit of \$10,644,036. 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, lease and 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:

1. Seek to raise debt or equity to pay off existing debt agreements, and to market its mobile VoIP app to increase revenues.
2. Examine other businesses that it can incubate, own a percentage of or merge with so as to eliminate its stockholders' deficit.

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

There were no recent accounting pronouncements that have had a material effect on the Company's financial position or results of operations.

#### Note 4 – Major Customers

As of August 31, 2014, two customers accounted for 17% and 15% of the Company's accounts receivable. At November 30, 2013, one customer constituted 57% of the Company's accounts receivable.

During the nine-month and three-month periods ended August 31, 2014, one customer accounted for 26% and 11%, respectively, of the Company's revenues. A second customer accounted for 29% and 2%, respectively, of the Company's revenues. A third customer accounted for 6% and 17%, respectively, of the Company's revenues.

During the nine-month and three-month periods ended August 31, 2013, one customer accounted for 38% of the Company's revenues.

7

---

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.

|                                                      | Nine months ended August 31, |               | Three months ended August 31, |                  |
|------------------------------------------------------|------------------------------|---------------|-------------------------------|------------------|
|                                                      | 2014                         | 2013          | 2014                          | 2013             |
| Net income (loss) - basic                            | \$(439,397                   | ) \$656,655   | \$(97,112                     | ) \$(1,019,151 ) |
| Interest expense – convertible notes                 | —                            | 385,944       | —                             | —                |
| Net income (loss) - diluted                          | \$(439,937                   | ) \$1,042,479 | \$(97,112                     | ) \$(1,019,151 ) |
| Weighted average common shares outstanding - basic   | 967,371,815                  | 556,328,538   | 1,007,549,997                 | 729,759,164      |
| Effect of dilutive securities                        | —                            | 686,887,497   | —                             | —                |
| Weighted average common shares outstanding – diluted | 967,371,815                  | 1,243,216,035 | 1,007,549,997                 | 729,759,164      |
| 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 9,540,651,000 shares of common stock issuable upon the exercise of our outstanding stock options, warrants or convertible debt were excluded from the calculation of net income (loss) per share for the nine-month period ended August 31, 2014 because the effect would be anti-dilutive. Approximately 9,540,651,000 shares and 10,165,000 shares of common stock issuable upon the exercise of our outstanding stock options, warrants or convertible debt were excluded from the calculation of net income (loss) per share for the three-month periods ended August 31, 2014 and 2013, 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 nine-month periods ended August 31, 2014 and 2013, the Company recorded \$19,937 and \$20,161, respectively, in stock-based compensation expense. As of August 31, 2014, there was \$5,930 of 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 August 31, 2014 and November 30, 2013, 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 at August 31, 2014 and November 30, 2013 was \$1,987,255 and \$1,914,392, respectively, including accrued interest, which is recorded as a current liability. The Company made no payments to the Plan in the nine-month periods ended August 31, 2014 and 2013. 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 nine or three-month periods ended August 31, 2014 and 2013. During the nine-month periods ended August 31, 2014 and 2013, the Company recorded interest expense of \$72,863 and \$69,325, respectively, in the pension obligation.

Note 9 – Debt

|                                              | August 31,<br>2014 | November<br>30, 2013 |
|----------------------------------------------|--------------------|----------------------|
| Debt due to Laurus                           | \$2,226,441        | \$2,108,498          |
| Convertible debt due to Factor Fund          | 1,945,190          | 2,182,690            |
| Convertible debt due to various lenders      | 395,750            | 243,250              |
| Other short-term debt due to various lenders | 161,182            | 248,592              |
| Total debt                                   | 4,728,563          | 4,783,030            |
| Less: current portion of long-term debt      | 4,239,230          | 3,766,468            |
| Less: discount on debt                       | 489,333            | 1,002,902            |
| Total long-term debt                         | \$—                | \$13,660             |

Debt due to Laurus

As of August 31, 2014 and November 30, 2013, the Company owed a third party lender, LV Administrative Services, Ltd., as agent for Laurus Master Fund, Ltd. and various affiliates thereof ("Laurus"), \$2,226,441 and \$2,108,498, 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. 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 has signed an agreement, on two separate occasions, to sell all of its debt at a discount to a third party, however the third parties have not fulfilled all of their terms of the agreements and \$2,226,441 and \$2,108,498 of debt remains due to Laurus at August 31, 2014 and November 30, 2013, respectively.

During the nine months ended August 31, 2013, the Company recorded a troubled debt restructuring gain of \$2,714,461. The Company recorded this troubled debt restructuring gain as a result of debt forgiveness by Laurus in exchange for repayments of reduced amounts from other lenders.

Convertible debt due to Factor Fund

In March 2013, 112359 Factor Fund, LLC (the “Fund”), was assigned \$6,368,078 of outstanding debt owed to Laurus, which the Fund could satisfy in full by making certain payments to Laurus. At November 30, 2013, the Fund still owed Laurus \$100,000 in connection with the assignment agreement. After the Fund makes the last \$100,000 payment owed to Laurus the existing liens on the Company’s assets will be transferred from Laurus to the Fund, and the remaining obligation the Company owes Laurus (\$2,226,441 at August 31, 2014) will be reduced to \$0.

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 certain payments to Laurus), payment to the Company of \$150,000, and the agreement to purchase and cancel an existing convertible debenture in the amount of approximately \$35,000.

Absent earlier redemption, the Amended Notes mature on December 31, 2014. 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 average of the five lowest days’ volume weighted average price of the common stock for the 30 trading days immediately prior to the conversion date. During the nine-month periods ending August 31, 2014 and 2013, the Fund converted \$277,500 and \$592,310 of principal into 203,000,000 shares and 279,958,599 shares of common stock of the Company, respectively.

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.

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 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 of \$665,000 (the "New Note"). The additional funding under the New Note also provided cash to purchase two outstanding convertible debentures for an aggregate price of \$99,360; cash for operations of \$60,000; 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, 2014. The Fund can elect at any time to convert any portion of the New Note into shares of common stock of the Company at 60% of the lowest volume weighted average price of the common stock for the 20 trading days immediately prior to the conversion date. The Company received an aggregate of \$300,000 in cash 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 note 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 \$67,123 at the issuance date. Debt discount was recorded up to the \$40,000 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 was \$27,123 and was recognized immediately as 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 is included in other income (expense) and has been 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 desires to convert existing debt into shares of common stock.

The Amended Notes and New Note 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 and former chief information officer pledged their combined voting control of the Company pursuant to a stock pledge agreement executed by the two officers in favor of the Fund, to further secure the Company's obligations under the Amended Notes. If an event of default occurs under the security agreement, the stock pledge agreement, the Amended Notes or the New 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.

In connection with the financings, the Company has agreed, so long as 25% of the principal amount of the financings are outstanding, to certain restrictive covenants, including, among others, that the Company will not declare or pay any dividends, issue any preferred stock that is subject to mandatory redemption prior to the one year anniversary of the maturity date as defined in the agreement, redeem any of its preferred stock or other equity interests, dissolve, liquidate or merge with any other party unless, in the case of a merger, the Company is the surviving entity, materially alter or change the scope of the Company's business, incur any indebtedness except as defined in the agreement, or assume, guarantee, endorse or otherwise become directly or contingently liable in connection with any other party's obligations. To secure the payment of all obligations to the lender, the Company entered into a Master Security Agreement that assigns and grants to the lender a continuing security interest and first lien on all of the assets of the Company and its subsidiaries. This lien will be satisfied and Laurus will release all of its collateral upon receipt of the remaining \$100,000 due from the Fund.

During the nine-month periods ending August 31, 2014 and 2013, the Fund converted \$277,500 and \$592,310 of principal into 203,000,000 and 279,958,599 shares of common stock of the Company, respectively.

As of August 31, 2014 and November 30, 2013, the Company owed the Fund \$1,945,190 and \$2,182,690, respectively.

#### Convertible Debt due to various lenders

At August 31, 2014, convertible debt due to various lenders consisted of notes for \$120,000, \$98,000, \$67,750, \$40,000, \$37,500 and \$32,500, for a total of \$395,750, all of which are classified as current obligations as they all mature within the next twelve months. Four of these six notes were outstanding at November 30, 2013. The \$120,000 and the \$32,500 notes were issued in the first quarter of fiscal 2014. The interest rates on these notes ranges from 0% to 12.75%.

**Convertible debt with a fixed conversion rate**

At August 31, 2014 and November 30, 2013, the Company owed a lender \$138,000 in connection 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 nine-month period ended August 31, 2013, two notes totaling \$31,000, previously owed to the CEO of the Company, were assigned to third parties and modified to be convertible debt with a conversion rate of \$0.001 and \$0.005 per common share and a 0% to 24% interest rate. The \$31,000 of debt was converted into 11,000,000 shares of common stock of the Company. No conversions of debt with a fixed conversion rate occurred in the nine months ended August 31, 2014.

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

During the nine months ended August 31, 2014, the Company received a total of \$152,500 in cash from lenders for convertible debt. The convertible debt bears interest at 8% and is due between September and October 2104. The lenders can elect at any time to convert any portion of such debt into shares of common stock of the Company at discounts ranging from 30% to 42% of the market price of the common stock as defined in the agreements.

The conversion price of the \$152,500 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 notes was \$163,714 at the issuance dates. The debt was recorded a debt discount of \$152,102 and is amortized to interest expense over the term of the note. The variance to the fair value of \$11,612 was recognized as an initial loss and recorded to change in fair value of derivative liabilities

During the nine month period ended August 31, 2013, the Company received \$60,000 in cash from a lender for convertible debt. The convertible debt bears interest at 8% and was due between September and October 2013. 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 42% of the market price of the Company’s common stock, as defined in the agreement.

The conversion price of the \$60,000 notes was 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.

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

During the nine-month periods ended August 31, 2014 and 2013, no other debt with a variable conversion rate was assigned to a lender. At August 31, 2014 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.

Other short-term debt due to various lenders

During the nine months ended August 31, 2014 and 2013, the Company received \$114,000 and \$60,000, respectively from lenders in exchange for notes payable.

At August 31, 2014 and November 30, 2013, the Company owed various lenders \$161,182 and \$248,592, respectively. Cash payments were made on these notes of \$163,008 and \$36,034 during the nine months ended August 31, 2014 and 2013, respectively. Other short-term debt carries an interest rate of approximately 35% to 120% over the term of the loans. Certain of these notes are secured by assets of the Company. These notes are currently in default.

During the nine months ended August 31, 2014, the Company converted \$287,500 of notes and the related derivative liability of \$300,920 and recorded a gain on the settlement of derivative liabilities of \$300,686.

During the nine months ended August 31, 2013, the Company converted \$1,291,878 of notes and the related derivative liability of \$1,983,334 and recorded a gain on the settlement of liabilities of \$1,493,608.



Note 10 - Derivative Liabilities

The Company evaluated its convertible note agreements pursuant to ASC 815 and due to there being 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 2014, the Company estimated the fair value of the derivatives using the Black-Scholes valuation method with assumptions including: (1) term of 0 to 0.15 years; (2) a computed volatility rate of 230%; (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 2013, the Company estimated the fair value of the derivatives using the Black-Scholes valuation method with assumptions including: (1) term of 0.33 to 1.33 years; (2) a computed volatility rate of 268%; (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 2014, the Company estimated the fair value of the derivative using the Black-Scholes valuation method with assumptions including: (1) term of 0 to 0.33 years; (2) a computed volatility rate of 230%; (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 2013, the Company estimated the fair value of the derivative using the Black-Scholes valuation method with assumptions including: (1) term of 0 to 1.33 years; (2) a computed volatility rate of 268%; (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 stock options and warrants*

The Company also evaluated all outstanding warrants and options 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 stock options and warrants using the Black-Scholes valuation model.

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 6.73 years; (2) a computed volatility rate of 230%; (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 2013, the Company estimated the fair value of the derivative using the Black-Scholes valuation method with assumptions including: (1) term of 1.0 to 7.73 years; (2) a computed volatility rate of 268%; (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 nine months ended August 31, 2014 was as follows:

|                           | Balance at<br>November<br>30,<br>2013 | Initial<br>valuation<br>of<br>derivative<br>liabilities<br>upon<br>issuance<br>of new<br>securities<br>during<br>the period | Change in<br>fair value<br>of<br>derivative<br>liabilities | Exercise<br>of stock<br>options/<br>warrants | Conversion<br>of debt<br>to equity | Balance at<br>August 31,<br>2014 |
|---------------------------|---------------------------------------|-----------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------|----------------------------------------------|------------------------------------|----------------------------------|
| Variable convertible debt | \$1,467,182                           | \$230,836                                                                                                                   | \$(254,972)                                                | \$ —                                         | \$(300,920)                        | \$1,142,126                      |
| Tainted convertible debt  | 139,953                               | —                                                                                                                           | (139,879)                                                  | —                                            | —                                  | 74                               |
| Tainted stock options     | 30,343                                | —                                                                                                                           | (27,480 )                                                  | —                                            | —                                  | 2,863                            |
| Tainted warrants          | 34,866                                | —                                                                                                                           | (34,584 )                                                  | —                                            | —                                  | 282                              |
|                           | \$1,672,344                           | \$230,837                                                                                                                   | \$(456,916)                                                | \$ —                                         | \$(300,920)                        | \$1,145,345                      |

Activity for embedded derivative instruments during the nine months ended August 31, 2013 was as follows:

|                           | Balance at<br>November<br>30,<br>2012 | Initial<br>valuation<br>of<br>derivative<br>liabilities<br>upon<br>issuance of<br>new<br>securities<br>during<br>the period | Change in<br>fair value<br>of<br>derivative<br>liabilities | Debt<br>Retirement | Conversion<br>of debt<br>to equity | Balance at<br>August 31,<br>2013 |
|---------------------------|---------------------------------------|-----------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------|--------------------|------------------------------------|----------------------------------|
| Variable convertible debt | \$361,760                             | \$3,292,892                                                                                                                 | \$(122,185)                                                | 210,107            | \$(1,730,109)                      | \$1,592,251                      |
| Tainted convertible debt  | 264,189                               | —                                                                                                                           | 208,615                                                    | —                  | (253,225 )                         | 219,579                          |
| Tainted stock options     | 49,483                                | —                                                                                                                           | (27,711 )                                                  | —                  | —                                  | 21,772                           |
| Tainted warrants          | 27,973                                | —                                                                                                                           | 10,136                                                     | —                  | —                                  | 38,109                           |
|                           | \$703,405                             | \$3,292,892                                                                                                                 | \$68,855                                                   | 210,107            | \$(1,983,334)                      | \$1,871,711                      |

Note 11 – Income Taxes

At August 30, 2014, the Company had net operating loss carryforwards for federal income tax purposes of approximately \$27,500,000 that expire in the years 2014 through 2034. The Company has provided an allowance for the full value of the related deferred tax asset since it is more likely than not that none of such benefit will be realized. Utilization of the net operating losses may be subject to annual limitations provided by Section 382 of the Internal Revenue Code and similar state provisions.

Note 12 – Stockholders' Equity

As discussed in Note 9, we entered into various transactions where we issued convertible notes to third parties in exchange for existing notes payable with various lenders. Such convertible notes allowed the new debt holders to convert outstanding debt principal into shares of the Company's 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 nine-month period ended August 31, 2014, \$277,500 of principal was converted into 203,000,000 shares of common stock, which was valued at \$278,800 at the time of conversion. Also during the first quarter of 2014, the Company settled an outstanding debt payable to its chief executive officer of \$10,565 for 5,000,000 shares of common stock, which was valued at \$9,500 at the time of the conversion, resulting in a gain of \$1,065.

Effective April 4, 2014, the Company changed the par value of its common stock from \$0.001 to \$0.00001 per share and increased its authorized shares of common stock from 1,500,000,000 to 8,978,999,990. All prior period amounts have been adjusted to reflect this change.

Note 13 – Related Party Transactions

In connection with software development costs, we paid fees to a third-party intellectual property development firm (the "Consultant") for the nine-month periods ended August 31, 2014 and 2013, of \$121,500 and \$143,500, respectively, and \$25,500 and \$48,000 for the three-month periods ended August 31, 2014 and 2013 respectively. One of our 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.

During the nine months ended August 31, 2014, the Company borrowed \$48,075 from its Chief Executive Officer. The debt is payable on demand and bears an annual interest rate of 24%.

At August 31, 2014 and November 30, 2013, we owed our chief executive officer \$1,270,484 and \$938,210, respectively, for loans he provided to the Company, unpaid salary and unpaid business expenses. During the first nine months of fiscal 2014, the Company settled an outstanding debt payable to the chief executive officer of \$10,565 for 5,000,000 shares of common stock, which was valued at \$9,500 at the time of the conversion, resulting in a gain of \$1,065. No such transaction occurred during the first nine months of fiscal 2013.

Note 14 – 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 August 31, 2014 and November 30, 2013, classified in the three classifications described above:

The marketable securities include equity securities measured at fair value using the quoted market prices in active markets at the reporting date. These measurements are classified as Level 1 within the fair value of hierarchy

The fair value of the derivatives that are traded in less active over-the-counter markets are generally measured using pricing models with market observable inputs such as interest rates and equity index levels. These measurements are classified as Level 2 within the fair value of hierarchy.

|                       | Total         | (Level 1) | (Level 2)     | (Level 3) |
|-----------------------|---------------|-----------|---------------|-----------|
| August 31, 2014       |               |           |               |           |
| Marketable securities | \$69,120      | \$69,120  | —             | —         |
| Derivative liability  | \$(1,145,345) | —         | \$(1,145,345) | —         |
| November 30, 2013     |               |           |               |           |
| Derivative liability  | \$(1,672,344) | —         | \$(1,672,344) | —         |

Note 15 – Restatement

Edgar Filing: PERVASIP CORP - Form 10-Q

During 2014, 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 nine and three-month periods ended August 31, 2013. The restatement resulted in a gain of \$656,535 for the nine-month period ended August 31, 2013, or a decrease of \$658,013, as compared to a gain of \$1,314,548 that had previously been reported, and a loss of \$1,019,151 for the three-month period ended August 31, 2013, or a decrease \$457,466, as compared to a loss of \$561,685 that had previously been reported.

The Company restated its consolidated financial statements as of and for the nine months ended August 31, 2013 as follows:

|                                                | Nine Months Ended August 31, 2013 |                 |             |
|------------------------------------------------|-----------------------------------|-----------------|-------------|
|                                                | As<br>Originally<br>Reported      | Adjustments     | As Restated |
| Interest expense                               | \$587,856                         | \$1,896,922 (1) | \$2,484,778 |
| (Gain) loss on settlement of liabilities       | —                                 | (1,493,608) (3) | (1,493,608) |
| (Gain) loss on value of derivative liabilities | (185,844 )                        | 254,699 (2)     | 68,855      |
| Other income                                   | 2,162,449                         | (658,013 )      | 1,504,436   |
| Net income                                     | 1,314,548                         | (658,013 )      | 656,535     |



Adjustments to consolidated financial statements:

- (1) To record debt discount on convertible debentures.
- (2) To record derivative liabilities for tainted options and warrants.
- (3) To record gain on the settlement of derivative liabilities.

The Company restated its consolidated financial statements as of and for the three months ended August 31, 2013 as follows:

|                                                | Three Months August 31, 2013 |             |                |
|------------------------------------------------|------------------------------|-------------|----------------|
|                                                | As Originally Reported       | Adjustments | As Restated    |
| Interest expense                               | \$ 181,522                   | \$ 626,670  | (1) \$ 808,192 |
| (Gain) loss on settlement of liabilities       | —                            | (149,282 )  | (3) (149,282 ) |
| (Gain) loss on value of derivative liabilities | (60,178 )                    | (19,922 )   | (2) (80,100 )  |
| Other income                                   | (271,344 )                   | (457,466 )  | (728,810 )     |
| Net income                                     | (561,685 )                   | (457,466 )  | (1,019,151 )   |

Adjustments to consolidated financial statements:

- (1) To record debt discount on convertible debentures.
- (2) To record derivative liabilities for tainted options and warrants.
- (3) To record gain on the settlement of derivative liabilities.

Note 16 - Subsequent Events

***Sale of assets and liabilities of a wholly-owned subsidiary of the Company***

On September 30, 2014, a wholly-owned subsidiary of the Company entered into a contract of sale to transfer certain assets and liabilities, including a copy of internally developed mobile content delivery software to Vaxstar LLC (the “Buyer”). The Buyer simultaneously assigned the contract of sale to Valuesettters, Inc. (the “Assignee”).

The Buyer agreed to pay the Company 40,000,000 shares of common stock, par value \$0.001, of the Assignee. If annual revenues in the second year of operations of the business exceed \$1,000,000, the Company will receive an additional 9,900,000 shares of Assignee’s common stock.

The Company and the Assignee signed a license agreement that allows the Company a non-exclusive right to use the software. In addition, the Company agreed to become a wholesale customer of the Assignee, and the Assignee agreed to provide technical and customer support services for the Company's customers.

*Debt matters*

On September 4, 2014, a lender converted \$5,025 of debt into 50,250,000 shares of common stock.

On September 8, 2014, a default judgment in the amount of \$70,000 was filed in Nassau County New York against the Company for failure to pay promissory notes owed to a lender.

On September 11, 2014, a lender converted \$2,190 of debt into 36,500,000 shares of common stock.

On September 11, 2014, Factor Fund converted \$10,000 of debt into 50,000,000 shares of common stock.

On September 23, 2014, the Company issued its CEO one share of Series E Preferred Stock for the conversion of a note and accrued interest of \$14,721. The Series E Preferred Stock provides a voting right of 4 times the value of the total number of common stock issued and outstanding at the time of voting. As a result, the shareholder of the Series E Preferred share has voting control of the company.

On October 6, 2014, a lender converted \$3,015 of debt into 50,250,000 shares of common stock.

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

The continued growth in both mobile telephone services and video telephone services has resulted in a rapidly growing mobile VoIP market that allows subscribers to make inexpensive calls from their mobile phones or tablets instead of using costly airtime minutes. We offer our mobile VoIP service to Android and Apple devices as a download from the app stores for Android or Apple users. We offer a free trial that allows subscribers to call up to 60 countries for 60 minutes with a temporary phone number.

A paid subscriber is able to download, over an Internet connection, a real telephone number that allows the subscriber to make or receive a low-cost mobile telephone call to any person on the public switched telephone network (the "PSTN"). We currently offer telephone numbers from 57 countries to be downloaded to a subscriber's Android phone or tablet.

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

## **Plan of Operation**

To enhance our ability to raise capital and decrease our fixed overhead costs, on September 30, 2014, we sold our technology to Valuesetters, Inc., (the “Buyer”) The Buyer assumed approximately \$51,000 in monthly recurring fixed overhead costs, including rental costs of a collocation facility and salaries, and took most of our customer base. As part of the transaction, we retained ownership of a copy of our VoIP software and became a wholesale customer of the Buyer. Consequently, we continue to offer all the services that we offered prior to the sale on September 30, 2014, but we pay for customer support services and VoIP services on a variable cost basis, which eliminates a significant portion of our monthly cash requirements..

In addition to Internet marketing to sell our product, we plan to approach various companies that have the potential to distribute our VoIP product, such as IPTV companies, who have established customer bases with Internet usage.

## **Results of Operations**

*For the Nine Months Ended August 31, 2014 Compared to the Nine Months Ended August 31, 2013*

Our revenue for the nine-month period ended August 31, 2014 decreased by \$219,647, or 31%, to \$478,593, as compared to \$698,240 reported for the nine-month period ended August 31, 2013. The decrease in revenues was mainly due to the decrease in business from our two largest wholesale customers during the third quarter of 2014. The revenue decrease forced us to make personnel cuts during the third quarter, and in the fourth quarter we sold most of our customers in a transaction that shifted approximately \$51,000 in monthly recurring costs to a third party in exchange for shares of stock with a market value of \$440,000 at closing. Given the large addressable market for mobile apps and the advantages that our mobile app offers consumers for low-cost calling, and free text messaging, voice and video calls to other app users, we plan to focus on the mobile app product in the fourth quarter and work to rebuild our business with a lower overhead cost structure.

For the nine-month period ended August 31, 2014, our gross profit amounted to \$210,003, which was a decrease of \$169,818 from the gross profit of \$379,821 reported in the nine-month period ended August 31, 2013. The reduction in gross profit is attributable to the reduction of revenue for the period.

Selling, general and administrative expenses decreased by \$317,846, or 26%, to \$909,876 for the nine-month period ended August 31, 2014 from \$1,227,722 reported in the same prior-year fiscal period. The decrease was primarily due to a reduction in personnel cost that we implemented in conjunction with our decrease in sales.

As a result of the reduction in our selling, general and administrative expenses, our loss from operations for the nine-month period ended August 31, 2014 decreased by \$148,028 to \$699,873 from \$847,901 reported in the prior fiscal period. However, significant non-operating income and expenses impact our results, thus:

- Interest expense decreased by \$1,290,794 to \$1,193,984 for the nine-month period ended August 31, 2014 as compared to \$2,484,778 for the prior fiscal period. The decrease in interest expense is attributable to large borrowings in fiscal 2013 in which debt discounts equaled or exceeded the face value of new promissory notes, resulting in significant amounts of amortization of debt discount.

- For the nine-month period ended August 31, 2014, we reported no gain on troubled debt restructuring as compared to a gain on troubled debt restructuring of \$2,714,461 for the nine-month period ended August 31, 2013. The gain was the result of a one-time transaction negotiated with a lender.
- For the nine-month period ended August 31, 2014, we reported a gain of \$640,180 on the sale of a subsidiary. No such gain was reported in the prior fiscal period.
- For the nine-month period ended August 31, 2014, we reported a gain on the settlement of liabilities of \$300,686, as compared to a gain of \$1,493,608 reported in the prior fiscal period. Each instance of a liability settlement is contingent upon the terms that we can negotiate for a particular transaction.
- For the nine-month period ended August 31, 2014, we reported other income of \$56,679, as compared to other expense of \$150,000 reported in the prior fiscal period. Other income consisted of an unrealized gain on the increased value of trading securities. Other expense consisted of a miscellaneous financing fee.
- For the nine-month period ended August 31, 2014, we had a gain on the change in value of derivative liabilities of \$456,915, as compared to a loss of \$68,855 for the nine-month period ended August 31, 2013. Any change in the market value of derivative liabilities is contingent on the 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 nine-month period ended August 31, 2014, then, was a net loss of \$439,397, compared to net income of \$656,535 recorded in the prior-year fiscal period. In fiscal 2013, the net income occurred only because the noncash gain we realized through the restructuring and settlement of our debt exceeded the losses we incurred from the remainder of our business.

*For the Three Months Ended August 31, 2014 Compared to the Three Months Ended August 31, 2014*

Our revenue for the three-month period ended August 31, 2014 decreased by \$200,770, or 88%, to \$27,578, as compared to \$228,348 reported for the three-month period ended August 31, 2013. The decrease in revenues was mainly due to the loss of almost all revenues from our two largest wholesale customers. Traffic from our wholesale customers, who use multiple service providers, has been more erratic than in prior years and one customer who billed approximately \$52,000 in revenues in the month of May only billed \$5,000 for the entire third quarter. A second wholesale customer that has billed approximately \$134,000 year-to-date is now billing less than \$100 a month.



For the three-month period ended August 31, 2014, our gross loss amounted to \$3,523, which was a decrease of \$124,524 from the gross profit of \$121,001 reported in the three-month period ended August 31, 2013. The reduction in gross profit is attributable to the decrease in our wholesale business.

Selling, general and administrative expenses decreased by \$223,529, or 54%, to \$187,813 for the three-month period ended August 31, 2014 from \$411,342 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 decrease in our wholesale business.

Our loss from operations for the three-month period ended August 31, 2014 increased by \$99,055 to \$191,336 from \$290,341 reported in the prior-year fiscal period. However, significant non-operating income and expenses also occurred, thus:

- Interest expense decreased by \$432,760 to \$375,432 for the three-month period ended August 31, 2014 as compared to \$808,192 for the prior-year fiscal period. The decrease in interest expense is attributable to less debt outstanding and large borrowings in fiscal 2013 in which debt discounts equaled or exceeded the face value of new promissory notes, resulting in significant amounts of amortization of debt discount.

- For the three-month period ended August 31, 2013, we reported a gain on settlement of liabilities of \$149,282, as compared to no transactions reported in the three-month period ended August 31, 2014. Each instance of a liability settlement is contingent upon the terms we can negotiate for a particular transaction.
- For the three-month period ended August 31, 2014, we reported other income of \$56,679, as compared to other expense of \$150,000 reported in the prior fiscal period. Other income consisted of an unrealized gain on the increased value of trading securities and the collection of a debt that had previously been written off. Other expense consisted of a miscellaneous financing fee.
- For the three-month period ended August 31, 2014, we had a gain from the change in the valuation of derivative liabilities of \$412,997, as compared to a gain of \$80,100 for the period three-month period ended August 31, 2013. The gains in both fiscal periods are 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 three-month period ended August 31, 2014 was a net loss \$97,112, compared to a net loss of \$1,109,151 recorded in the prior-year fiscal period.

### **Liquidity and Capital Resources**

At August 31, 2014, we had cash and cash equivalents of \$7,244 and negative working capital of \$10,671,177.

Operating activities for the nine months ended August 31, 2014 used \$201,565 of cash, consisting principally of operating losses of \$439,397, offset by approximately \$624,000 in non-cash income statement charges and approximately \$862,000 in changes in operating assets and liabilities. Operating results for the nine months ended August 31, 2013 used \$640,671 of cash, consisting principally of net income of \$656,535 offset by approximately \$1,784,000 in non-cash income statement charges and approximately \$200,000 in changes in operating assets and liabilities.

Net cash provided by financing activities aggregated \$191,567 and \$633,966 in the nine-month periods ended August 31, 2014 and 2013, respectively. In fiscal 2014, cash provided by financing activities resulted from proceeds from short-term borrowings of \$354,575, less repayments of debt of \$163,008. In fiscal 2013, cash provided by financing activities resulted from proceeds from short-term borrowing of \$602,000 and proceeds of \$68,000 from the sale of warrants, less repayments of debt of \$36,034.

For the nine months ended August 31, 2014 and 2013, we had no capital expenditures. We do not expect to make equipment purchases in the remainder of fiscal 2014.

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, 2013 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"), telecom taxation requirements and the financial reporting requirements of the SEC;

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

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

*(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.**

None

### **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.**

On September 12, 2014, the Company's board of directors approved the issuance of one share of Series E Preferred Stock to the Company's Chief Executive Officer. The total aggregate issued shares of Series E Preferred Stock at any given time, regardless of their number, shall have voting rights equal to four times the sum of i) the total number of shares of common stock which are issued and outstanding at the time of voting, plus ii) the total number of shares of Series A, Series B, Series C, Series D, Series F, Series G Preferred Stocks which are issued and outstanding at the time of voting. As a result, the holders of the Series E Preferred Stock have voting control of the company.

**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:

November 13, 2014 By: /s/ Paul H. Riss

Name: Paul H. Riss  
Title: Chief Executive Officer

(Principal Executive Officer)

(Principal Financial and

Accounting Officer)