

PERVASIP CORP
Form 10-K
December 15, 2016

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended: **November 30, 2015**

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

For the transition period from _____ to _____

Commission File Number: 000-04465

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

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

430 North Street

White Plains, NY 10605
(Address of Principal Executive Offices)

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(914) 750-9339

(Registrant's telephone number, including area code)

Securities registered under Section 12(b) of the Exchange Act: **None**

Securities registered under Section 12(g) of the Exchange Act:

Common Stock, par value \$0.00001 per share

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

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

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

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

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

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

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

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

The aggregate market value of registrant’s voting and non-voting common equity held by non-affiliates (as defined by Rule 12b-2 of the Exchange Act) computed by reference to the average bid and asked price of such common equity on May 31, 2015, was \$4,777,985.

As of November 30, 2016, the registrant has one class of common equity, and the number of shares outstanding of such common equity was 3,778,005,709.

Documents Incorporated By Reference: None.

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Special Note Regarding Forward-Looking Statements

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

- The availability of additional funds to successfully pursue our business plan;
- The cooperation of our lenders;
- The cooperation of industry service partners that have signed agreements with us;
- Our ability to market our services to current and new customers and generate customer demand for our products and services in the geographical areas in which we operate;
- The impact of changes in federal and state laws impacting the industries in which we operate;
- Our ability to comply with provisions of our financing agreements;
- The highly competitive nature of cloud-based products;
- The acceptance of cloud-based technologies by mainstream consumers;
- Our ability to retain key personnel;
- Our ability to maintain adequate customer care and manage our churn rate;
- The impact of adverse tax or regulatory rulings or actions affecting our operations, including the imposition of taxes, fees and penalties;
- Our ability to maintain, attract and integrate internal management, technical information and management information systems;
- Our ability to manage rapid growth while maintaining adequate controls and procedures;
- The availability and maintenance of suitable vendor relationships, in a timely manner, at reasonable cost;
- The decrease in prices to consumers brought about by intense competition in cloud-based products; and
- General economic conditions.

These forward-looking statements are subject to numerous assumptions, risks and uncertainties that may cause our actual results to be materially different from any future results expressed or implied by us in those statements.

These risk factors should be considered in connection with any subsequent written or oral forward-looking statements that we or persons acting on our behalf may issue. All written and oral forward-looking statements made in connection with this Report that are attributable to us or persons acting on our behalf are expressly qualified in their

entirety by these cautionary statements. Given these uncertainties, we caution investors not to unduly rely on our forward-looking statements. We do not undertake any obligation to review or confirm analysts' expectations or estimates or to release publicly any revisions to any forward-looking statements to reflect events or circumstances after the date of this document or to reflect the occurrence of unanticipated events. Further, the statements about our intentions contained in this document are statements of our intentions as of the date of this document and are based upon, among other things, the existing regulatory environment, industry conditions, market conditions and prices, the economy in general and our assumptions as of such date. We may change our intentions, at any time and without notice, based upon any changes in such factors, in our assumptions or otherwise.

PART I

In this Annual Report on Form 10-K, we will refer to Pervasip Corp., a New York corporation, as “our company,” “we,” “us” and “our.”

Item 1. Business.

Overview

Our company was incorporated in the State of New York in 1964. From 1999 to 2015 we were involved exclusively in the telecommunications business, both as a reseller of telephone services and, after 2004, through our own IP telephone network. In December 2007, we changed our name to Pervasip Corp. The word Pervasip is a contraction of the phrase “Pervasive IP” to signify a pervasive Internet Protocol (“IP”) company with cloud-based technology that possessed a ubiquitous global presence.

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.

Available Information

We maintain a corporate website with the address www.canalytix.com. We have not incorporated by reference into this Report on Form 10-K the information on any of our websites and you should not consider any of such information to be a part of this document. Our website addresses are included in this document for reference only.

We make available free of charge through our corporate website our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, and amendments to these reports through a link to the EDGAR database as soon as reasonably practicable after we electronically file such material with, or furnish such material to, the U.S. Securities and Exchange Commission (the "SEC"). You can also read and copy any materials we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. You can obtain additional information about the operation of the Public Reference Room by calling the SEC at 1.800.SEC.0330. In addition, the SEC maintains a website (www.sec.gov) that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC, including all of our filings.

The Industry

Marijuana, a derivative of the cannabis plant, is classified as a Schedule I controlled substance under the U.S. Controlled Substances Act. A Schedule I controlled substance is defined as a substance that has no currently accepted medical use in the United States, a lack of safety for use under medical supervision, and a high potential for abuse. The Department of Justice defines Schedule I controlled substances as “the most dangerous drugs of all the drug schedules with potentially severe psychological or physical dependence.” Possession of marijuana is illegal under federal law. Possession with an intent to distribute marijuana is a felony under federal law, potentially punishable by fines up to \$50 million and terms of imprisonment up to life.

Nevertheless, commencing with California in 1996, a succession of states have decriminalized the use of marijuana for medical purposes. Although the medical uses of marijuana deemed acceptable vary from state to state, decriminalization of use for relief of nausea during chemotherapy, to induce appetite among cancer and AIDs patients, and to relieve chronic pain and muscle spasms is common. At present, 27 states and the District of Columbia had decriminalized some or all medical uses of marijuana. In December 2015 Congress directed the U.S. Justice Department that it may not interfere with the medical use of marijuana in states where such use is authorized. The number of Americans living in states in which recreational marijuana is legal more than tripled as a result of the November 2016 elections. Seven states have legalized recreational marijuana, and a recent Gallup poll suggests that almost 60% of Americans support the idea.

Our Business Plan

Our business plan is to expand our product and service offerings to meet the full panoply of requirements for marijuana production, and expand our geographic scope as the criminal proscription of commercial marijuana recedes. Our Chief Science Officer, Dr. Kenneth Hughes, is leading our research and development activities directed towards development of technologies that will yield products and services useful to the cannabis industry. Dr. Hughes is a specialist in the realization of products for agricultural and cleantech applications based on complex technology. Dr. Hughes is exploring technologies currently used by our affiliates for extraction of corn oil during the production of ethanol, and is adapting that know-how to enable the cost-effective extraction of oil from the cannabis plant. Success in that endeavor would provide us a leading-edge position in the expanding marijuana production industry, as the extraction technology could be marketed to the larger scale producers that are likely to emerge as the industry expands and matures.

Once we have established our position as a known source for leading edge technologies in the cannabis industry, we intend to build on that position by accumulating a portfolio of technologies and services that will enable us to offer clients a resolution for any technical issue in growing cannabis they may encounter.

Software and Analytics

Early in 2015 we acquired 90% of Canalytix LLC. Canalytix was organized to market a software solution for the cannabis growing industry - specifically a cloud-based method of offsite monitoring of an indoor growing facility. Our plan is to use that platform as our entry into a position as a known "think-tank" for the cannabis growing industry, offering a full complement of technologies and services that will enhance the profitability of our client growers.

The core Canalytix software enables growers, both commercial or hobbyist, to monitor and control greenhouse facilities through a system of sensors that transfer to the cloud real-time data regarding energy usage, efficiency of HVAC systems, lighting and related expense items. The systems also permit the growers to measure, test and properly extract and rate their product to allow users to know the potency of the product they consume. We can also assist medical marijuana specialty production facilities in order to better regulate, calculate proper dosage, and maintain consistency in their product.

Our staff is currently working on developing laboratory bench top equipment for the analysis of compounds that are important to the cannabis industry, including cannabinoids and terpenes. We are also engaged in developing field portable equipment to allow on-site analytics.

Going forward, we plan to offer consumers the data/analytics from laboratory testing services to assist consumers in finding the cannabis product that meets their needs. We also plan to use the data/analytics to assist with formulation projects for our customers or other companies requiring that capability.

Implementation of advanced instrumentation is a major key to efficient operations where plant yields are maximized, costs are reduced, and impacts on the environment are minimized. We have identified several areas where tremendous opportunity exists for portable chemical sensing instrumentation.

Plant chemical signals (released to the atmosphere) are important in understanding plant stage of lifecycle, production of valuable plant components including cannabinoids, and terpenes, and indicating when pests are present. We believe we can both “tune” and organize a chemical sensing system to detect and monitor these chemicals to provide guidance on when to harvest plants, and when to provide nutrient and pesticide treatment. Currently, plant harvesting is determined by visual information and destructive analysis. The use of non-destructive high sensitivity instrumentation could yield hundreds of thousands of dollars to the bottom-line of large growing operations.

Greenhouse and warehouse optimization reduces costs and increases product yields. Precise and accurate control of environmental conditions allows for greater optimization. We have the ability to perform advanced environmental monitoring through a range of third-party licensed advanced technology sensing instrumentation and software monitoring tools. The combination of this technology and in-house technical expertise will allow grow facility managers as well as Canalytix personnel to monitor growing operations remotely, identify problems immediately, minimize energy use, and reduce environmental impacts.

Marketing

Our marketing approach is focused on working with industry participants to create awareness of the services and products we provide. Word-of-mouth has proven to be our most valuable form of marketing. We also post information on websites to attract potential customers within the geographical area that we serve.

Our target market segments include Home Growers of organic vegetable and fruit Growers (small farms, home garden growers, restaurants growers, farmer markets), the Do-it Yourselfers (home flower and plant growers/ mass market and growers in the cannabis related market (Dispensaries, Cultivators, Caregivers).

Indoor growing techniques have primarily been used to cultivate plant-based medicines. Plant-based medicines often require high-degree of regulation and controls including government compliance, security, and crop consistency, making indoor growing techniques a preferred method. Cultivators of plant-based medicines often make a significant investment to design and build-out their facilities. They look to work with companies such as ours that understand their specific needs and can help mitigate risks that could jeopardize their crops. Plant-based medicines are believed to

be among the fastest-growing market in the U.S. and several industry pundits believe that plant-based medicines may even displace prescription pain medication by providing patients with a safer, more affordable alternative.

Competition

All of the Company's planned distribution channels will compete for customers and sales with many different companies and products that are competitive today and likely to be even more competitive in the future. Accordingly, we believe it is essential that the Company continues to develop, improve, and refine the value propositions that are offered to its customers.

Competition in the legal cannabis industry is significant, as competing companies continually open, and medical dispensaries search for a consistent source for oil products. With regard to competition in the California, Colorado, Oregon and Washington markets, there are numerous extraction facilities that we believe will compete with us for business.

The Company's size relative to its competition is difficult to gauge as most of our competition is privately held and does not publicly report their earnings. We do know of several competitors who have been in operations longer than us, but they are privately held and, therefore, we are unable to determine their size in terms of annual revenue.

We also face competition from other public companies that offer equipment and expendables. Moreover, as the negative stigma associated with some types of urban gardening such as legal cannabis plants diminishes, it is very possible that other better capitalized public and private companies may enter the market and may effectively challenge the value proposition offered by the Pervasip subsidiaries. These competitors may be able to attract customers more easily because of their financial resources. Our larger competitors can also devote substantially more resources to business development and may adopt more aggressive pricing policies. We plan to compete on the strength of multiple product offerings, controlled production and scientific analysis to ensure high-quality and consistency in the products that we plan to offer.

Government Regulation

Twenty-seven states and the District of Columbia currently have laws legalizing marijuana in some form. Seven states and the District of Columbia have adopted more expansive laws legalizing marijuana for recreational use. Most recently, California, Massachusetts and Nevada all passed measures in November 2016 legalizing recreational marijuana. California's Prop. 64 measure allows adults 21 and older to now possess up to one ounce of marijuana and grow up to six plants in their homes. Other tax and licensing provisions of the law will not take effect until January 2018. In Nevada, adults will be able to legally possess up to one ounce of marijuana beginning January 1, 2017. A similar ballot measure in Massachusetts allows for possession of marijuana starting on December 15, 2016.

A number of states have also decriminalized the possession of small amounts of marijuana. Other states have passed medical marijuana laws allowing for limited use of cannabis. Some medical marijuana laws are broader than others, with types of medical conditions that allow for treatment varying from state to state. Others states have passed laws allowing residents to possess cannabis oil if they suffer from certain medical illnesses.

The state laws are in conflict with the federal Controlled Substances Act, which makes marijuana use and possession illegal on a national level. The Obama administration stated that it is not an efficient use of resources to direct federal law enforcement agencies to prosecute those lawfully abiding by state-designated laws allowing the use and distribution of medical marijuana, and the U.S. Congress concurred. However, there is no guarantee that the Trump administration which comes to office in 2017 will not change federal policy regarding the enforcement of the Controlled Substances Act. Any change to more strict enforcement of current federal laws could cause significant financial damage to Pervasip and its shareholders. While Pervasip and its subsidiaries do not intend to harvest, distribute or sell cannabis, more strict enforcement of federal law would be likely to reduce the demand for our products and services.

Employees

As of November 30, 2016 we have 3 full-time employees. We are not subject to any collective bargaining agreement and we believe our relationship with our employees is good. We plan to operate with a small number of employees until our revenues increase further or until we are able to attract additional financing that has money earmarked for sales and marketing expense.

Item 1A. Risk Factors

You should carefully consider the risks below, as well as all of the other information contained in this Annual Report on Form 10-K and our financial statements and the related notes included elsewhere in this Annual Report on Form 10-K, in evaluating our company and our business. Any of these risks could materially adversely affect our business, financial condition and results of operations and the trading price of our common stock.

I. Risks Related To Our Financial Condition

Our business will not be viable unless we obtain significant amounts of additional capital.

At November 30, 2015 we had \$8,978 in cash and \$7,183 in accounts receivable, balanced against \$1,622,649 in accounts payable and many millions in debt. It is unlikely that we can sustain current operations, and it is impossible that we can expand current operation, unless we obtain additional capital. Because of our poor financial condition, it will be very difficult to obtain additional capital. If we fail to do so, it is likely that our business will fail and our shareholders will lose most or all of their investment in our company.

Our negative net worth will make it unlikely that we can obtain conventional financing for our business during the foreseeable future.

Conventional financing generally consists of debt secured by assets or of equity financing. At the present time, we have secured debt outstanding in amounts that far exceed the book value of our assets. We also have a shareholders' deficit that is approximately 19 times the book value of our assets - which means that our company has no equity. For those reasons, we will not be able to obtain conventional financing unless and until these conditions are substantially alleviated, which is unlikely to happen in the near future. Until then, the only financing that will be available to us will involve the sale of securities convertible into common stock at floating rates, so that our investors can liquidate their investment by selling into the market for our common stock. Our ability to obtain such financing will depend on the continued liquidity of the market for our common stock. If the trading volume in the market for our common stock diminishes, we may be unable to attract investors of any kind, in which case our business would be likely to fail for want of capital resources.

The \$3,832,659 in debt that we owe to our lenders will add high interest expenses to our statement of operations, which will make it difficult for us to report profits.

During the year ended November 30, 2015 we recorded \$1,414,029 in interest expense, or 234% of our revenues in that period. During the year ended November 30, 2014, we recorded \$1,838,375 in interest expense, or 374% of our revenues for the year. At November 30, 2015 we had \$3,832,659 in debt on our balance sheet, before taking into consideration any debt discounts. That debt, until it is satisfied, will result in interest expense in amounts that far exceed our current revenue level. This situation will make it difficult for us to realize net income in the coming periods (except for net income that may occasionally result from changes in the value of our outstanding derivative liabilities). And, in turn, our inability to report net income will make it difficult for us to obtain capital financing that might replace the high interest debt on our balance sheet.

The debt agreements governing our financing contain restrictions that may limit our flexibility in operating our business

In October 2015 we entered into a Securities Purchase Agreement with TCA Global Credit Master Fund, LP, which is the Selling Security Holder in this offering. Under the terms of the Securities Purchase Agreement, we sold to TCA a secured convertible debenture in the principal amount of \$500,000. The Securities Purchase Agreement contains covenants that limit our ability to enter into specified types of transactions. These covenants will prevent us from undertaking, without the consent of TCA, transactions of the following nature:

- merger or consolidation;
- grant of liens on our assets;
- sale or disposal of assets outside the ordinary course of business;
- consummation of acquisitions;

investments; or
payment of dividends or other distributions.

These covenants may prevent us from taking actions that we consider to be in the Company's best interests and in the interest of its shareholders, but that TCA does not perceive to be in its own interest. In addition, we are in default of our lending agreement with TCA.

We do not expect to pay dividends and investors should not buy our common stock expecting to receive dividends.

We have not paid any dividends on our common stock in the past, and do not anticipate that we will declare or pay any dividends in the foreseeable future. Consequently, investors will only realize an economic gain on their investment in our common stock if the price appreciates. Investors should not purchase our common stock expecting to receive cash dividends. Because we do not pay dividends, and there may be limited trading, investors may not have any manner to liquidate or receive any payment on their investment. Therefore, our failure to pay dividends may cause investors to not see any return on investment even if we are successful in our business operations. In addition, because we do not pay dividends we may have trouble raising additional funds, which could affect our ability to expand our business operations.

II. Risks Related To Our Business Operations

We have a limited operating history and operate in a new industry, and we may not succeed.

We have a limited operating history in our current line of business. We are subject to all risks inherent in a developing business enterprise. Our likelihood of success must be considered in light of the problems, expenses, difficulties, complications, and delays frequently encountered in the competitive and regulatory environment in which we operate. For example, the recreational and medical marijuana industry is a new industry that as a whole may not succeed, particularly should the Federal government change course and decide to prosecute those dealing in medical and recreational marijuana in violation of Federal law. If that happens, the market for our products and services would be likely to disappear.

Since we participate in a new industry, there are no established entities whose business model we can follow or build on the success of. Similarly, there is limited information about comparable companies available for potential investors to review in making a decision about whether to invest in Pervasip. Further, as the medical and recreational marijuana industry is a new market, it is ripe for technological advancements that could limit or eliminate the need for our services and products.

You should consider, among other factors, the risks and uncertainties encountered by companies that, like Pervasip, are in their early stages. For example, unanticipated expenses, problems, and technical difficulties may occur and they may result in material delays in the operation of our business, in particular with respect to our services and products. We may not successfully address these risks and uncertainties or successfully implement our operating strategies. If we fail to do so, it could materially harm our business to the point of having to cease operations and could impair the value of our capital stock to the point investors may lose their entire investment.

The long term success of our business will depend on our ability to develop new technologies for the cannabis industry.

Pervasip will only be successful as a vehicle for public investment if we are able to achieve a market position that generates substantial profits. Our plan to achieve that market position is based on our ambition to develop technologies that will enhance the profitability of our clients in the cannabis industry. We are active in developing those technologies; but the success of our development efforts is by no means assured. Moreover, any new products or services that we develop and offer to the industry may be subject to significant competition from offerings by new and existing competitors in the legal cannabis industry. In addition, new products, services and enhancements may pose a variety of technical challenges and require us to attract additional qualified employees. The failure to successfully develop and market these new products, services or enhancements could prevent Pervasip from becoming profitable.

Our computer systems and operations may be vulnerable to security breaches.

We expect that the cloud-based monitoring systems offered by our subsidiary, Canalytix, to the cannabis industry will be an important foundation for establishing our company as a leading source of technology for that industry. For that reason, among others, the safety of our network and our secure transmission of confidential information over the Internet will be essential to our operations and our services. Although we have developed systems and processes that are designed to protect our network and the consumer information stored on our network, our network and our computer infrastructure are potentially vulnerable to physical breaches or to the introduction of computer viruses, abuse of use and similar disruptive problems and security breaches that could cause loss (both economic and otherwise), interruptions, delays or loss of services to our users. We rely on licensed encryption and authentication technology to effect secure transmission of confidential information, including credit card numbers. It is possible, however, that advances in computer capabilities or new technologies could result in a compromise or breach of the technology we use to protect user transaction data. A party that is able to circumvent our security systems could misappropriate proprietary information, cause interruptions in our operations or utilize our network without authorization. Security breaches also could damage our reputation and expose us to a risk of loss, litigation and possible liability. While we have experienced isolated instances of unauthorized use of our network, and have responded to such events by taking steps to increase our network security, we cannot guarantee you that our security measures will prevent future security breaches.

Third parties might infringe upon our technology.

We cannot assure you that the steps we have taken to protect our property rights will prevent misappropriation of our technology. To protect our rights to our intellectual property, we rely on a combination of trade secrets, confidentiality agreements and other contractual arrangements with our employees, affiliates, strategic partners and others. However, we may be unable to detect inappropriate use of our technology. Moreover, in the event of misappropriation, we may lack the financial resources necessary to successfully prosecute an enforcement action. Failure to adequately protect our intellectual property could materially harm our brand, devalue our proprietary content and adversely affect our ability to compete effectively. Further, defending our technology rights could result in significant financial expenses and managerial resources.

Third parties may claim that our services infringe upon their intellectual property rights.

Third parties may assert claims that we have violated a patent or infringed a copyright, trademark or other proprietary right belonging to them and subject us to expensive and disruptive litigation. We incorporate licensed technology in some of our products and services. In these license agreements, the licensors have agreed to indemnify us with respect to any claim by a third party that the licensed software infringes any patent or other proprietary right so long as we have not made changes to the licensed software. We cannot assure you that these provisions will be adequate to protect us from infringement claims. Any infringement claims and lawsuits, even if not meritorious, could be expensive and time consuming to defend; divert management's attention and resources; require us to redesign our products and services, if feasible; require us to pay royalties or enter into licensing agreements in order to obtain the right to use necessary technologies; and/or may materially disrupt the conduct of our business.

We may face difficulties related to entry into joint ventures or the future acquisition or integration of additional businesses, which could harm our growth or operating results

Because we have entered into an industry that is rapidly developing, it is crucial to our future success that we keep pace with the growth. Toward that end, we will be aggressively pursuing opportunities to enter into joint venture arrangements with other industry participants or to acquire additional businesses or assets. Any such events will require substantial management time and resources, which may distract from our core operations to their detriment. In addition, acquisitions of existing businesses involve substantial risks, including the risk that we may not be able to integrate the operations, personnel, services, or technologies, the potential disruption of our ongoing businesses, the diversion of management attention, the maximization of financial and strategic opportunities, the difficulty in developing or maintaining controls and procedures, and the dilution to our existing stockholders from the issuance of additional shares of common stock. As a result of these and other risks, we may not produce anticipated revenue, profitability, or synergies.

Because of our limited financial resources, acquisitions will likely require us to issue equity securities. Such transactions often result in significant expenses, such as the amortization of intangibles, write-down of goodwill, and write-off of acquisition-related expenses. If we are unable to successfully integrate any acquired businesses or assets we may not receive the intended benefits of such acquisition. In addition, we cannot predict market reactions to any acquisitions we may make.

While we conduct due diligence in connection with acquisition and joint venture opportunities, there will be a risk that such due diligence efforts fail to discover undisclosed liabilities or that we inadequately assess known liabilities. The discovery of material liabilities associated with acquisitions or joint venture opportunities, economic risks faced by joint venture partners, or any failure of joint venture partners to perform their obligations could adversely affect our business, results of operations, and financial condition.

If we are able to expand our operations, we may be unable to successfully manage our future growth.

Even if we are successful in expanding our operations in the United States, as planned, we may experience periods of rapid growth, which will require additional resources. Any such growth could place increased strain on our management, operational, financial and other resources, and we will need to train, motivate, and manage employees, as well as attract management, sales, finance and accounting, international, technical, and other professionals. In addition, we will need to expand the scope of our infrastructure and our physical resources. Any failure to expand these areas and implement appropriate procedures and controls in an efficient manner and at a pace consistent with our business objectives could have a material adverse effect on our business and results of operations.

III. Risks Relating To Our Industry

Our success will be dependent on additional states legalizing medical and recreational marijuana.

Continued development of the medical and recreational marijuana market is dependent upon continued legislative authorization of marijuana at the state level. Any number of factors could slow or halt the progress. Further, progress is not assured and the process can be expected to encounter set-backs. Even in states where there is public support for a legislative proposal, key support must be created in the relevant legislative committee or a bill may never advance to a vote. Numerous factors can interfere with success in the legislative process. Any one of these factors could slow or halt the progress and adoption of marijuana for recreational and medical purposes, which would limit the market for our products and negatively impact our business and revenues.

Marijuana remains illegal under federal law. Even in those jurisdictions in which the use of medical marijuana has been legalized at the state level, its use and prescription are violations of federal law, which may disrupt the on going business of Pervasip.

Possession and distribution of marijuana remain illegal under federal law. Marijuana is a schedule-I controlled substance. Even in those jurisdictions in which the use of medical and recreational marijuana have been legalized at the state level, its possession, prescription or distributions remains a violation of federal law. The United States Supreme Court has ruled in United States v. Oakland Cannabis Buyers' Coop. and Gonzales v. Raich that the federal government has the right to regulate and criminalize cannabis, even for medical and recreational purposes, notwithstanding state or local de-regulation. Therefore, federal law criminalizing the use of marijuana trumps state laws that legalize its use for medicinal purposes. At present, certain states are decriminalizing possession of marijuana, either for medical use or in general. This may be because the Obama administration made a policy decision to allow states to implement these laws and not prosecute anyone operating in accordance with applicable state law. However, we faced another presidential election cycle in 2016, and a new administration could introduce a less favorable policy. A change in the federal attitude towards enforcement could cripple the industry. The legal cannabis industry is our target market, and if this industry is unable to operate, we would lose the majority of our potential clients, which would have a negative impact on our business, operations and financial condition.

Our subsidiaries may have difficulty accessing the service of banks, which may make it difficult to conduct our business operations.

As discussed above, the distribution of marijuana is illegal under federal law. Therefore, there is a compelling argument that banks cannot accept for deposit funds from the legal cannabis industry, and therefore cannot do business with the Company. While efforts are underway in the U.S. Congress to amend banking regulations and laws

in order to allow banks to transact business with state-authorized medical and recreational marijuana businesses, there can be no assurance these legislative efforts will be successful, that banks will agree to do business with medical marijuana and recreational marijuana industry participants, or that in the absence of legislation state and federal banking regulators will not strictly enforce current prohibitions on banks handling funds generated from an activity that is illegal under federal law. If we are unable to open accounts and otherwise use the service of banks, the result could be a material adverse effect on our business operations.

Pervasip may be unable to respond to the rapid technological change in its industry, and such change may increase costs and competition that may adversely affect our business.

Rapidly changing technologies, frequent new product and service introductions and evolving industry standards characterize the Company's market. The continued growth of the Internet and intense competition in the Company's industry exacerbate these market characteristics. The Company's future success will depend on its ability to adapt to rapidly changing technologies by continually improving the performance features and reliability of its products and services. The Company may experience difficulties that could delay or prevent the successful development, introduction or marketing of its products and services. In addition, any new enhancements must meet the requirements of its current and prospective users and must achieve significant market acceptance. The Company could also incur substantial costs if it needs to modify its products and services or infrastructures to adapt to these changes.

The Company also expects that new competitors may introduce products, systems or services that are directly or indirectly competitive with the Company. These competitors may succeed in developing, products, systems and services that have greater functionality or are less costly than the Company's products, systems and services, and may be more successful in marketing such products, systems and services. Technological changes have lowered the cost of operating communications and computer systems and purchasing software. These changes reduce the Company's cost of providing services but also facilitate increased competition by reducing competitors' costs in providing similar services. This competition could increase price competition and reduce anticipated profit margins.

The cannabis industry is highly competitive and we have less capital and resources than many of our competitors, which may give them an advantage in developing and marketing products similar to ours or make our products obsolete.

We are involved in a highly competitive industry where we will compete with numerous other companies that offer alternative methods or approaches, that may have far greater resources, more experience, and personnel perhaps more qualified than we do. Such resources may give our competitors an advantage in developing and marketing products similar to ours or products that make our products obsolete. There can be no assurance that we will be able to successfully compete against these other entities.

IV. Risks Related To Our Management

Our Series E preferred shareholder has voting control of our company and has the ability to exercise control over all matters submitted to a stockholder vote.

Our Chief Executive Officer, Paul Riss, currently owns 10 shares of our Series E Preferred Stock, which gives him 51% of the voting power at any meeting of our shareholders or if shareholder consents are collected. He is therefore able to control the outcome of any matter submitted to the shareholders for approval, which would include the election of directors, recapitalizations, mergers or other significant corporate transactions.

TCA may obtain voting control of the Company and exercise it for its own purposes.

In October 2015 the Company sold a \$500,000 promissory note to TCA Global Credit Master Fund, LP. The Note matures in April 2017 and bears interest at 18% per annum. In connection with the sale of the Note, the Company issued to TCA Series J Preferred Stock. The certificate that created the Series J Preferred Stock provides that, if the Company incurs a default under the terms of the Note, TCA may declare its rights as a holder of Series J Preferred Stock effective. Those rights include the right to exercise voting control of the Company. The Company has defaulted under the Note, and accordingly, TCA could take control of the Company. It is possible that TCA would use that control to protect its investment in the Company in ways that may not be in the best interests of the other shareholders of the Company.

Because we are not subject to compliance with rules requiring the adoption of certain corporate governance measures, our shareholders have limited protections against interested director transactions, conflicts of interest and similar matters.

The Sarbanes-Oxley Act of 2002, as well as rule changes proposed and enacted by the SEC, the New York Stock Exchange and the Nasdaq Stock Market as a result of Sarbanes-Oxley, require the implementation of various measures relating to corporate governance. These measures are designed to enhance the integrity of corporate management and the securities markets and apply to securities which are listed on the New York Stock Exchanges or the Nasdaq Stock Market. Because we are not presently required to comply with many of the corporate governance provisions and because we chose to avoid incurring the substantial additional costs associated with such compliance any sooner than necessary, we have not yet adopted these measures.

Because none of our directors is independent, we do not currently have independent audit or compensation committees. This situation means that the Board will determine the direction of our company with only limited contribution of insights from outside observers with an objective perspective. This may limit the quality of the decisions that are made. In addition, the members of our board who are also officers have the ability, among other things, to determine their own levels of compensation. Until we comply with such corporate governance measures, regardless of whether such compliance is required, the absence of such standards of corporate governance may leave our shareholders without protections against interested director transactions, conflicts of interest and similar matters and investors may be reluctant to provide us with funds necessary to expand our operations.

We depend upon key personnel, the loss of which could seriously harm our business.

Our operating performance is substantially dependent on the continued services of our executive officers and key employees. In particular, Dr. Kenneth Hughes, our Chief Science Officer, possesses valuable knowledge about and experience in extraction technologies and patent applications. We have not entered into an employment agreement with Dr. Hughes and, although we are considering doing so, have not acquired key-person life insurance on him or any of our executive officers. The unexpected loss of the services of Dr. Hughes could have a material adverse effect on our business, operations, financial condition and operating results, as well as the value of our common stock.

The Company's failure to attract, train, or retain highly qualified personnel could harm the Company's business.

The Company's success also depends on the Company's ability to attract, train, and retain qualified personnel, specifically those with management and product development skills. In particular, the Company must hire additional skilled personnel to further the Company's research and development efforts. Competition for such personnel is intense. If the Company does not succeed in attracting new personnel or retaining and motivating the Company's current personnel, the Company's business could be harmed.

If we fail to establish and maintain an effective system of internal controls, we may not be able to report our financial results accurately or to prevent fraud. Any inability to report and file our financial results accurately and timely could harm our reputation and adversely impact the trading price of our common stock.

Effective internal controls are necessary for us to provide reliable financial reports and prevent fraud. If we cannot provide reliable financial reports or prevent fraud, we will not be able to manage our business as effectively as we would if an effective control environment existed, and our business and reputation with investors may be harmed. As a result, our small size and any current internal control deficiencies may adversely affect our financial condition, results of operation and access to capital.

We currently have insufficient written policies and procedures for accounting and financial reporting with respect to the requirements and application of US GAAP and SEC disclosure requirements. Additionally, there is a lack of formal process and timeline for closing the books and records at the end of each reporting period. Such weaknesses restrict the Company's ability to timely gather, analyze and report information relative to the financial statements.

Because of the Company's limited resources, there are limited controls over information processing. There is inadequate segregation of duties consistent with control objectives. Our Company's management is composed of a small number of individuals resulting in a situation where limitations on segregation of duties exist. In order to remedy this situation we would need to hire additional staff. Currently, the Company is unable to hire additional staff to facilitate greater segregation of duties but will continue to reassess its capabilities as it gains access to additional capital.

V. Risks Related To Ownership Of Our Common Stock

The market price of our common stock has been and will continue to be adversely affected by our outstanding convertible debentures.

Several third-party investors currently hold convertible debentures issued by the Company that allow them to convert principal and interest into shares of our common stock at conversion prices that approximate a 30% to 60% discount to the trading price of