Digerati Technologies, Inc.
Form 10-Q
May 05, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended January 31, 2014

or

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 001-15687

DIGERATI TECHNOLOGIES, INC.

(Exact Name of Registrant as Specified in Its Charter)

Nevada	**74-2849995**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
3463 Magic Drive, Suite 355	
	78229
San Antonio, Texas	
(Address of Principal Executive Offices)	(Zip Code)

Registrant's Telephone Number, Including Area Code: **(210) 775-0888**

Common Stock, Par Value $0.001 Per Share

(Title of Class)

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 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 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. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.:

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practical date.

Number of Shares	Class Common Stock	As of
5,113,030	$0.001 par value	May 4, 2015

DIGERATI TECHNOLOGIES, INC.

QUARTERLY REPORT ON FORM 10-Q

FOR THE QUARTER ENDED JANUARY 31, 2014

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DIGERATI TECHNOLOGIES, INC.

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PART 1. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

DIGERATI TECHNOLOGIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In thousands, unaudited)

	January 31, 2014	July 31, 2013
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$136	$10
Accounts receivable, net of allowance for doubtful accounts of $54 and $54, respectively	9	13
Prepaid and other current assets	83	94
Assets held for sale	76,548	75,294
Total current assets	76,776	75,411
LONG-TERM ASSETS:		
Intangible assets, net of accumulated amortization of $84 and $76, respectively	66	74
Property and equipment, net	3	2
Total assets	$76,845	$75,487
LIABILITIES AND STOCKHOLDERS' DEFICIT		
CURRENT LIABILITIES:		
Accounts payable	$2,011	$1,257
Accounts payable - related party	214	-
Accrued liabilities	363	372
Note payable - related party	47	-
10% Convertible debentures, net of unamortized discount of $0 and $56, respectively	50	19
Current portion of long term debt, net of unamortized discount of $0 and $0, respectively	1,375	1,514
Derivative liability	10	10
Liabilities held for sale	77,847	77,145
Total current liabilities	81,917	80,317
LONG-TERM LIABILITIES:		
Customer deposits	138	138
Total long-term liabilities	138	138

Total liabilities	82,055	80,455
Commitments and contingencies		
STOCKHOLDERS' DEFICIT:		
Preferred stock, 50,000,000 shares authorized, none issued and outstanding	-	-
Common stock, $0.001, 150,000,000 shares authorized, 1,977,626 and 1,977,626 issued and outstanding, respectively	2	2
Additional paid in capital	75,161	75,161
Accumulated deficit	(80,374)	(80,132)
Other comprehensive income	1	1
Total stockholders' deficit	(5,210)	(4,968)
Total liabilities and stockholders' deficit	$76,845	$75,487

See accompanying notes to consolidated financial statements

DIGERATI TECHNOLOGIES, INC. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF OPERATIONS (In thousands, except per share amounts, unaudited)

	Three months ended January 31,		Six months ended January 31,	
	2014	2013	2014	2013
OPERATING REVENUES:				
Global VoIP services	$37	$63	$130	$204
Cloud-based hosted services	59	148	117	311
Total operating revenues	96	211	247	515
OPERATING EXPENSES:				
Cost of services (exclusive of depreciation and amortization)	93	134	215	343
Selling, general and administrative expense (exclusive of legal and professional fees)	143	259	379	425
Legal and professional fees	773	37	1,297	43
Depreciation and amortization expense	5	5	9	19
Total operating expenses	1,014	435	1,900	830
OPERATING LOSS	(918)	(224)	(1,653)	(315)
OTHER INCOME (EXPENSE):				
Gain (loss) derivative instruments and disposal of fixed assets	(40)	214	(56)	270
Gain (loss) on debt extinguishment	246	-	246	18
Interest expense	(32)	(86)	(81)	(217)
Total other income (expense)	174	128	109	71
NET LOSS FROM CONTINUING OPERATIONS, BEFORE TAX	(744)	(96)	(1,544)	(244)
INCOME TAX BENEFIT (EXPENSE) FROM DISCONTINUED OPERATIONS	(376)	937	443	937
INCOME (LOSS) FROM CONTINUING OPERATIONS	(1,120)	841	(1,101)	693
NET INCOME (LOSS) FROM DISCONTINUED OPERATIONS, NET OF TAXES	(731)	1,819	859	1,819
NET INCOME (LOSS) ATTRIBUTED TO DIGERATI TECHNOLOGIES, INC.	$(1,851)	$2,660	$(242)	$2,512

INCOME (LOSS) PER SHARE - BASIC AND DILUTED				
From continuing operations	$(0.57)	$0.47	$(0.56)	$0.46
From discontinued operations	$(0.37)	$0.96	$0.43	$1.21
EARNINGS (LOSS) PER SHARE - BASIC AND DILUTED ATTRIBUTED TO DIGERATI TECHNOLOGIES, INC. SHAREHOLDERS	$(0.94)	$1.43	$(0.12)	$1.68
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING - BASIC AND DILUTED	1,977,626	1,862,717	1,977,626	1,499,125

See accompanying notes to consolidated financial statements

DIGERATI TECHNOLOGIES, INC. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF CASH FLOWS (In thousands, unaudited)

	Six months ended January 31,	
	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$(242)	$2,512
Adjustments to reconcile net income (loss) to cash provided by (used in) operating activities:		
(Gain) loss on debt extinguishment	(163)	(18)
(Gain) loss on derivative instruments and disposal of fixed assets	31	(270)
Depreciation, amortization and accretion	3,966	1,027
Impairment of goodwill	1,741	-
Bad debt	-	588
Amortization of debt discount	-	33
Issuance of stock grants and options for services	-	77
Issuance of warrants for services	-	3
Changes in operating assets and liabilities:		
Accounts receivable	81	71
Prepaid expenses and other current assets	159	(2,446)
Accounts payable	1,721	(367)
Accrued liabilities	(173)	(1,584)
Customer deposits	-	12
Net cash provided by (used in) operating activities	7,121	(362)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of Dishon and Hurley	-	5,969
Purchase of property & equipment	(6,646)	(2,952)
Net cash (used in) provided by investing activities	(6,646)	3,017
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on notes payable	(2,479)	(824)
Proceeds from notes payable	2,661	3,979
Net cash provided by financing activities	182	3,155
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	657	5,810
CASH AND CASH EQUIVALENTS, beginning of period	6,543	2
CASH AND CASH EQUIVALENTS, end of period	$7,200	$5,812

SUPPLEMENTAL DISCLOSURES:		
Cash paid for interest	$-	$195
NON-CASH INVESTING AND FINANCING TRANSACTIONS		
Common stock issued for debt	$-	$81

See accompanying notes to consolidated financial statements

DIGERATI TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2014

(Unaudited)

NOTE 1 – BASIS OF PRESENTATION

The accompanying unaudited interim consolidated financial statements of Digerati Technologies, Inc. ("Digerati" or the "Company") have been prepared in accordance with accounting principles generally accepted in the United States of America and the rules of the United States Securities and Exchange Commission. In the opinion of management, these interim financial statements contain all adjustments, consisting of normal recurring adjustments necessary for a fair presentation of financial position and the results of operations for the interim periods presented. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year. Notes to the consolidated financial statements, which would substantially duplicate the disclosure contained in the audited financial statements for the most recent Form 10-K filed on July 30, 2014 have been omitted.

Taxes

The effective tax rate was 20% and 36% for the three months and six months ended January 31, 2014, respectively, from an effective tax rate of 0% for the three and six months ended January 31, 2013 due to the estimated income tax benefit from discontinued operations.

NOTE 2 – GOING CONCERN

Financial Condition

Digerati’s unaudited interim consolidated financial statements for the period ended January 31, 2014 have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities in the normal course of business. Digerati has incurred net losses and has accumulated a deficit of approximately $80,374,000 and a working capital deficit of approximately $5,141,000 which raises substantial doubt about Digerati’s ability to continue as a going concern.

Management Plans to Continue as a Going Concern

Management believes that current available resources will not be sufficient to fund the Company's operations over the next 12 months. The Company's ability to continue to meet its obligations and to achieve its business objectives is dependent upon, among other things, raising additional capital or generating sufficient revenue in excess of costs. At such time as the Company requires additional funding, the Company will seek to secure such additional funding from various possible sources, including the public equity market, private financings, sales of assets, collaborative arrangements and debt. If the Company raises additional capital through the issuance of equity securities or securities convertible into equity, stockholders will experience dilution, and such securities may have rights, preferences or privileges senior to those of the holders of common stock or convertible senior notes. If the Company raises additional funds by issuing debt, the Company may be subject to limitations on its operations, through debt covenants or other restrictions. If the Company obtains additional funds through arrangements with collaborators or strategic partners, the Company may be required to relinquish its rights to certain technologies. There can be no assurance that the Company will be able to raise additional funds, or raise them on acceptable terms. If the Company is unable to obtain financing on acceptable terms, it may be unable to execute its business plan, the Company could be required to delay or reduce the scope of its operations, and the Company may not be able to pay off its obligations, if and when they come due.

The Company will continue to work with various funding sources to secure additional debt and equity financings. However, Digerati cannot offer any assurance that it will be successful in executing the aforementioned plans to continue as a going concern.

Digerati's unaudited interim consolidated financial statements as of January 31, 2014 do not include any adjustments that might result from the inability to implement or execute Digerati's plans to improve our ability to continue as a going concern.

NOTE 3 – BANKRUPTCY

On May 30, 2013, Digerati Technologies, Inc., Debtor in Possession ("Digerati") filed a voluntary petition in the United States Bankruptcy Court for the Southern District of Texas, Houston Division (the "Bankruptcy Court"), Case No. 13-33264 (the "Bankruptcy"), seeking relief under the provisions of Chapter 11 of the United States Bankruptcy Code.

On April 4, 2014 (the "Confirmation Date"), the Bankruptcy Court entered an Agreed Order Confirming Joint Plan of Reorganization Filed by Plan Proponents ("Agreed Order") confirming the Plan Proponents' Joint Chapter 11 Plan of Reorganization as modified on the record on April 4, 2014 and/or as modified by the Agreed Order (the "Reorganization Plan"). As used herein, the term "Reorganized Debtor" refers to Digerati Technologies, Inc., a Nevada corporation, after the Confirmation Date and as reorganized by the Reorganization Plan.

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Summary of the Plan

This summary is not intended to be a complete description of the Reorganization Plan, and it is qualified in its entirety by reference to the Agreed Order, Reorganization Plan, Plan Supplement and Disclosure Statement. A copy of the Agreed Order and Reorganization Plan were filed as exhibits to Digerati's Current Report on Form 8-K filed with the Securities and Exchange Commission on April 11, 2014.

(a) The Agreed Order provided final approval of the Disclosure Statement, a copy of which was filed as an exhibit to Digerati's Current Report on Form 8-K dated January 23, 2014.

(b) Upon the Confirmation Date, the Reorganized Debtor had 1,977,626 shares of common stock outstanding. All outstanding shares of Digerati's preferred stock, warrants, options, conversion rights and other rights to acquire shares of common stock and all "super voting" shares were cancelled.

(c) The Reorganized Debtor's Board of Directors consisted of Messrs. Arthur L. Smith, William E. McIlwain and James J. Davis. The Reorganized Debtor's officers, who served at the discretion of the board of directors until the Stockholder Meeting, were:

Arthur L. Smith	President and Chief Executive Officer
Antonio Estrada	Chief Financial Officer

Subsequently, on September 15, 2014, the Company held its Annual Meeting of Shareholders, and at the discretion of the new directors, Mr. Smith and Mr. Estrada continued to serve as officers of the Reorganized Debtor.

(d) The Reorganized Debtor was required to hold a Stockholder Meeting to elect a new board of directors after August 31, 2014, and before September 15, 2014. The Reorganized Debtor's officers and directors, as well as the parties to the BSA and a Rule 11 Mediated Settlement Agreement dated January 14, 2014 (the "Rule 11 Agreement"), were not eligible for election to the new board of directors at the Stockholder Meeting. Messrs. Smith and Estrada were not permitted to solicit proxies in connection with the Stockholder Meeting but were allowed to vote shares of common stock owned by them. Subsequently, on September 15, 2014, the Company held its Annual Meeting of Shareholders, and new directors were elected.

(e) Under the Reorganization Plan title to the issued and outstanding shares of Dishon Disposal, Inc., a North Dakota corporation ("Dishon"), and Hurley Enterprises, Inc., a Montana corporation ("Hurley"), owned by Digerati were transferred to a Grantor Trust subject to existing liens and the Rule 11 Agreement. The Dishon and Hurley shares did not vest in the Reorganized Debtor and remained the property of Digerati's bankruptcy estate. Additionally,

under the Reorganization Plan certain retained litigation claims were transferred to the Grantor Trust. The beneficiary of the Grantor Trust is the Reorganized Debtor. The trustee and Disbursing Agent of the Grantor Trust is Mr. William R. Greendyke. All other assets of Digerati that are not transferred to the Grantor Trust and/or retained by Digerati vested in the Reorganized Debtor as of the Confirmation Date, including but not limited to the common stock of Shift8 Technologies, Inc., free and clear of liens, claims and encumbrances.

(f) All of the issued and outstanding shares of Dishon and Hurley were sold by the Grantor Trust and the proceeds from the sale were distributed by the trustee and Disbursing Agent to discharge certain allowed claims. The claims distribution set forth in the Reorganization Plan were as follows:

(i) Allowed priority claims were paid in full from cash on hand.

(ii) Allowed administrative claims will be paid from the proceeds of the sale of the Dishon and Hurley shares except for those amounts paid pursuant to the budget attached to the Reorganization Plan. The Company estimated the maximum potential amount of any federal income tax liability on the gains derived from the sale of the Dishon and Hurley shares and deposited that amount into a reserve account until determination of the actual taxes due.

(iii) Proceeds from the sale of the Dishon shares in excess of $1,250,000 plus one-half of Digerati's unpaid professional fees (the "Dishon Carve Out") and amount reserved for taxes were delivered to creditors holding $30,000,000 of Digerati's indebtedness secured by the Dishon shares, up to the principal of and accrued interest on such indebtedness. In addition, the secured creditors maintain a right to seek a refund if the estimated amount withheld for taxes on the sale of the Dishon shares exceeds the tax obligation.

(iv) Proceeds from the sale of the Hurley shares in excess of $1,250,000 plus one-half of Digerati's unpaid professional fees (the "Hurley Carve Out") and amount reserved for taxes were delivered to creditors holding $30,000,000 of Digerati's indebtedness secured by the Hurley shares, up to the principal of and accrued interest on such indebtedness. In addition, the secured creditors maintain a right to seek a refund if the estimated amount withheld for taxes on the sale of the Hurley shares exceeds the tax obligation. Principal of or interest on Digerati's indebtedness secured by the Hurley shares that is in excess of the net proceeds from the sale of Hurley shares has been waived.

(v) Allowed unsecured claims of $1,000 or less were paid in full from cash on hand.

(vi) Allowed unsecured claims greater than $1,000 were paid in full from the Dishon Carve Out and the Hurley Carve Out. The excess from the combined $2,500,000 withheld from the sale of the Dishon shares and Hurley shares will be applied to the unpaid professional fees.

(vii) All cure payments under assumed contracts were paid within 90 days of April 4, 2014.

(viii) All executory contracts of Digerati were rejected except as previously assumed by order in the Bankruptcy Court or specifically listed as assumed in the Reorganization Plan.

(ix) The Reorganized Debtor released Messrs. Arthur L. Smith, Antonio Estrada, William E. McIlwain and James J. Davis in their individual capacity and their respective capacities as officers and/or directors, as applicable, of Digerati, Hurley or Dishon of all claims and causes of action that arise on or before the Confirmation Date that could be asserted by Digerati, the estate and/or on account of the Bankruptcy through the Stockholder Meeting. The Reorganized Debtor also released Messrs. Arthur L. Smith, William McIlwain and James Davis to the greatest extent provided by law from any claims.

(x) The Reorganization Plan became effective on December 31, 2014.

NOTE 4 – DISCONTINUED OPERATIONS

The Company applied discontinued operations accounting in accordance with ASC Topic 205-20, Presentation of Financial Statements–Discontinued Operations to the operations of Dishon and Hurley, two well established oil field services operating entities acquired on November 26, 2012.

In aggregate, discontinued operations include net sales of $29.41 million and net income, net of tax of $859,000 during the six months ended January 31, 2014. Assets and liabilities held for sale as of January 31, 2014 related to the discontinued operations include total assets of $76.55 million and total liabilities of $77.85 million. Liabilities

included $60 million in notes payable to the former owners of Dishon and Hurley as described below.

In November 2012, Digerati entered into a promissory note in the amount of $30 million with Mr. Terry Dishon, payable in bi-monthly installments, bearing interest of 0.22% per annum and a maturity date of November 16, 2014. On July 1, 2014, the Grantor Trust entered into a Stock Purchase Agreement for the sale of 100% of the outstanding equity of Dishon for an aggregate sale price of $27,000,000, subject to adjustment for certain assets and liabilities as of the closing date. The closing occurred on July 18, 2014. At the time of closing, the trustee paid the promissory note to Terry Dishon, and the deficiency on principal balance and interest of approximately $3,000,000 was waived by the note holder.

In November 2012, Digerati entered into a promissory note in the amount of $20 million and $10 million with Hurley Fairview, LLC and Mrs. Sheyenne Rae Nelson Hurley, respectively, payable in bi-monthly installments, bearing interest of 0.22% per annum and a maturity date of March 31, 2015. On July 10, 2014, the trustee of the Grantor Trust entered into a Stock Purchase Agreement for the sale of 100% of the outstanding equity of Hurley for an aggregate sale price of $14,500,000. The closing occurred on July 30, 2014. At the time of closing, the trustee paid the promissory notes to Hurley Fairview, LLC and Sheyenne Rea Nelson Hurley, and the deficiency on principal balance and interest of approximately $15,500,000 was waived by the note holders.

As a result of the assets and liabilities being classified as held for sale, and based on the final sales prices for Dishon and Hurley, an impairment of $5,885,000 was recorded on the Hurley goodwill. (See note 10)

Assets and liabilities of discontinued operations as of January 31, 2014 and July 31, 2013 were as follows (in thousands):

	January 31, 2014	July 31, 2013
Cash and cash equivalents	$7,064	$6,533
Accounts receivable	14,415	14,491
Other assets	7,070	4,568
Property and equipment	26,882	26,709
Goodwill	3,858	3,858
Land	2,950	2,950
Permit – waste disposal, net	13,238	15,114
Permit – sludge service	1,071	1,071
Total net assets	$76,548	$75,294
Accounts payable	3,215	2,530
Accrued expenses	6,470	6,681
Notes payable	68,162	67,934
Total liabilities	77,847	77,145
Net assets (liabilities) held for sale	$(1,299)	$(1,851)

Net income from discontinued operations for the six months ended January 31, 2014 and 2013 were as follows (in thousands):

	January 31, 2014	January 31, 2013
Revenues	$29,413	$11,376
Cost of goods sold	17,222	4,891
Gross profit	12,191	6,485
Selling and administrative expenses	5,229	2,425
Depreciation and amortization	4,763	1,008
Other income (expense)	(897)	(296)
Net income (loss) from discontinued operations	1,302	2,756
Income tax (benefit) expense from discontinued Operations	(443)	(937)
Net income (loss) from discontinued operations, net of tax	$859	$1,819

NOTE 5 – NOTES PAYABLE

At January 31, 2014 and July 31, 2013, outstanding debt consisted of the following: (In thousands)

	January 31, 2014	**July 31, 2013**
Note payable to Alfonso Torres, payable upon maturity, bearing interest of 6.00% per annum, maturing July 31, 2012, unsecured. (See details below)	$560	$560
Note payable to Vantage Bank payable in monthly installments, bearing interest at 8.00% per annum, maturing December 29, 2011, collateralized by Digerati's assets. (See details below)	13	13
Note payable to ATV Texas Ventures IV payable in monthly installments, bearing interest at 12.00% per annum, maturing October 10, 2012, collateralized by Digerati's assets. (See details below)	122	122
Note payable to ATVF II payable in monthly installments, bearing interest at 12% for the first year and 18% during the second year, maturing January 10, 2013, collateralized by Digerati's assets. (See details below)	154	154
Note payable to ATVF II payable in monthly installments, bearing interest at 16% for the first year and 18% during the second year, maturing May 10, 2013, collateralized by Digerati's assets. (See details below)	186	186
Note payable to Thermo Credit, LLC., interest payment for the first twenty-three months with a balloon payment on the twenty-fourth month, maturing August 2, 2012, collateralized by Digerati's accounts receivable. Bearing an annual interest rate equivale	318	258
Note payable to MCI Partners, Inc. bearing no interest and no maturity date.	22	221
Total outstanding long-term debt	$1,375	$1,514
Current portion of long-term debt	(1,375)	(1,514)
Long-term debt, net of current portion	$-	$-

On October 12, 2010, three of the warrant holders exercised their put rights and as a result, Digerati made payments to the related warrant holders amounting to $75,000 that was charged to derivative liability and resulted in a remaining balance of $10,000 as of October 31, 2013. The Company cancelled the related warrants as a result of the payment made for the put rights.

On April 3, 2012, May 2, 2012, May 15, 2012 and June 21, 2012 Digerati entered into four Convertible Debentures totaling $75,000. The holders can convert the debentures into common stock at a rate of $3.45. Additionally, Digerati issued 13,100 warrants at an exercise price of $3.45 to the debenture holders. Digerati analyzed the debentures for derivative accounting consideration and determined that the warrants qualify as a derivative instrument, due to the exercise price adjustment provision. As of October 31, 2013, the derivative liability was valued at $0. Subsequent to the period end, on April 4, 2014, under the Reorganization Plan, the warrants issued under the convertible debentures were cancelled. Subsequent to the period end, on October 2, 2014, under the Reorganization Plan, the appointed trustee paid the principal balance outstanding to the debenture holders.

As of January 31, 2014, Digerati was in default of its notes with Vantage Bank Texas, National Association (formerly San Antonio National Bank) and Thermo Credit, LLC due to its failure to meet certain debt covenant ratios. The Company was able to obtain a waiver until July 31, 2012 from Vantage Bank for such defaults. On July 5, 2012, Vantage Bank filed a lawsuit in Bexar County, Texas against Digerati for failure to pay the remaining indebtedness. On November 29, 2012, Digerati reached an “agreed judgment” with Vantage Bank for $18,796. Subsequent to the period end, on October 2, 2014, under the Reorganization Plan, the appointed trustee paid the principal balance outstanding on the Vantage Bank promissory note.

On April 18, 2012, Digerati entered into a forbearance agreement with Thermo Credit, LLC, in which the lender agreed to temporarily forebear the defaults under the promissory note. Additionally during the year ended July 31, 2013, Digerati agreed to transfer its right to some equipment to Thermo Credit, LLC, and as a result the debt to Thermo Credit, LLC, was reduced by $121,000. Subsequent to the period end, on October 2, 2014, under the Reorganization Plan, the appointed trustee paid the principal balance outstanding on the promissory note.

The promissory note for $20,000 payable to Recap Marketing & Consulting LLP maturing October 1, 2010 was exchanged for 1,000 shares of Digerati Series A Preferred Stock during fiscal 2013. Pursuant to the Reorganization Plan confirmed on April 4, 2014, all shares of the Series A Preferred Stock were cancelled and deemed void ab initio. The $20,000 promissory note is not an Allowed Claim as defined in the Reorganization Plan.

On October 2, 2014, under the Reorganization Plan, the appointed trustee paid the principal balance outstanding on the promissory notes to Alfonso Torres, ATV Texas Ventures IV, ATVF II, Thermo Credit, LLC and Vantage Bank.

NOTE 6 – STOCK-BASED COMPENSATION

In September 2005, Digerati adopted its 2005 stock compensation plan. This plan, as amended, authorizes the grant of up to 17.5 million warrants, stock options, restricted common shares, non-restricted common shares and other awards to employees, directors, and certain other persons. The plan is intended to permit Digerati to retain and attract

qualified individuals who will contribute to the overall success of Digerati. Digerati's Board of Directors determines the terms of any grants under the plan. Exercise prices of all warrants, stock options and other awards vary based on the market price of the shares of common stock as of the date of grant. The warrants, stock options, restricted common stock, non-restricted common stock and other awards vest based on the terms of the individual grant.

As of January 31, 2014, Digerati had 126,300 outstanding options with a weighted average exercise price of $5.30, a weighted average remaining term of 3.15 years and an intrinsic value of zero. Subsequent to year end, on April 4, 2014 under the Reorganization Plan all outstanding options were cancelled.

Digerati recognized approximately $0 and $77,000 in stock based compensation expense to employees and consultants during the six months ended January 31, 2014 and 2013, respectively. Unamortized compensation cost totaled $0 at January 31, 2014 and January 31, 2013.

A summary of the options as of January 31, 2014 and July 31, 2013 and the changes during the periods are presented below:

	Options	Weighted-average exercise price	Weighted-average remaining term (years)
Outstanding at July 31, 2013	126,300	5.30	3.7
Granted	-	-	-
Forfeited	-	-	-
Outstanding at January 31, 2014	126,300	5.30	3.15
Exercisable at January 31, 2014	126,300	5.30	3.15

The options at January 31, 2014 and July 31, 2013 have an intrinsic value of $0. As of April 4, 2014, all outstanding options were terminated pursuant to the Agreed Order and Reorganization Plan.

NOTE 7 – WARRANTS

A summary of the warrants as of January 31, 2014 and July 31, 2013 and the changes during periods are presented below:

	Warrants	Weighted-average exercise price	Weighted-average remaining contractual term (years)
Outstanding at July 31, 2013	120,600	4.60	3.60
Granted	-	-	-
Exercised	-	-	-
Forfeited and cancelled	-	-	-
Outstanding at January 31, 2014	120,600	4.60	3.05
Exercisable at January 31, 2014	120,600	4.60	3.05

As of January 31, 2014, Digerati had outstanding warrants totaling 120,600 with a weighted average exercise price of $4.60, a weighted average remaining term of 3.05 years and an intrinsic value of zero. On April 4, 2014 under the Agreed Order and Reorganization Plan all outstanding warrants were cancelled.

NOTE 8 – DERIVATIVE LIABILITIES

The following table presents the derivative financial instruments, measured and recorded at fair value on the Company’s consolidated balance sheets on a recurring basis, and their level within the fair value hierarchy as of January 31, 2014:

	Amount	Level 1	Level 2	Level 3
Embedded conversion derivative liability	$-	$ -	$ -	$-
Warrant derivative liabilities	10,000	-	-	10,000
	$10,000	$ -	$ -	$10,000

The following table provides a summary of the changes in fair value, including net transfers in and/or out, of the derivative financial instruments, measured at fair value on a recurring basis using significant unobservable inputs:

Balance at July 31, 2012	$94,000
Settlement of derivative liability due to conversion of debt	$(74,000)
Unrealized derivative gains included in other income (expense)	(10,000)
Balance at July 31, 2013	$10,000
Unrealized derivative gains included in other income (expense)	-
Balance at January 31, 2014	$10,000

The fair value of the derivative liabilities are calculated at the time of issuance and Digerati records a derivative liability for the calculated value. Changes in the fair value of the derivative liabilities are recorded in other income (expense) in the consolidated statements of operations.

The derivatives were valued using the Black-Scholes option pricing model with the following assumptions: stock price on the measurement dates - $0.03 to $0.07, term of 0.21 years to 5.61 years, expected volatility of 214% to 550%, and discount rates of 0.06% to 1.6%.

NOTE 9 – SUBSEQUENT EVENTS

On April 4, 2014, the Bankruptcy Court entered an Agreed Order Confirming Joint Plan of Reorganization Filed by Plan Proponents confirming the Plan Proponents' Joint Chapter 11 Plan of Reorganization as modified on the record on April 4, 2014 and/or as modified by the Agreed Order. (See Note 3)

On May 1, 2014, Recap Marketing & Consulting LLP, Rainmaker Ventures II, Ltd and WEM Equity Capital Investments, Ltd. filed an arbitration claim pursuant to the Bankruptcy Settlement Agreement claiming an aggregate of 4,054,923 shares of Digerati Common Stock, $.001 par value per share. On July 19, 2014, the arbitrator entered a decision that Recap Marketing & Consulting LLP was entitled to the transfer of 20,600 shares of Digerati Common Stock that were outstanding as of the date of the November Transactions and reflected on Digerati's stockholder list as being held by other stockholders who were principals of Recap Marketing & Consulting, LLP. The arbitrator's award also recognized 100 shares of Digerati Common Stock that were outstanding as of the date of the November Transactions and reflected on Digerati's stockholder list as being held by Rainmaker Ventures II, Ltd, 4,400 shares of Digerati Common Stock that were outstanding as of the date of the November Transactions and reflected on Digerati's stockholder list as being held by WEM Equity Capital Investments, Ltd. and 31,170 shares of Digerati Common Stock outstanding as of the date of the November Transactions as to which WEM Equity Capital Investments, Ltd. was the beneficial owner. In addition, the arbitrator dismissed challenges to the beneficial ownership of shares held by Arthur L. Smith and Antonio Estrada. Since all shares awarded by the arbitrator were outstanding as of the date of the award, Digerati was not required to issue additional shares of its Common Stock pursuant to the award.

On July 1, 2014, the Grantor Trust entered into a Stock Purchase Agreement for the sale of 100% of the outstanding equity of Dishon for an aggregate sale price of $27,000,000, subject to adjustment for certain assets and liabilities as of the closing date. The closing occurred on July 18, 2014.

On July 10, 2014, the trustee of the Grantor Trust entered into a Stock Purchase Agreement for the sale of 100% of the outstanding equity of Hurley for an aggregate sale price of $14,500,000. The closing occurred on July 30, 2014.

On September 15, 2014 the Company held an Annual Meeting of Shareholders and the majority of our shareholders elected Messrs. Craig K. Clement and Maxwell A. Polinsky as directors. Messrs. Arthur L. Smith, William E. McIlwain and James J. Davis did not stand for re-election during the Meeting of Shareholders.

On October 2, 2015 the Grantor Trust paid approximately $1,838,000 of unsecured claims in accordance to the Chapter 11 Plan of Reorganization.

On October 30, 2014, November 7, 2014, November 14, 2014 and November 24, 2014 Digerati entered into a Promissory Notes for a total of $40,000 with Flagship Oil and Gas Corp. Craig K. Clement, the CEO and a director of Flagship, is also a Digerati director. The notes have an implied annual interest rate of 7% and all notes matured on January 5, 2015. Digerati also entered into a preemptive rights agreement with Flagship, under which the holder has the preemptive right, but not the obligation, to purchase any equity securities that the Company may propose to issue or sell. On January 13, 2015, the Company issued 363,636 shares of Digerati Common Stock for payment of the principal of and accrued interest on the $40,000 Flagship Notes.

On January 13, 2015 the Company executed a stock purchase agreement with Flagship Oil and Gas Corp. for the sale of 2,279,412 shares of Digerati Common Stock, and a warrant for the purchase of an additional 300,000 shares of Common Stock at $0.136 per share for five years. In consideration for the shares and the warrant, the Company received a promissory note in the original principal amount of $310,000 plus interest at the rate of 7.0% per annum, payable in installments of $40,000 plus accrued interest on January 31, 2015; $60,000 plus accrued interest on February 13, 2015; and $210,000 plus accrued interest on March 6, 2015.

On January 19, 2015 the Company issued 492,356 shares of its Common Stock to various employees as part of Digerati's profit sharing plan contribution. The Company recognized stock-based compensation expense of $118,165 equivalent to the value of the shares calculated based on the share's closing price at the grant dates.

On January 22, 2015 the Company's Board of Directors appointed a current director, Craig K. Clement, as Chairman of the Board. Mr. Clement is CEO of Flagship Oil and Gas Corp.

NOTE 10 – SIGNIFICANT CUSTOMERS

During the six months ended January 31, 2014, the Company derived a significant amount of revenue from two customers, comprising 29% and 9% of the total revenue for the period, respectively, compared to two customers, comprising 16% and 12% of the total revenue for the six months ended January 31, 2013.

During the six months ended January 31, 2014, the Company derived a significant amount of accounts receivable from one customer, comprising 93% of the total accounts receivable for the period, compared to three customers, comprising 16%, 12%, and 11% of the total accounts receivable for the six months ended January 31, 2013, respectively.

NOTE 11 – RELATED PARTY TRANSACTIONS

In November 2013, Shift8 Networks, Inc., an operating subsidiary of Digerati, converted accounts payable into a note payable with Mr. Arthur L. Smith, in the amount of $46,755. The note has an implied annual interest rate of 0% and a maturity date of February 28, 2014. Subsequently, Mr. Smith agreed to extend the maturity date of the promissory note to November 30, 2014 and later agreed to extend the maturity date to April 30, 2015. On January 31, 2015, Shift8 Networks and Mr. Smith agreed to renew and extend the maturity date on the $46,755 promissory note to October 31, 2015. The renewed note has an implied annual interest rate of 3%. On February 2, 2015, Shift8 Networks made a principal payment of $2,000.

As of period end there is approximately $214,000 accounts payable to related parties.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

This Quarterly Report on Form 10-Q contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. "Forward-looking statements" are those statements that describe management's beliefs and expectations about the future. We have identified forward-looking statements by using words such as "anticipate," "believe," "could," "estimate," "may," "expect," "plan," and "intend." Although we believe these expectations are reasonable, our operations involve a number of risks and uncertainties. Some of these risks include the availability and capacity of competitive data transmission networks and our ability to raise sufficient capital to continue operations. Additional risks are included in our Annual Report on Form 10-K for the fiscal year ended July 31, 2013 filed with the Securities and Exchange Commission on July 30, 2014.

The following is a discussion of the unaudited interim consolidated financial condition and results of operations of Digerati for the three and six months ended January 31, 2014 and 2013. It should be read in conjunction with our audited Consolidated Financial Statements, the Notes thereto, and the other financial information included in the Company's Annual Report on Form 10-K for the fiscal year ended July 31, 2013 filed with the Securities and Exchange Commission on July 30, 2014. For purposes of the following discussion, fiscal 2014 or 2014 refers to the year ended July 31, 2014 and fiscal 2013 or 2013 refers to the year ended July 31, 2013.

History

Digerati Technologies, Inc., a Nevada corporation (including our subsidiaries, "we", "us", or "Digerati"), was formed in 2004 as the successor to a business originally commenced by Latcomm International, Inc., a Canadian company formed in 1994. We began providing communication services in 1995 along the U.S.-Mexico corridor to capitalize on the opportunities created by the deregulation of the telecommunication industries within Latin America. Our principal business has been providing transportation of voice traffic for other telecommunication service providers, wireless carriers and regional Internet telephony providers using Voice over Internet Protocol ("VoIP") technologies. Our wholly owned subsidiary, Shift8 Technologies, Inc. ("Shift8"), offers a portfolio of Internet-based telephony products and services through our cloud telephony application platform and session-based communication network that is interconnected with more than 200 foreign service providers.

On November 26, 2012, we completed the acquisition of two established oil field service companies with operations in North Dakota and Montana. Dishon Disposal, Inc., a North Dakota corporation ("Dishon"), is engaged primarily in the business of treating and disposing of oil field waste. Hurley Enterprises, Inc. a Montana corporation ("Hurley"), is engaged primarily in the business of providing oil field support equipment and services, including skid houses, telecommunication services, booster booths, portable toilets, generators, potable water and mess halls.

Sources of Revenue and Direct Cost

Sources of revenue:

Oil field Services: We provide equipment rental services to contractors and major oil drilling entities in the North Dakota Area. Additionally we provide waste collection, transfer, disposal and recycling services.

Global VoIP Services: We currently provide VoIP communication services to U.S. and foreign telecommunications companies that lack transmission facilities, require additional capacity or do not have the regulatory licenses to terminate traffic in Mexico, Asia, the Middle East and Latin America. Typically, these telecommunications companies offer their services to the public for domestic and international long distance services

Cloud-based hosted Services: We provide enhanced VoIP services to resellers and enterprise customers. The service include fully hosted IP/PBX services, IP trunking, call center applications, prepaid services, interactive voice response auto attendant, call recording, simultaneous calling, voicemail to email conversion, and multiple customized IP/PBX features in a hosted environment for specialized applications.

Direct Costs:

Oil field Services: We incur cost associated with the rental of equipment, contractors and engineering associated with our waste disposal services.

Global VoIP Services: We incur transmission and termination charges from our suppliers and the providers of the infrastructure and network. The cost is based on rate per minute, volume of minutes transported and terminated through the network. Additionally, we incur fixed Internet bandwidth charges and per minute billing charges. In some cases we incur installation charges from certain carriers. These installation costs are passed on to our customers for the connection to our VoIP network.

Cloud-based hosted Services: We incur bandwidth and co-location charges in connection with enhanced VoIP Services. The bandwidth charges are incurred as part of the connection between our customers to allow them access to our services.

Results of Operations

The following table sets forth certain items included in our results of operations and variances between periods for the three and six months ended January 31, 2014 and 2013. All dollar amounts are in thousands.

	Three months ended January 31,				Six months ended January 31,			
	2014	2013	Variances	%	2014	2013	Variances	%
OPERATING REVENUES:								
Global VoIP services	$37	$63	$ (26)	-41 %	$130	$204	$ (74)	-36 %
Cloud-based hosted services	59	148	(89)	-60 %	117	311	(194)	-62 %
Total operating revenues	96	211	(115)	-55 %	247	515	(268)	-52 %
Cost of services (exclusive of depreciation and amortization, shown below)	93	134	(41)	-31 %	215	343	(128)	-37 %
GROSS MARGIN	3	77	(74)	-96 %	32	172	(140)	-81 %
Selling, general and administrative expense (exclusive of legal and professional fees)	143	259	(116)	-45 %	379	425	(46)	-11 %
Legal and professional fees	773	37	736	1989%	1,297	43	1,254	2916%

Depreciation and amortization expense	5		5		-		0	%	9		19		(10)		-53	%
OPERATING LOSS	(918)		(224)		(694)		310	%	(1,653)		(315)		(1,338)		425	%
OTHER INCOME (EXPENSE):																
Gain (loss) derivative instruments and disposal of fixed assets	(40)		214		(254)		-119	%	(56)		270		(326)		-121	%
Gain (loss) on debt extinguishment	246		-		246		100	%	246		18		228		1267	%
Interest expense	(32)		(86)		54		63	%	(81)		(217)		136		-63	%
Total other income (expense)	174		128		46		36	%	109		71		38		54	%
NET LOSS FROM CONTINUING OPERATIONS, BEFORE TAX	$(744)		$(96)		$(648)		675	%	$(1,544)		$(244)		$(1,300)		533	%
INCOME TAX BENEFIT (EXPENSE) FROM DISCONTINUED OPERATIONS	(376)		937		(1,313)		-140	%	443		937		(494)		-53	%
INCOME (LOSS) FROM CONTINUING OPERATIONS	(1,120)		841		(1,961)		-233	%	(1,101)		693		(1,794)		259	%
NET INCOME (LOSS) FROM DISCONTINUED OPERATIONS, NET OF TAXES	(731)		1,819		(2,550)		-140	%	859		1,819		(960)		-53	%
NET INCOME (LOSS) ATTRIBUTED TO DIGERATI TECHNOLOGIES, INC.	$(1,851)		$2,660		$(4,511)		-170	%	$(242)		$2,512		$(2,754)		-110	%

Three Months ended January 31, 2014 Compared to Three Months ended January 31, 2013

Global VoIP Services. Global VoIP services revenue decreased by $26,000, or 41%, from the quarter ended January 31, 2013 to the quarter ended January 31, 2014. The decrease in revenue is attributed primarily to slowly dwindling Global VoIP services due in part to the constant price pressure in the market.

Cloud-based hosted Services. Cloud-based hosted services revenue decreased by $89,000, or 60%, from the quarter ended January 31, 2013 to the quarter ended January 31, 2014. The decrease in revenue between periods is primarily attributed to the decrease in one key customer that generated significant monthly recurring hosted services revenue. Hosted services include fully hosted IP/PBX services, IP trunking, call center applications, prepaid services, interactive voice response auto attendant, call recording, simultaneous calling, voicemail to email conversion, SIP trunking and multiple other IP/PBX features in a hosted environment.

C*ost of Services (exclusive of depreciation and amortization).* The consolidated cost of services decreased by $41,000, or 31%, from the quarter ended January 31, 2013 to the quarter ended January 31, 2014. The decrease in cost of services is a direct correlation to the decrease in total revenue.

Selling, General and Administrative (SG&A) Expenses (exclusive of legal and professional fees). SG&A expenses decreased by $116,000, or 45%, from the quarter ended January 31, 2013 to the quarter ended January 31, 2014. The decrease is attributed to adjustments related to salaries and wages forgiven as part of a settlement agreement under the Chapter 11 Plan of Reorganization.

Legal and professional fees. Legal and professional fees increased by $736,000, or 1,989%, from the quarter ended January 31, 2013 to the quarter ended January 31, 2014. The increase is attributable to the legal fees related to the voluntary petition pursuant to Chapter 11 of the U.S. Bankruptcy Code filed on May 30, 2013.

Depreciation and amortization. Depreciation and amortization remained comparable between periods.

Operating loss. The Company reported an operating loss of $918,000 for the three months ended January 31, 2014 compared to an operating loss of $224,000 for the three months end January 31, 2013. The increase in operating loss between periods is primarily attributed to the increase in legal and professional fees of $736,000.

Other income (expense). Other income (expense) increased by $46,000, or 36%, from the quarter ended January 31, 2013 to the quarter ended January 31, 2014. The primary reason for the increase in other income (expense) is attributed to the recognition of $246,000 in a gain from debt extinguishment associated to certain debt forgiven as part of the Chapter 11 Plan of Reorganization

Net loss from continuing operations, before tax. Net loss from continuing operations, before tax increased by $648,000 or 675%, from the three months ended January 31, 2013 to the three months ended January 31, 2014. The increase in net loss from continuing operations, before tax is primarily attributed to the increase in legal and professional fees of $736,000 and the decrease in gross margin between periods of $74,000.

Income tax benefit (expense) from discontinued operations. Income tax benefit (expense) from discontinued operations decreased by $1,313,000 or 140%, from the quarter ended January 31, 2013 to the quarter ended January 31, 2014.

Net income (loss) from discontinued operations, net of taxes. Net income (loss) from discontinued operations, net of taxes increased by $2,550,000 or 140%, from the quarter ended January 31, 2013 to the quarter ended January 31, 2014.

Net income (loss) attributed to Digerati Technologies, Inc. Net income (loss) attributed to Digerati Technologies, Inc. increased by $4,511,000 or 170%, from the quarter ended January 31, 2013 to the quarter ended January 31, 2014. The increase in net (loss) attributed to Digerati Technologies, Inc. is attributed to the increase in (loss) from discontinued operations between periods.

Six Months ended January 31, 2014 Compared to Six Months ended January 31, 2013

Global VoIP Services. Global VoIP services revenue decreased by $74,000, or 36%, from the six months ended January 31, 2013 to the six months ended January 31, 2014. The decrease in revenue is attributed primarily to slowly dwindling Global VoIP services due in part to the constant price pressure in the market.

Cloud-based hosted Services. Cloud-based hosted services revenue decreased by $194,000, or 62%, from the six months ended January 31, 2013 to the six months ended January 31, 2014. The decrease in revenue between periods is primarily attributed to the decrease in one key customer that generated significant monthly recurring hosted services revenue. Hosted services include fully hosted IP/PBX services, IP trunking, call center applications, prepaid services, interactive voice response auto attendant, call recording, simultaneous calling, voicemail to email conversion, SIP trunking and multiple other IP/PBX features in a hosted environment.

C*ost of Services (exclusive of depreciation and amortization).* The consolidated cost of services decreased by $128,000, or 37%, from the six months ended January 31, 2013 to the six months ended January 31, 2014. The decrease in cost of services is a direct correlation to the decrease in total revenue.

Selling, General and Administrative (SG&A) Expenses (exclusive of legal and professional fees). SG&A expenses decreased by $46,000, or 11%, from the six months ended January 31, 2013 to the six months ended January 31, 2014. The decrease is attributed to adjustments related to salaries and wages forgiven as part of a settlement agreement under the Chapter 11 Plan of Reorganization.

Legal and professional fees. Legal and professional fees increased by $1,254,000, or 2,916%, from the six months ended January 31, 2013 to the six months ended January 31, 2014. The increase is attributable to the legal fees related to the voluntary petition pursuant to Chapter 11 of the U.S. Bankruptcy Code filed on May 30, 2013.

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Depreciation and amortization. Depreciation and amortization decreased by $10,000, or 53%, from the six months ended January 31, 2013 to the six months ended January 31, 2014. The decrease is due to most of our fixed assets reaching their fully depreciated value.

Operating loss. The Company reported an operating loss of $1,653,000 for the six months ended January 31, 2014 compared to an operating loss of $315,000 for the six months end January 31, 2013. The increase in operating loss between periods is primarily attributed to the increase in legal and professional fees of $1,254,000 and decrease in gross margin between periods of $140,000.

Other income (expense). Other income (expense) increased by $38,000, or 54%, from the six months ended January 31, 2013 to the six months ended January 31, 2014. The primary reason for the increase in other income (expense) is attributed to the recognition of $246,000 in a gain from debt extinguishment associated to certain debt forgiven as part of the Chapter 11 Plan of Reorganization.

Net loss from continuing operations, before tax. Net loss from continuing operations, before tax increased by $1,300,000 or 533%, from the six months ended January 31, 2013 to the six months ended January 31, 2014. The increase in net loss from continuing operations, before tax is primarily attributed to the increase in legal and professional fees of $1,254,000 and decrease in gross margin between periods of $140,000.

Income tax benefit from discontinued operations. Income tax benefit from discontinued operations decreased by $494,000 or 53%, from the six months ended January 31, 2013 to the six months ended January 31, 2014.

Net income (loss) from discontinued operations, net of taxes. Net income (loss) from discontinued operations, net of taxes decreased by $960,000 or 53%, from the six months ended January 31, 2013 to the six months ended January 31, 2014.

Net income (loss) attributed to Digerati Technologies, Inc. Net income (loss) attributed to Digerati Technologies, Inc. decreased by $2,754,000 or 110%, from the six months ended January 31, 2013 to the six months ended January 31, 2014. The decrease in net income attributed to Digerati Technologies, Inc. is due to the decrease in net income from discontinued operations between periods.

Liquidity and Capital Resources

Cash Position: We had a consolidated cash balance of $136,000 as of January 31, 2014 not including cash from discontinued operations. While a consolidated cash balance of $7,200,000 including cash from discontinued operations. Net cash provided by operating activities during the six months ended January 31, 2014 was approximately $7,121,000. Cash used in investing activities during the six months ended January 31, 2014 was approximately $6,646,000. We had cash provided by financing activities of $182,000 pursuant to the issuance and payments of various promissory notes during the six months ended January 31, 2014. Overall, our net operating, investing and financing activities during the six months ended January 31, 2014 generated approximately $657,000 of cash.

We are currently utilizing our available cash to fund any deficiencies in our cash flows from operations. Additionally, we were funding Digerati from available funds from two subsidiaries, which were subsequently sold during fiscal 2014.

Our current cash expenses are expected to be approximately $75,000 per month, including wages, rent, utilities and corporate professional fees primarily associated with finalization of our Reorganization Plan. As described elsewhere herein, we are not generating sufficient cash from operations to pay for our ongoing operating expenses, or to pay our current liabilities. As of January 31, 2014 our total liabilities were approximately $82,055,000. As mentioned in Note 3 to the Financial Statements, upon the sale of the shares of Dishon and Hurley and in accordance with the Reorganization Plan, the appointed trustee paid approximately $1,838,000 of unsecured claims and intents to pay approximately $1,700,000 in professional fees. In addition, the trustee paid approximately $41,500,000 in secured claims. There were no proceeds from the sale of Dishon and Hurley shares in excess of the unsecured claims, professional fees and secured claims.

We estimate that we need approximately $500,000 of additional working capital to fund our ongoing operations. Additionally, we have an accumulated deficit in Stockholders' Deficit of approximately $80,374,000, which raises substantial doubt about our ability to continue as a going concern.

We will continue to work with various funding sources to secure additional debt and equity financings. However, we cannot offer any assurance that we will be successful in executing the aforementioned plans to continue as a going concern.

Item 3. Quantitative and Qualitative Disclosures About Market Risks.

Smaller reporting companies are not required to provide the information required by this item.

Item 4. Controls and Procedures.

Management's Report on Internal Controls Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rule 13a-15(f) or 15d-15(f) promulgated under the Securities Exchange Act of 1934, as amended, as a process designed by, or under the supervision of, the Company's principal executive and principal financial officers and effected by the Company's Board, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America and includes those policies and procedures that:

- Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the company;
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and
- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Because of the inherent limitations of internal control, there is a risk that material misstatements may not be prevented or detected on a timely basis by internal control over financial reporting. However, these inherent limitations are known features of the financial reporting process. Therefore, it is possible to design into the process safeguards to reduce, though not eliminate, this risk.

As of January 31, 2014, management assessed the effectiveness of our internal control over financial reporting based on the criteria for effective internal control over financial reporting established in Internal Control--Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") and SEC guidance on conducting such assessments. Based on that evaluation, management concluded that, during the period covered by this report; such internal controls and procedures were not effective based on the COSO criteria. This was due to deficiencies that existed in the design or operation of our internal controls over financial reporting that adversely affected our ability to prepare accurate and timely financial statements, which are considered to be material weaknesses.

As a public company with listed equity securities, we need to comply with laws, regulations and requirements, certain corporate governance provisions of the Sarbanes-Oxley Act or the Dodd-Frank Act, and related regulations of the SEC, which we would not be required to comply with as a private company. Complying with these statutes, regulations and requirements will occupy a significant amount of time of our board of directors and management and will significantly increase our costs and expenses.

The matters involving internal controls and procedures that our management considered to be material weaknesses under the standards of the Public Company Accounting Oversight Board were:

1. Ineffective controls over the business combination accounting;
2. Lack of accounting expertise to appropriately apply GAAP for complex or non-recurring transactions.

The aforementioned material weaknesses were identified by management in connection with the review of our financial statements as of January 31, 2014.

Management believes that the material weaknesses set forth above did not have an effect on our financial results. However, management believes that, since the Company sold the subsidiaries in July 2014, they now have the adequate resources to enable accurate and reliable financial reporting. We are further studying best practices in internal controls over financial reporting and designing other internal controls to implement that will help remediate our weaknesses.

Changes in internal controls over financial reporting

Except as noted above, there was no change in our internal controls over financial reporting that occurred during the period covered by this report, which has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

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PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

On January 17, 2013, a lawsuit was filed by certain unauthorized parties on behalf of the Company in the District Court of Clark County, Nevada against Oleum Capital, LLC. This lawsuit was not approved by the Board or officers of the Company. Accordingly Arthur L. Smith remained the sole Director, Chief Executive Officer, President, Secretary, and Chairman of the Company. Kelly V. Kirker, William E. McIlwain, Robert C. Rhodes, and Robert Sonfield have no relationship with the Company and no authority to speak or act for the Company. On January 17, 2013 the Company initiated litigation in the District Court of Clark County, Nevada against Oleum Capital, LLC for breach of contract, unjust enrichment, declaratory relief, constructive trust and injunctive relief for actions of the Defendant and its control persons, David L. Gorham and Bert Tarrant Dunken, Jr. These cases resulted from a transaction in November 2012 (the "Transaction") whereby the Company acquired two oilfield services companies operating in the Bakken region of North Dakota and Montana. See Note 4 to the Financial Statements.

On May 30, 2013, we filed a voluntary petition in the United States Court for the Southern District of Texas, Houston Division, Case No. 13-33264, seeking relief under the provisions of Chapter 11 of the United States Bankruptcy Code. On January 15, 2014, the Bankruptcy Court entered an Order Approving Compromise and Settlement on the Debtor's and Parties' Emergency Motion to Approve Compromise of Controversy Under Bankruptcy Rule 9019, which resolved current and prospective claims relating to the Transaction. On April 4, 2014, the Bankruptcy Court entered an Agreed Order Confirming Joint Plan of Reorganization Filed by Plan Proponents, confirming the Plan Proponents' Joint Chapter 11 Plan of Reorganization as modified on the record on April 4, 2014 and/or as modified by the Agreed Order. See Item 1 Business – Bankruptcy, and Note 3 to the Financial Statements.

Item 1A. Risk Factors.

None

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

None

Item 5. Other Information.

Departure of Directors

James J. Davis, William E. Mcllwain and Arthur L. Smith did not seek re-election as directors and, therefore, were not re-elected to the Company's Board of Directors at the Company’s Annual Meeting of Shareholders held on September 15, 2014.

Election of Directors

Effective as of September 15, 2014, during the Company's Annual Meeting of Shareholders, the Shareholders elected Craig K. Clement and Maxwell A. Polinsky to the Company's Board of the Directors.

Craig K. Clement has nearly thirty-five years' executive and board of director experience with Technology (telecom, software, hardware) and Exploration and Production (E&P) entities (Buffalo Royalty, Petroleum Search, Yucca, and NASDAQ: PAN), where Mr. Clement was responsible for asset management, acquisitions/divestitures, strategic/tactical planning, financial operations, corporate finance, legal, transaction structuring, business development, and investor relations. Mr. Clement assisted in the growth of ATSI Communications, Inc., predecessor to Digerati Technologies, Inc., from 10 employees to 500 and leading up to its listing on the American Stock Exchange (AMEX: AI) ATSI Communications achieved a public market valuation of over US$450 million while on the AMEX. Mr. Clement was the founding CEO of GlobalSCAPE, Inc. (NYSE: GSB), the developer of the popular FTP client software utility "Cute FTPTM," and former wholly owned subsidiary of Digerati. GlobalSCAPE was spun off to Digerati's shareholders in 2000 (NYSE: GSB). Mr. Clement is the Chairman of the South Texas Regional Center for Innovation and Commercialization, which screened and supported entrepreneurs through the Texas Emerging Technology Fund managed by the Texas Governor's office. The Texas Emerging Technology Fund has invested more than $350 million in Texas-based technology start-ups. Since 2011, Mr. Clement has served as a consultant to various E&P entities including Morning Star, BP, and Forge Energy (EnCap and Pine Brook-sponsored). Mr. Clement holds a Bachelor of Business Administration degree from the University of Texas at Austin.

Maxwell A. Polinsky is the Chief Financial Officer and a director of Cougar Minerals Corp., a Canadian-based mineral exploration company that is traded on the TSX Venture Exchange and a principal in Venbanc Investment and Management Group Inc., an investment and merchant bank he co-founded in 1994. From 2009 to 2011, Mr. Polinsky was the Chief Financial Officer and a director of RX Exploration Inc., a company engaged in re-examination of gold projects within North America that have previously reached advanced exploration, underground development or past gold production. Mr. Polinsky also served as a director of Nerium Biotechnology from 2006 to 2010, Montana Gold from 2005 to 2011, Xpel Technologies from 2003 to 2009, Nighthawk Systems from 2001 to 2007 and DMI Technologies Inc. from 1994 to 2002. Mr.Polinsky holds a Bachelor of Commerce degree from the University of Manitoba.

Family Relationships

There are no family relationships between any of the Company's directors or officers.

Related Party Transactions

In November 2013, Shift8 Networks, Inc., an operating subsidiary of Digerati, converted accounts payable into a note payable with Mr. Arthur L. Smith, in the amount of $46,755. The note has an implied annual interest rate of 0% and a maturity date of February 28, 2014. Subsequently, Mr. Smith agreed to extend the maturity date of the promissory note to November 30, 2014 and later agreed to extend the maturity date to April 30, 2015. On January 31, 2015, Shift8 Networks and Mr. Smith agreed to renew and extend the maturity date on the $46,755 promissory note to October 31, 2015. The renewed note has an implied annual interest rate of 3%. On February 2, 2015, Shift8 Networks made a principal payment of $2,000.

On October 30, 2014, November 7, 2014, November 14, 2014 and November 24, 2014 Digerati entered into four Promissory Notes for a total of $40,000 with Flagship Oil and Gas Corp. Craig K. Clement, a Digerati director, is also the CEO and director of Flagship. The notes have an implied annual interest rate of 7% and with maturity date for all notes of January 5, 2015. Digerati also entered into a preemptive rights agreement with Flagship, under which the holder has the preemptive right, but not the obligation to purchase any equity securities that the Company may propose to issue or sell. On January 13, 2015, the Company issued 363,636 shares of Digerati Common Stock for payment of the principal of and accrued interest on the $40,000 Flagship Notes.

On January 13, 2015 the Company executed a stock purchase agreement with Flagship Oil and Gas Corp. for the sale of 2,279,412 shares of Digerati Common Stock, and a warrant for the purchase of an additional 300,000 shares of Common Stock at $0.136 per share for five years. In consideration for the shares and the warrant, the Company received a promissory note in the original principal amount of $310,000 plus interest at the rate of 7.0% per annum,

payable in installments of $40,000 plus accrued interest on January 31, 2015; $60,000 plus accrued interest on February 13, 2015; and $210,000 plus accrued interest on March 6, 2015.

ITEM 6. EXHIBITS

Exhibit Number	Exhibit Title
3.1	Second Amended and Restated Bylaws, effective as of January 13, 2015 (filed as Exhibit 3.1 to the Company's Current Report on Form 8-K filed on January 21, 2015 (File No. 001-15687)).
10.1	Promissory note payable with Arthur L. Smith dated November 15, 2013 in the principal amount of $46,755 (filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed on January 20, 2015 (File No. 001-15687)).
10.2	Promissory Note dated October 31, 2014 in the original principal amount of $10,000.00 plus interest at the rate of 7.0% per annum due January 5, 2015 (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed on January 21, 2015 (File No. 001-15687)).
10.3	Promissory Note dated November 7, 2014 in the original principal amount of $10,000.00 plus interest at the rate of 7.0% per annum due January 5, 2015 (filed as Exhibit 10.2 to the Company's Current Report on Form 8-K filed on January 21, 2015 (File No. 001-15687)).
10.4	Promissory Note dated November 14, 2014 in the original principal amount of $10,000.00 plus interest at the rate of 7.0% per annum due January 5, 2015 (filed as Exhibit 10.3 to the Company's Current Report on Form 8-K filed on January 21, 2015 (File No. 001-15687)).
10.5	Promissory Note dated November 24, 2014 in the original principal amount of $10,000.00 plus interest at the rate of 7.0% per annum due January 5, 2015 (filed as Exhibit 10.4 to the Company's Current Report on Form 8-K filed on January 21, 2015 (File No. 001-15687)).
10.6	Promissory Note dated January 19, 2015 in the original principal amount of $310,000.00 plus interest at the rate of 7.0% per annum, payable in installments (filed as Exhibit 10.5 to the Company's Current Report on Form 8-K filed on January 21, 2015 (File No. 001-15687)).
10.7	Stock Purchase Agreement dated January 13, 2015, by and among Digerati Technologies, Inc. and Flagship Oil and Gas Corp. (filed as Exhibit 10.6 to the Company's Current Report on Form 8-K filed on January 21, 2015 (File No. 001-15687)).
10.8	Form of stock award agreement under the Company's 2005 Stock Compensation Plan for grants to qualifying employees' 401K Retirement Accounts (filed as Exhibit 10.7 to the Company's Current Report on Form 8-K filed on January 21, 2015 (File No. 001-15687)).
10.9	Renewal and Extension Promissory Note payable with Arthur L. Smith dated January 31, 2015 in the principal amount of $46,755 plus interest at the rate of 3.0% per annum due October 31, 2015. (filed as Exhibit 10.9 to the Company's Current Report on Form 10-Q filed on February 20, 2015 (File No. 001-15687)).
31.1	

	Certification of Principal Executive Officer, pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Principal Financial Officer, pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Principal Executive Officer, pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Principal Financial Officer, pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

In accordance with SEC Release 33-8238, Exhibit 32.1 and 32.2 are being furnished and not filed.

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 thereunto duly authorized.

DIGERATI TECHNOLOGIES, INC.
(Registrant)

Date: May 5, 2015 By: /s/ Arthur L. Smith
Name: Arthur L. Smith
Title: President and
Chief Executive Officer
(Duly Authorized Officer and Principal
Executive Officer)

Date: May 5, 2015 By: /s/ Antonio Estrada Jr.
Name: Antonio Estrada Jr.
Title: Chief Financial Officer
(Duly Authorized Officer and Principal
Financial Officer)