Digerati Technologies, Inc.
Form 10-Q
August 31, 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 October 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	
San Antonio, Texas	**78229**
(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	August 31, 2015

DIGERATI TECHNOLOGIES, INC.

QUARTERLY REPORT ON FORM 10-Q

FOR THE QUARTER ENDED OCTOBER 31, 2014

INDEX

PART I-- FINANCIAL INFORMATION

Item 1.	Financial Statements	4
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	12
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	14
Item 4.	Control and Procedures	14

PART II-- OTHER INFORMATION

Item 1.	Legal Proceedings	15
Item 1A.	Risk Factors	15
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	15
Item 3.	Defaults Upon Senior Securities	15
Item 5.	Other Information	15
Item 6.	Exhibits	16

SIGNATURES 17

DIGERATI TECHNOLOGIES, INC.

CONTENTS

PAGE 4	CONSOLIDATED BALANCE SHEETS AS OF OCTOBER 31, 2014 AND AS OF JULY 31, 2014 (UNAUDITED)
PAGE 5	CONSOLIDATED STATEMENTS OF OPERATIONS FOR THE THREE MONTHS ENDED OCTOBER 31, 2014 AND 2013 (UNAUDITED)
PAGE 6	CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE THREE MONTHS ENDED OCTOBER 31, 2014 AND 2013 (UNAUDITED)
PAGES 7-11	NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

PART 1. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

DIGERATI TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(In thousands, unaudited)

	October 31, 2014	July 31, 2014
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$183	$347
Restricted cash	-	1,838
Accounts receivable, net of allowance for doubtful accounts of $54 and $54, respectively	13	9
Prepaid and other current assets	157	157
Total current assets	353	2,351
LONG-TERM ASSETS:		
Intangible assets, net of accumulated amortization of $95 and $91, respectively	55	59
Property and equipment, net	1	1
Total assets	$409	$2,411
LIABILITIES AND STOCKHOLDERS' DEFICIT		
CURRENT LIABILITIES:		
Accounts payable	$983	$1,283
Accounts payable - related parties	60	-
Accrued liabilities	256	376
10% Convertible debentures	-	50
Current portion of long term debt	56	1,338
Derivative liability	-	10
Total current liabilities	1,355	3,057
LONG-TERM LIABILITIES:		
Customer deposits	138	138
Total long-term liabilities	138	138
Total liabilities	1,493	3,195
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	(76,248)	(75,948)
Other comprehensive income	1	1
Total stockholders' deficit	(1,084)	(784)
Total liabilities and stockholders' deficit	$409	$2,411

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 October 31,	
	2014	2013
OPERATING REVENUES:		
Global VoIP services	$14	$54
Cloud-based hosted services	60	97
Total operating revenues	74	151
OPERATING EXPENSES:		
Cost of services (exclusive of depreciation and amortization)	42	122
Selling, general and administrative expense	206	236
Legal and professional fees	82	524
Depreciation and amortization expense	4	4
Total operating expenses	334	886
OPERATING LOSS	(260)	(735)
OTHER INCOME (EXPENSE):		
Gain (loss) derivative instruments and disposal of fixed assets	(29)	(16)
Interest expense	(11)	(49)
Total other income (expense)	(40)	(65)
LOSS FROM CONTINUING OPERATIONS, BEFORE TAX	(300)	(800)
INCOME TAX BENEFIT FROM DISCONTINUED OPERATIONS	-	819
INCOME (LOSS) FROM CONTINUING OPERATIONS	(300)	19
NET INCOME FROM DISCONTINUED OPERATIONS, NET OF TAXES	-	1,590
NET INCOME (LOSS) ATTRIBUTED TO DIGERATI TECHNOLOGIES, INC.	$(300)	$1,609
EARNINGS (LOSS) PER SHARE - BASIC AND DILUTED		
From continuing operations	$(0.15)	$0.01
From discontinued operations	$-	$0.80
EARNINGS (LOSS) PER SHARE - BASIC AND DILUTED ATTRIBUTED TO DIGERATI TECHNOLOGIES, INC. SHAREHOLDERS	$(0.15)	$0.81
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING - BASIC AND DILUTED	1,977,626	1,977,626

See accompanying notes to consolidated financial statements

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

	Three months ended October 31,	
	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$(300)	$1,609
Adjustments to reconcile net income (loss) to cash (used in) provided by operating activities:		
(Gain) loss on derivative instruments and disposal of fixed assets	(10)	16
Depreciation, amortization and accretion	4	3,252
Changes in operating assets and liabilities:		
Accounts receivable	(4)	1,768
Prepaid expenses and other current assets	-	248
Accounts payable	58	266
Accounts payable - related parties	60	-
Accrued liabilities	18	(1,630)
Net cash (used in) provided by operating activities	(174)	5,529
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property & equipment	-	(1,851)
Net cash used in investing activities	-	(1,851)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on debt	-	(1,323)
Proceeds from notes payable	10	37
Net cash provided by (used in) financing activities	10	(1,286)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(164)	2,392
CASH AND CASH EQUIVALENTS, beginning of period	347	6,543
CASH AND CASH EQUIVALENTS, end of period	$183	$8,935
SUPPLEMENTAL DISCLOSURES:		
Cash paid for interest	$-	$-
NON-CASH TRANSACTIONS:		
Repayment of liabilities with restricted cash	$1,838	$-

See accompanying notes to consolidated financial statements

6

DIGERATI TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

October 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 as of and for the year ended July 31, 2014 filed on July 15, 2015 have been omitted.

Taxes

The effective tax rate was 0% for the three months ended October 31, 2014, and an effective tax rate of 44% for the three months ended October 31, 2013.

NOTE 2 – GOING CONCERN

Financial Condition

Digerati’s unaudited interim consolidated financial statements for the period ended October 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 $76,248,000 and a working capital deficit of approximately $1,002,000 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 October 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.

7

On October 2, 2014 the Grantor Trust paid approximately $1,838,000 of unsecured claims in accordance to the Chapter 11 Plan of Reorganization.

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 – NOTES PAYABLE

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

Outstanding debt consisted of the following:	October 31, 2014	July 31, 2014
Note payable to Alfonso Torres, payable upon maturity, bearing interest of 6.00% per annum, maturing July 31, 2012, unsecured. (See details below)	$ -	$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
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
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
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
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 equivalent to the lesser of the maximum rate and the greater of the prime rate plus 8.25% or 11.5%, a commitment fee of 2% and weekly monitoring fee of .05%. Digerati is required to maintain the following financial covenants: 1) A consolidated debt service coverage ratio, for the 12-month period, of not less than 1.0 as of the last day of each quarter and 2) A consolidated operating income, for the 12-month period, of not less than zero as of the last day of each fiscal year. (See details below)	-	258
Note payable to Arthur L. Smith, bearing interest of 3.00% per annum, maturity October 31, 2015, unsecured. (See details below)	46	45
Convertible Debentures (See details below)	-	50
Note payable to Flagship Oil and Gas Corp., bearing interest of 7.00% per annum, maturity January 5, 2015, unsecured. (See details below)	10	-
Total outstanding long-term debt	$ 56	1,388
Current portion of long-term debt	(56)	(1,388)
Long-term debt, net of current portion	$ -	$-

On October 2, 2014, under the Reorganization Plan, the appointed trustee of the Grantor Trust paid the principal balance outstanding on the Alfonso Torres promissory note.

On October 2, 2014, under the Reorganization Plan, the appointed trustee paid the principal balance outstanding on the Vantage Bank promissory note.

On October 2, 2014, under the Reorganization Plan, the appointed trustee of the Grantor Trust paid the principal balance outstanding on the promissory notes with ATV Texas Ventures IV & ATVF II.

On October 2, 2014, under the Reorganization Plan, the appointed trustee of the Grantor Trust paid the principal balance outstanding on the promissory note with Thermo Credit, LLC.

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 promissory note to October 31, 2015. The renewed note has an implied annual interest rate of 3%. Balance as of October 31, 2014 was approximately $46,000.

On April 3, 2012, May 2, 2012, May 15, 2012 and June 21, 2012 Digerati entered into four Convertible Debentures totaling $75,000, the balance outstanding at January 31, 2015 and July 31, 2014 was $0 and $50,000, net of discount, respectively. On April 4, 2014, under the Reorganization Plan, the warrants issued under the convertible debentures were cancelled. On October 2, 2014, under the Reorganization Plan, the appointed trustee of the Grantor Trust paid the principal balance outstanding to the debenture holders

On October 31, 2014 the Company executed a promissory note payable to Flagship Oil and Gas Corp., for $10,000, accruing 7% interest, due on January 5, 2015, and unsecured.

Subsequent to the quarter ending October 31, 2014, on November 7, 2014, November 14, 2014, and November 24, 2014 the Company executed three promissory notes payable to Flagship Oil and Gas Corp., for $10,000 each, accruing 7% interest, due on January 5, 2015, and unsecured. On January 13, 2015, the Company issued 363,636 shares of Common Stock for payment of the principal and accrued interest on the four notes to Flagship Oil and Gas Corp.

NOTE 5 – 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 October 31, 2014, Digerati did not have any outstanding options. On April 4, 2014 under the Reorganization Plan all outstanding options were cancelled. Unamortized compensation cost totaled $0 at October 31, 2014 and October 31, 2013.

NOTE 6 – WARRANTS

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

	Warrants	Weighted-average exercise price	Weighted-average remaining contractual term (years)
Outstanding at July 31, 2014	-	$-	-
Granted	-	-	-
Exercised	-	-	-
Cancelled	-	-	-
Outstanding at October 31, 2014	-	$-	-
Exercisable at October 31, 2014	-	$-	-

As of October 31, 2014, Digerati did not have any outstanding warrants. On April 4, 2014 under the Agreed Order and Reorganization Plan all outstanding warrants were cancelled.

NOTE 7 – SIGNIFICANT CUSTOMERS

During the three months ended October 31, 2014, the Company derived a significant amount of revenue from six customers, comprising 18%, 18%, 16%, 12%, 10%, and 10% of the total revenue for the period, respectively, compared to two customers, comprising 44% and 9% of the total revenue for the three months ended October 31, 2013.

During the three months ended October 31, 2014, the Company derived a significant amount of accounts receivable from three customers, comprising 85%, 6% and 4% of the total accounts receivable for the period, compared to two customers, comprising 73% and 12% of the total accounts receivable for the three months ended October 31, 2013.

NOTE 8 – 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%. Balance as of October 31, 2014 was approximately $46,000.

On October 31, 2014 the Company executed a promissory note payable to Flagship Oil and Gas Corp., for $10,000, accruing 7% interest, due on January 5, 2015, and unsecured.

NOTE 9 – SUBSEQUENT EVENTS

On November 7, 2014, November 14, 2014 and November 24, 2014 Digerati entered into three Promissory Notes for a total of $30,000 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 31, 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 warrants for the purchase of an additional 300,000 shares of Common Stock at $0.14 per share for five years. In consideration for the shares and the warrants, 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. The Black-Scholes pricing model was used to estimate the relative fair value of the 300,000 warrants issued during the period, using the assumptions of a risk free interest rate of 1.37%, dividend yield of 0%, volatility of 312%, and an expected life of 5 years. The warrants have a relative fair value of approximately $34,627 and included in additional paid-in capital.

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.

11

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, 2014 filed with the Securities and Exchange Commission on July 15, 2015.

The following is a discussion of the unaudited interim consolidated financial condition and results of operations of Digerati for the three months ended October 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, 2014 filed with the Securities and Exchange Commission on July 15, 2015. For purposes of the following discussion, fiscal 2015 or 2015 refers to the year ended July 31, 2015 and fiscal 2014 or 2014 refers to the year ended July 31, 2014.

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 numerous U.S. and foreign service providers.

Most recently, Digerati owned a waste disposal facility focused on disposing of solid and liquid wastes from drilling sites and an oilfield services business providing skid houses, telecommunication services, booster booths, portable restrooms, generators, potable water, and mess halls to many of the major drilling contractors and oil companies in the Bakken region of Montana/North Dakota. Both businesses were sold in July 2014.

Sources of Revenue and Direct Cost

Sources of revenue:

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:

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

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

Global VoIP Services. Global VoIP services revenue decreased by $40,000, or 74%, from the quarter ended October 31, 2013 to the quarter ended October 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 $37,000, or 38%, from the quarter ended October 31, 2013 to the quarter ended October 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 $80,000, or 66%, from the quarter ended October 31, 2013 to the quarter ended October 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 $30,000, or 13%, from the quarter ended October 31, 2013 to the quarter ended October 31, 2014. The decrease is attributed to the emphasis in controlling administrative expenses during the period.

Legal and professional fees. Legal and professional fees decreased by $442,000, or 84%, from the quarter ended October 31, 2013 to the quarter ended October 31, 2014. The decrease is attributable to the reduction in legal fees, during the period ending October 31, 2014; the Company incurred a reduced amount in legal fees associated with the voluntary petition pursuant to Chapter 11 of the U.S. Bankruptcy Code.

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

Operating loss. The Company reported an operating loss of $260,000 for the three months ended October 31, 2014 compared to an operating loss of $735,000 for the three months ended October 31, 2013. The decrease in operating

loss between periods is primarily attributed to the decrease in legal and professional fees of $442,000 and a decrease between periods in selling, general and administrative expense of approximately $30,000.

Other income (expense). Other income (expense) decreased by $25,000, or 38%, from the quarter ended October 31, 2013 to the quarter ended October 31, 2014. The primary reason for the decrease in other income (expense) is attributed to the decrease between periods in interest expense of approximately $38,000 as a result of decrease in debt between periods.

Net loss from continuing operations, before tax. Net loss from continuing operations, before tax improved by $500,000 or 63%, from the three months ended October 31, 2013 to the three months ended October 31, 2014. The improvement in net loss from continuing operations, before tax is primarily attributed to the decrease in legal and professional fees of $442,000 and a decrease between periods in selling, general and administrative expense of approximately $30,000.

Income tax benefit from discontinued operations. Income tax benefit from discontinued operations decreased by $819,000 or 100%, from the quarter ended October 31, 2013 to the quarter ended October 31, 2014.

Net income from discontinued operations, net of taxes. Net income from discontinued operations, net of taxes decreased by $1,590,000 or 100%, from the quarter ended October 31, 2013 to the quarter ended October 31, 2014.

Net income (loss) attributed to Digerati Technologies, Inc. Net income (loss) attributed to Digerati Technologies, Inc. decreased by $1,909,000 or 119%, from the quarter ended October 31, 2013 to the quarter ended October 31, 2014. The decline in net income (loss) attributed to Digerati Technologies; Inc. is as a result of the decrease in net income from discontinued operations between periods. During FY 2014 the Company sold its interest in discontinued operations and as a result there was no income from discontinued operations during the period.

Liquidity and Capital Resources

Cash Position: We had a consolidated cash balance of $183,000 as of October 31, 2014. Net cash consumed by operating activities during the three months ended October 31, 2014 was approximately $174,000. There was no cash consumed by investing activities during the three months ended October 31, 2014. Cash provided by financing activities during the three months ended October 31, 2014 was approximately $10,000. Overall, our net operating, investing and financing activities during the three months ended October 31, 2014 consumed approximately $164,000 of cash.

We are currently utilizing our available cash to fund any deficiencies in our cash flows from operations. Our current cash expenses are expected to be approximately $75,000 per month, including wages, rent, utilities and corporate professional fees. 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 October 31, 2014 our total liabilities were approximately $1,493,000. 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 $76,248,000, 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 October 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.

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.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

None

Item 1A. Risk Factors.

None

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

None

Item 3. Defaults Upon Senior Securities.

None

Item 5. Other Information.

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%. Balance as of October 31, 2014 was approximately $46,000.

On October 31, 2014 the Company executed a promissory note payable to Flagship Oil and Gas Corp., for $10,000, accruing 7% interest, due on January 5, 2015, and unsecured.

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: August 31, 2015 By: /s/ Arthur L. Smith
Name: Arthur L. Smith
Title: President and Chief Executive Officer
(Duly Authorized Officer and
Principal Executive Officer)

Date: August 31, 2015 By: /s/ Antonio Estrada Jr.
Name: Antonio Estrada Jr.
Title: Chief Financial Officer
(Duly Authorized Officer and
Principal Financial Officer)