Digerati Technologies, Inc.
Form 10-Q
June 02, 2016

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 April 30, 2016

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**

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 by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. 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:	As of:
5,234,165	Common Stock $0.001 par value	May 23, 2016

DIGERATI TECHNOLOGIES, INC.

QUARTERLY REPORT ON FORM 10-Q

FOR THE QUARTER ENDED APRIL 30, 2016

INDEX

DIGERATI TECHNOLOGIES, INC.

CONTENTS

PART 1. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

DIGERATI TECHNOLOGIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In thousands, unaudited)

	April 30, 2016	July 31, 2015
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$6	$19
Restricted cash	1,509	-
Accounts receivable, net	2	1
Prepaid and other current assets	33	1
Total current assets	1,550	21
LONG-TERM ASSETS:		
Intangible assets, net	33	44
Property and equipment, net	4	2
Oil and gas property	145	-
Total assets	$1,732	$67
LIABILITIES AND STOCKHOLDERS' DEFICIT		
CURRENT LIABILITIES:		
Accounts payable	$809	$940
Accounts payable - related parties	18	-
Accrued liabilities	2,945	271
Current portion of long term debt - related party	-	43
Total current liabilities	3,772	1,254
LONG-TERM LIABILITIES:		
Customer deposits	140	138
Total long-term liabilities	140	138
Total liabilities	3,912	1,392

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, 5,234,165 and 5,113,030 issued and outstanding, respectively	5	5
Additional paid in capital	75,656	75,634
Subscription receivable	-	(29)
Accumulated deficit	(77,842)	(76,936)
Other comprehensive income	1	1
Total stockholders' deficit	(2,180)	(1,325)
Total liabilities and stockholders' deficit	$1,732	$67

See accompanying notes to consolidated financial statements

4

DIGERATI TECHNOLOGIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts, unaudited)

	Three months ended April 30,		Nine months ended April 30,	
	2016	2015	2016	2015
OPERATING REVENUES:				
Global VoIP services	$9	$7	$25	$39
Cloud-based hosted services	47	57	148	173
Total operating revenues	56	64	173	212
OPERATING EXPENSES:				
Cost of services (exclusive of depreciation and amortization)	(1)	46	79	129
Selling, general and administrative expense	250	171	788	610
Legal and professional fees	45	83	176	220
Bad debt	-	4	-	9
Depreciation and amortization expense	4	4	13	12
Total operating expenses	298	308	1,056	980
OPERATING LOSS	(242)	(244)	(883)	(768)
OTHER INCOME (EXPENSE):				
Loss on derivative instruments and disposal of fixed assets	-	-	-	(29)
Gain (loss) on debt extinguishment	-	-	2	(7)
Interest income (expense)	(28)	(1)	(25)	(13)
Total other income (expense)	(28)	(1)	(23)	(49)
NET LOSS ATTRIBUTED TO DIGERATI TECHNOLOGIES, INC.	$(270)	$(245)	$(906)	$(817)
LOSS PER SHARE - BASIC AND DILUTED ATTRIBUTED TO DIGERATI TECHNOLOGIES, INC. SHAREHOLDERS	$(0.05)	$(0.05)	$(0.18)	$(0.26)
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING - BASIC AND DILUTED	5,234,165	5,113,030	5,166,849	3,200,178

See accompanying notes to consolidated financial statements

DIGERATI TECHNOLOGIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands, unaudited)

	Nine months ended April 30, 2016			2015		
CASH FLOWS FROM OPERATING ACTIVITIES:						
Net loss	$	(906	)	$	(817	)
Adjustments to reconcile net loss to cash (used in) provided by operating activities:						
(Gain) loss on debt extinguishment		-			7	
(Gain) loss on derivative instruments and disposal of fixed assets		(2	)		(10	)
Depreciation, amortization and accretion		13			12	
Bad debt expense		-			9	
Stock compensation		22			118	
Changes in operating assets and liabilities:						
Restricted cash		(1,509	)		-	
Accounts receivable		(1	)		(9	)
Prepaid expenses and other current assets		(32	)		(1	)
Accounts payable		(129	)		143	
Accounts payable - related parties		18			7	
Accrued liabilities and customer deposits		2,676			25	
Net cash provided by (used in) operating activities		150			(516	)
CASH FLOWS FROM INVESTING ACTIVITIES:						
Acquisition of oil and gas property		(145	)		-	

Purchases of property & equipment		(4)		(2)
Net cash used in investing activities		(149)		(2)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Subscription receivable proceeds		29		-
Issuance of common stock		-		246
Payments on debt, related party		(68)		(2)
Proceeds from notes payable, related party		25		40
Net cash (used in) provided by financing activities		(14)		284
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		(13)		(234)
CASH AND CASH EQUIVALENTS, beginning of period		19		347
CASH AND CASH EQUIVALENTS, end of period	$	6	$	113
SUPPLEMENTAL DISCLOSURES:				
Cash paid for interest	$	4	$	-
NON-CASH TRANSACTIONS:				
Notes payable repaid with common stock	$	-	$	40
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

April 30, 2016

(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 consolidated financial statements for the year ended July 31, 2015 contained in the Company's Form 10-K filed on September 30, 2015 have been omitted.

Taxes

The effective tax rate was 0% for the three and nine months ended April 30, 2016 and April 30, 2015, respectively.

Cash and cash equivalents

The Company considers all bank deposits and highly liquid investments with original maturities of three months or less to be cash and cash equivalents.

Restricted cash

The Company restricted cash for potential tax liabilities; however, amounts have been expended for operating expenses and an investment.

Oil and gas property

The Company follows the successful efforts method of accounting for its oil and gas properties and, accordingly, exploration costs, other than the costs of drilling exploratory wells, are charged to expense as incurred. The costs of drilling exploratory wells are capitalized pending determination of whether the wells have discovered proved commercial reserves. If proved commercial reserves are not discovered, such drilling costs are expensed. Other exploration costs, including geological and geophysical costs and delay rentals on unproved leaseholds are charged to exploration expense as incurred. The costs of all development wells and related equipment used in the production of oil and gas are capitalized. Costs to operate and maintain field equipment are expensed as incurred. Direct costs of acquiring developed or undeveloped leasehold acreage, including lease bonuses, brokerage and other fees, are capitalized. A gain or loss is recognized when a property is sold or an entire field ceases to produce and is abandoned.

The Company annually reviews its oil and gas properties for impairment whenever events or changes in circumstances indicate that the carrying value of such properties may not be recoverable. When it is determined that an oil and gas property's estimated future net cash flows will not be sufficient to recover its carrying amount, an impairment charge is recorded to reduce its carrying value to its estimated fair value. No impairment loss was recognized on the Company's oil and gas properties during the period ended.

Unproved properties are assessed periodically on a property-by-property basis and any impairment in value recognized. If the unproved properties are determined to be productive, the appropriate related costs are transferred to proved oil and gas properties. Unproved properties are not subject to depletion, depreciation and amortization. The Company had no proved properties as of April 30, 2016.

NOTE 2 – GOING CONCERN

Financial Condition

Digerati's unaudited interim consolidated financial statements for the period ended April 30, 2016 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 $77,842,000 and a working capital deficit of approximately $2,222,000 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 April 30, 2016 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 – PURCHASE AND SALE AGREEMENT AND JOINT OPERATING AGREEMENT

On February 29, 2016 Flagship Energy Company ("Flagship"), a wholly-owned subsidiary of Digerati, entered into a Purchase and Sale Agreement (“PSA”) with a Texas-based contract-for-hire oil and gas operator (“Operator”). Under the PSA, Flagship has utilized Operator for the drilling, completion and initial operations of a shallow oil and gas well in conjunction with the purchase of 100% of Operator’s working interest and 80% of its Net Revenue Interest. Under the PSA, the Operator has agreed to transfer all field-level operations and assign 100% of a certain oil, gas and mineral lease to Flagship upon demand, which includes a tract of land located in South Texas. Additionally, Flagship entered into a Joint Operating Agreement ("JOA") with Operator, whereby the parties agree to develop the oil and gas well or wells for the production and retrieval of oil and gas commodities as provided for in the oil, gas and mineral lease.

NOTE 4 – 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, seeking relief under the provisions of Chapter 11 of the United States Bankruptcy Code (the "Bankruptcy").

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.

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

(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 Bankruptcy Settlement Agreement (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. Following the Annual Meeting of Shareholders, Mr. Smith and Mr. Estrada were elected to serve as officers of the Reorganized Debtor.

(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.

(g) 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.

(h) 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.

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

NOTE 5 – DEBT

At April 30, 2016 and July 31, 2015, outstanding debt consisted of the following: (In thousands)

	April 30, 2016	July 31, 2015
Note payable to Arthur L. Smith, bearing interest of 3.00% per annum, maturity October 31, 2015, unsecured. (See details below)	$ -	$ 43
Total outstanding long-term debt	$ -	$ 43
Current portion of long-term debt	-	(43)
Long-term debt, net of current portion	$ -	$ -

In November 2013, Shift8 Networks, Inc., an operating subsidiary of Digerati, entered into a note payable with Mr. Arthur L. Smith, in the amount of $46,755. The note had 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 had an implied annual interest rate of 3%. On October 9, 2015 Shift8 Networks paid off the total outstanding principal balance and accrued interest.

On August 21, 2015 the Company entered into a short term promissory note payable for $25,000 with Craig K. Clement, the Company's Chairman of the Board. The note had an implied annual interest rate of 0% and a maturity date of October 31, 2015. On October 15, 2015 the Company paid off the total outstanding principal balance.

NOTE 6 – STOCK-BASED COMPENSATION

In November 2015, Digerati adopted the Digerati Technologies, Inc. 2015 Equity Compensation Plan (the "Plan"). The Plan, authorizes the grant of up to 7.5 million 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 stock options and other awards vary based on the market price of the shares of common stock as of the date of grant. The stock options, restricted common stock, non-restricted common stock and other awards vest based on the terms of the individual grant.

During the nine months ended April 30, 2016, we issued:

- 121,135 common shares to various employees as part of the Company's profit sharing plan contribution. The Company recognized stock-based compensation expense of approximately $22,000 equivalent to the value of the shares calculated based on the share's closing price at the grant dates.

As of April 30, 2016 and 2015, Digerati did not have any outstanding options under the Plan. Unamortized compensation cost totaled $0 at April 30, 2016 and April 30, 2015.

NOTE 7 – SIGNIFICANT CUSTOMERS

During the nine months ended April 30, 2016, the Company derived a significant amount of revenue from four customers, comprising 30%, 24%, 15% and 12% of the total revenue for the period, respectively, compared to five customers, comprising 21%, 17%, 14%, 13% and 11% of the total revenue for the nine months ended April 30, 2015.

During the nine months ended April 30, 2016, the Company derived a significant amount of accounts receivable from three customers, comprising 60%, 28% and 10% of the total accounts receivable for the period, compared to one customer, comprising 96% of the total accounts receivable for the nine months ended April 30, 2015.

NOTE 8 – RELATED PARTY TRANSACTIONS

In November 2013, Shift8 Networks, Inc., an operating subsidiary of Digerati, entered into a note payable with Mr. Arthur L. Smith, in the amount of $46,755. The note had 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 had an implied annual interest rate of 3%. On October 9, 2015 Shift8 Networks paid off the total outstanding principal balance and accrued interest.

During the year ended July 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 five years. The warrants have a relative fair value of approximately $34,627 and included in additional paid-in capital. On August 14, 2015, Flagship Oil and Gas Corp. paid $36,065 to the Company for the remaining principal balance and accrued interest associated with the Flagship Notes.

On August 21, 2015 the Company entered into a short term promissory note payable for $25,000 with Craig K. Clement, the Company's Chairman of the Board. The note had an implied annual interest rate of 0% and a maturity date of October 31, 2015.

On October 15, 2015 the Company paid off the total outstanding principal balance.

NOTE 9 – CONTINGENCIES

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. 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. Recap Marketing & Consulting LLP and Rainmaker Ventures II, Ltd. subsequently challenged the findings of the arbitrator by filing a motion to vacate in In Re Digerati Technologies, Inc. On November 23, 2015,the Bankruptcy Court issued an order dismissing the motion to vacate.

From time to time Digerati is involved in various litigations in the ordinary course of business. The Company's management believes existing litigation will not have a material adverse effect on the financial condition, results of operations or cash flows of Digerati.

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, 2015 filed with the Securities and Exchange Commission on September 30, 2015.

The following is a discussion of the unaudited interim consolidated financial condition and results of operations of Digerati for the three and nine months ended April 30, 2016 and 2015. 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, 2015 filed with the Securities and Exchange Commission on September 30, 2015. For purposes of the following discussion, fiscal 2016 or 2016 refers to the year ended July 31, 2016 and fiscal 2015 or 2015 refers to the year ended July 31, 2015.

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. Through FY 2012 our principal business was 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 application platform and session-based communication network, which is interconnected to numerous U.S. and foreign service providers.

During FY 2016 Flagship Energy Company ("Flagship"), a wholly-owned subsidiary of Digerati, entered into a Purchase and Sale Agreement (“PSA”) with a Texas-based contract-for-hire oil and gas operator (“Operator”). Under the PSA, Flagship has utilized Operator for the drilling, completion and initial operations of a shallow oil and gas well in conjunction with the purchase of 100% of Operator’s Working Interest and 80% of its Net Revenue Interest. Under the PSA, the Operator has agreed to transfer all field-level operations and assign 100% of a certain oil, gas and mineral lease to Flagship upon demand, which includes a tract of land located in South Texas. Additionally, Flagship entered into a Joint Operating Agreement ("JOA") with Operator, whereby the parties agree to develop the oil and gas well or wells for the production and retrieval of oil and gas commodities as provided for in the oil, gas and mineral lease.

Until July 2014, Digerati owned a waste disposal business 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 drilling contractors and oil companies in the Bakken region of Montana and North Dakota.

Sources of Revenue and Direct Cost

Sources of revenue:

Global VoIP Services: We currently provide VoIP communication services on a limited basis 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.

12

Results of Operations

Three Months ended April 30, 2016 Compared to Three Months ended April 30, 2015

Global VoIP Services. Global VoIP services revenue increased by $2,000, or 29%, from the quarter ended April 30, 2015 to the quarter ended April 30, 2016. The increase in revenue is attributed primarily to one of our customers temporarily requiring additional Global VoIP services during the quarter.

Cloud-based hosted Services. Cloud-based hosted services revenue decreased by $10,000, or 18%, from the quarter ended April 30, 2015 to the quarter ended April 30, 2016. The decrease in revenue between periods is primarily attributed to the decrease in customers 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 $47,000, or 102%, from the quarter ended April 30, 2015 to the quarter ended April 30, 2016. The decrease in cost of services is as a result of various credits and discounts received from key vendors during the quarter.

Selling, General and Administrative (SG&A) Expenses (exclusive of legal and professional fees). SG&A expenses increased by $79,000, or 46%, from the quarter ended April 30, 2015 to the quarter ended April 30, 2016. The increase is attributed to the addition of a new employee for one of our new subsidiaries with an emphasis in the oil and gas services. And the addition of a new sales person for our Cloud-based hosted services.

Legal and professional fees. Legal and professional fees decreased by $38,000, or 46%, from the quarter ended April 30, 2015 to the quarter ended April 30, 2016.

Bad debt. Bad debt decreased by $4,000, or 100%. The Company did not recognized bad debt during the period ended April 30, 2016, however during the period ended April 30, 2015 the Company recognized $4,000 of bad debt for accounts that were deemed uncollectable.

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

Operating loss. The Company reported an operating loss of $242,000 for the three months ended April 30, 2016 compared to an operating loss of $244,000 for the three months ended April 30, 2015. The decrease in operating loss between periods is primarily attributed to the decrease in cost of services, which was slightly offset by the increase in SG&A expenses during the quarter.

Other income (expense). Other income (expense) increased by $27,000 from the quarter ended April 30, 2015 to the quarter ended April 30. The primary reason for the increase in other income (expense) is attributed to the increase between periods interest expense of approximately $27,000.

Net income (loss) attributed to Digerati Technologies, Inc. Net income (loss) attributed to Digerati Technologies, Inc. increased to $25,000 or 10%, from the quarter ended April 30, 2015 to the quarter ended April 30, 2016. The increase in net income (loss) attributed to Digerati Technologies; Inc. is as a result of the decrease in revenue and the increase in SG&A expenses between periods.

Nine Months ended April 30, 2016 Compared to Nine Months ended April 30, 2015

Global VoIP Services. Global VoIP services revenue decreased by $14,000, or 36%, from the nine months ended April 30, 2015 to the nine months ended April 30, 2016. 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 $25,000, or 14%, from the nine months ended April 30, 2015 to the nine months ended April 30, 2016. The decrease in revenue between periods is primarily attributed to the decrease in customers 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 $50,000, or 39%, from the nine months ended April 30, 2015 to the nine months ended April 30, 2016. The decrease in cost of services is a direct correlation to the decrease in total revenue and as a result of various credits and discounts received from key vendors.

Selling, General and Administrative (SG&A) Expenses (exclusive of legal and professional fees). SG&A expenses increased by $178,000, or 29%, from the nine months ended April 30, 2015 to the nine months ended April 30, 2016. The increase is attributed to the addition of a new employee for one of our new subsidiaries with an emphasis the in oil and gas services and the addition of a new sales person for our Cloud-based hosted services.

Legal and professional fees. Legal and professional fees decreased by $44,000, or 20%, from the nine months ended April 30, 2015 to the nine months ended April 30, 2016. The decrease is attributed to the emphasis in controlling legal and professional fees during the period.

13

Bad debt. Bad debt decreased by $9,000, or 100%. The Company did not recognized bad debt during the period ended April 30, 2016, however during the period ended April 30, 2015 the Company recognized $9,000 of bad debt for accounts that were deemed uncollectable.

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

Operating loss. The Company reported an operating loss of $883,000 for the nine months ended April 30, 2016 compared to an operating loss of $768,000 for the nine months ended April 30, 2015. The increase in operating loss between periods is primarily attributed to the decrease in revenue between periods.

Other income (expense). Other income (expense) improved by $26,000, or 53%, from the nine months ended April 30, 2015 to the nine months ended April 30, 2016. The primary reason for the decrease in other income (expense) is attributed to the decrease between periods in gain (loss) on derivative instruments and disposal of fixed assets of approximately $29,000 and the decrease between periods in interest expense of approximately $12,000.

Net income (loss) attributed to Digerati Technologies, Inc. Net income (loss) attributed to Digerati Technologies, Inc. increased by $89,000 or 11%, from the nine months ended April 30, 2015 to the nine months ended April 30, 2016. The increase in net income (loss) attributed to Digerati Technologies; Inc. is as a result of the decrease in revenue and the increase in SG&A expenses between periods.

Liquidity and Capital Resources

Cash Position: We had a consolidated cash balance of $6,000 as of April 30, 2016 and we had restricted cash of $1,509,000 as of April 30, 2016. Net cash provided by operating activities during the nine months ended April 30, 2016 was approximately $150,000, primarily as a result of accrued liabilities and restricted cash. Cash used in investing activities was $149,000 primarily for the acquisition of property & equipment and oil and gas property. Cash consumed by financing activities during the nine months ended April 30, 2016 was approximately $14,000 pursuant to the net reduction in various promissory notes during the period ended April 30, 2016. Overall, our net operating, investing and financing activities during the period ended April 30, 2016 consumed approximately $13,000 of cash.

We are currently taking initiatives to reduce our overall cash deficiencies on a monthly basis. During fiscal 2016 we anticipate reducing fixed costs, professional fees and general expenses. To strengthen our business we intend to invest in a new marketing and sales strategy to grow our monthly recurring revenue; we anticipate utilizing our value added resellers to tap into new sources of revenue streams. In addition, we will continue to focus on selling a greater number of comprehensive services to our existing customer base. Additionally, we will continue to evaluate the acquisition of various oil and gas properties, as a result we anticipate incurring professional fees during the due diligence process.

Our current cash expenses are expected to be approximately $85,000 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 April 30, 2016 our total liabilities were approximately $3,912,000. As mentioned in Note 4 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 intends 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 $77,842,000, 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. During the period ending April 30, 2016 we secured $25,000 from a promissory note from a related party. However, there can be no assurance that we will be successful in executing the aforementioned plans and be able to continue as a going concern.

Item 3. Quantitative and Qualitative Disclosures About Market Risks.

Not Applicable.

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 April 30, 2016, 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 effective based on the COSO criteria.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

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. 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. Recap Marketing & Consulting LLP and Rainmaker Ventures II, Ltd. subsequently challenged the findings of the arbitrator by filing a motion to vacate in In Re Digerati Technologies, Inc. On November 23, 2015,the Bankruptcy Court issued an order dismissing the motion to vacate.

Item 1A. Risk Factors.

Not Applicable

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

None

Item 3. Defaults Upon Senior Securities.

None

Item 5. Other Information.

None

Item 6. Exhibits

Exhibit Number	Exhibit Title
2.1	Agreed Order Confirming Joint Plan of Reorganization filed by Plan Proponents (filed as Exhibit 2.1 to Form 8-K filed on April 11, 2014)
2.2	Plan Proponents' Joint Chapter 11 Plan of Reorganization as Modified on the Record on April 4, 2014 (filed as Exhibit 2.2 to Form 8-K filed on April 11, 2014)
2.3	Plan Supplement Naming Independent Director in Connection With Plan Proponents' Joint Chapter 11 Plan of Reorganization (filed as Exhibit 2.3 to Form 8-K filed on April 11, 2014)
2.4	Disclosure Statement Under 11 U.S.C. § 1125 and Bankruptcy Rule 3016 in Support of Plan Proponents' Joint Chapter 11 Plan of Reorganization (filed as Exhibit 2.4 to Form 8-K filed on April 11, 2014)
2.5	Bankruptcy Settlement Agreement dated January 15, 2014 (filed as Exhibit 2.5 to Form 8-K filed on April 11, 2014)
2.6	Order Authorizing the Sale of 100% Equity Interests of Dishon Disposal, Inc. and Granting Related Relief approving the Stock Purchase Agreement dated June 27, 2014 (filed as Exhibit 2.6 to Form 8-K filed on July 7, 2014)
2.7	Order Authorizing the Sale of 100% Equity Interests of Hurley Enterprises, Inc. and Granting Related Relief approving the Stock Purchase Agreement dated June 26, 2014 (filed as Exhibit 2.7 to Form 8-K filed on July 24, 2014)
3.1	Amended and Restated Articles of Incorporation (filed as Exhibit 3.1 to Form 8-K filed on April 11, 2014)
3.2	Second Amended and Restated Bylaws, effective as of January 13, 2015 (filed as Exhibit 3.1 to Form 8-K filed on January 21, 2015).
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 Form 10-Q filed on January 20, 2015).
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 Form 8-K filed on January 21, 2015).

Exhibit Number	Exhibit Title
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 Form 8-K filed on January 21, 2015).
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 Form 8-K filed on January 21, 2015).
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 Form 8-K filed on January 21, 2015).
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 Form 8-K filed on January 21, 2015).
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 Form 8-K filed on January 21, 2015).
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 Form 8-K filed on January 21, 2015).
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 Form 10-Q filed on February 20, 2015).
10.10	Promissory Note payable with Craig K. Clement dated August 21, 2015 in the original principal amount of $25,000 plus interest at the rate of 0% per annum due October 31, 2015. (filed as Exhibit 10.10 to the Form 10-Q filed on November 25, 2015).
10.11	2015 Equity Compensation Plan (filed as Exhibit 4.1 to the Form S-8 filed on November 18, 2015).
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.

17

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: June 2, 2016	By:	/s/ Arthur L. Smith
	Name:	Arthur L. Smith
	Title:	President and Chief Executive Officer (Duly Authorized Officer and Principal Executive Officer)
Date: June 2, 2016	By:	/s/ Antonio Estrada Jr.
	Name:	Antonio Estrada Jr.
	Title:	Chief Financial Officer (Duly Authorized Officer and Principal Financial Officer)