Digerati Technologies, Inc.
Form 10-Q
November 30, 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 October 31, 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	November 30, 2016

DIGERATI TECHNOLOGIES, INC.

QUARTERLY REPORT ON FORM 10-Q

FOR THE QUARTER ENDED OCTOBER 31, 2016

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DIGERATI TECHNOLOGIES, INC.

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PART 1. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

DIGERATI TECHNOLOGIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In thousands, unaudited)

	October 31, 2016	July 31, 2016
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$802	$1,169
Accounts receivable, net	12	2
Revolving line of credit	14	-
Prepaid and other current assets	75	8
Total current assets	903	1,179
LONG-TERM ASSETS:		
Intangible assets, net	25	29
Property and equipment, net	3	3
Oil and gas property	210	210
Total assets	$1,141	$1,421
LIABILITIES AND STOCKHOLDERS' DEFICIT		
CURRENT LIABILITIES:		
Accounts payable	$759	$770
Accounts payable - related parties	22	19
Accrued liabilities	2,918	2,906
Total current liabilities	3,699	3,695
LONG-TERM LIABILITIES:		
Customer deposits	138	140
Total long-term liabilities	138	140
Total liabilities	3,837	3,835

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 5,234,165 issued and outstanding, respectively	5	5
Additional paid in capital	75,656	75,656
Accumulated deficit	(78,358)	(78,076)
Other comprehensive income	1	1
Total stockholders' deficit	(2,696)	(2,414)
Total liabilities and stockholders' deficit	$1,141	$1,421

See accompanying notes to consolidated financial statements

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DIGERATI TECHNOLOGIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts, unaudited)

	Three months ended October 31,	
	2016	2015
OPERATING REVENUES:		
Global VoIP services	$-	$7
Cloud-based hosted services	44	53
Total operating revenues	44	60
OPERATING EXPENSES:		
Cost of services (exclusive of depreciation and amortization)	33	39
Selling, general and administrative expense	278	202
Legal and professional fees	10	77
Depreciation and amortization expense	5	5
Total operating expenses	326	323
OPERATING LOSS	(282)	(263)
OTHER INCOME (EXPENSE):		
Gain on derivative instruments and disposal of fixed assets	-	2
Interest income (expense)	-	4
Total other income (expense)	-	6
NET LOSS	$(282)	$(257)
LOSS PER SHARE - BASIC AND DILUTED	$(0.05)	$(0.05)
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING - BASIC AND DILUTED	5,234,165	5,113,030

See accompanying notes to consolidated financial statements

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DIGERATI TECHNOLOGIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands, unaudited)

	Three months ended October 31, 2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$(282)	$(257)
Adjustments to reconcile net loss to cash used in operating activities:		
(Gain) loss on derivative instruments and disposal of fixed assets	-	(2)
Depreciation and amortization	5	5
Bad debt expense	-	2
Changes in operating assets and liabilities:		
Restricted cash	-	(2,352)
Accounts receivable	(10)	(3)
Note receivable	(14)	-
Prepaid expenses and other current assets	(67)	1
Accounts payable	(11)	(32)
Accounts payable, related parties	3	-
Accrued liabilities and customer deposits	10	2,636
Net cash used in operating activities	(366)	(2)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property & equipment	(1)	(1)
Net cash used in investing activities	(1)	(1)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Subscription receivable proceeds	-	29
Payments on debt, related party	-	(68)
Proceeds from notes payable, related party	-	25
Net cash used in financing activities	-	(14)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(367)	(17)
CASH AND CASH EQUIVALENTS, beginning of period	1,169	19
CASH AND CASH EQUIVALENTS, end of period	$802	$2
SUPPLEMENTAL DISCLOSURES:		
Cash paid for interest	$-	$4

See accompanying notes to consolidated financial statements

DIGERATI TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

October 31, 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, 2016 contained in the Company’s Form 10-K filed on October 27, 2016 have been omitted.

Income Taxes

The effective tax rate was 0% for the three months ended October 31, 2016 and 2015, respectively. The Company recognizes deferred tax assets and liabilities based on differences between the financial reporting and tax bases of assets and liabilities using the enacted tax rates and laws that are expected to be in effect when the differences are expected to be recovered. The Company provides a valuation allowance for deferred tax assets for which it does not consider realization of such assets to be more likely than not.

Since January 1, 2007, the Company accounts for uncertain tax positions in accordance with the authoritative guidance issued by the Financial Accounting Standards Board on income taxes which addresses how an entity should recognize, measure and present in the financial statements uncertain tax positions that have been taken or are expected to be taken in a tax return. Pursuant to this guidance, the Company recognizes a tax benefit only if it is “more likely than not” that a particular tax position will be sustained upon examination or audit. To the extent the “more likely than not” standard has been satisfied, the benefit associated with a tax position is measured as the largest amount that is greater than 50% likely of being realized upon settlement. We had $2,622,867 in accrued liabilities as of October 31, 2016 and July 31, 2016, respectively, for the purpose of settling a potential tax obligation.

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.

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 October 31, 2016.

NOTE 2 – GOING CONCERN

Financial Condition

Digerati's consolidated financial statements for the quarter ending October 31, 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 accumulated a deficit of approximately $78,358,000 and a working capital deficit of approximately $2,796,000 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 consolidated financial statements as of October 31, 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.

As of October 31, 2016 and July 31, 2016 the Company has capitalized approximately $210,000 in oil and gas property. In addition there is a balance of approximately $38,000 in advances paid to the operator as of October 31, 2016 and included in prepaid and other current assets.

NOTE 4 - REVOLVING LINE OF CREDIT

On June 10, 2016, the Company extended a Revolving Line of Credit to one of its Strategic Partners. The Revolving Line of Credit is for $50,000 with an effective interest rate of 10% and maturity date of June 9, 2017. The Company has a secondary lien on accounts receivables, fixed assets and all other assets of the Strategic Partner. In addition, the Company also secured a personal guarantee from the largest shareholder and CEO. As of October 31, 2016 the outstanding balance on the Revolving Line of Credit was $13,500. On November 1, 2016 the total principal balance and accrued interest was paid in full.

NOTE 5 – 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.

As of October 31, 2016 and 2015, Digerati did not have any outstanding options under the Plan. Unamortized compensation cost totaled $0 at October 31, 2016 and October 31, 2015.

NOTE 6 – SIGNIFICANT CUSTOMERS

During the three months ended October 31, 2016, the Company derived a significant amount of revenue from four customers, comprising 34%, 24%, 16% and 5% of the total revenue for the period, respectively, compared to four customers, comprising 29%, 24%, 15%, and 9% of the total revenue for the three months ended October 31, 2015.

During the three months ended October 31, 2016, the Company derived a significant amount of accounts receivable from three customers, comprising 50%, 37% and 6% of the total accounts receivable for the period, compared to three customers, comprising 43%, 40% and 17% of the total accounts receivable for the three months ended October 31, 2015.

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

This Quarterly Report on Form 10-Q contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. "Forward-looking statements" are those statements that describe management's beliefs and expectations about the future. We have identified forward-looking statements by using words such as "anticipate," "believe," "could," "estimate," "may," "expect," "plan," and "intend." Although we believe these expectations are reasonable, our operations involve a number of risks and uncertainties. Some of these risks include the availability and capacity of competitive data transmission networks and our ability to raise sufficient capital to continue operations. Additional risks are included in our Annual Report on Form 10-K for the fiscal year ended July 31, 2016 filed with the Securities and Exchange Commission on October 27, 2016.

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, 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, 2016 filed with the Securities and Exchange Commission on October 27, 2016. For purposes of the following discussion, fiscal 2017 or 2017 refers to the year ended July 31, 2017 and fiscal 2016 or 2016 refers to the year ended July 31, 2016.

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, 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, 2016 Compared to Three Months ended October 31, 2015

Global VoIP Services. Global VoIP services revenue decreased by $7,000, or 100%, from the quarter ended October 31, 2015 to the quarter ended October 31, 2016. The decrease in revenue is attributed primarily to deemphasizing this product, as a result no Global VoIP revenue was generated during the quarter ended October 31, 2016.

Cloud-based hosted Services. Cloud-based hosted services revenue decreased by $9,000, or 17%, from the quarter ended October 31, 2015 to the quarter ended October 31, 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, 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 $6,000, or 15%, from the quarter ended October 31, 2015 to the quarter ended October 31, 2016. The decrease in cost of services is as a result of decrease in revenue during the quarter ended October 31, 2016.

Selling, General and Administrative (SG&A) Expenses (exclusive of legal and professional fees). SG&A expenses increased by $76,000, or 38%, from the quarter ended October 31, 2015 to the quarter ended October 31, 2016. The increase is attributed to salaries incurred by our oil and gas subsidiary and the additional salaries incurred during the quarter by our Cloud-based hosted services.

Legal and professional fees. Legal and professional fees decreased by $67,000, or 87%, from the quarter ended October 31, 2015 to the quarter ended October 31, 2016.

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

Operating loss. The Company reported an operating loss of $282,000 for the three months ended October 31, 2016 compared to an operating loss of $263,000 for the three months ended October 31, 2015. The increase in operating loss between periods is primarily attributed to the decrease in revenue, and increase in SG&A expenses.

Other income (expense). Other income (expense) decreased by $6,000 from the quarter ended October 31, 2015 to the quarter ended October 31, 2016. The primary reason for the decrease in other income (expense) is attributed to the decrease between periods in interest expense of approximately $4,000.

Net loss. Net loss increased by $25,000 or 10%, from the quarter ended October 31, 2015 to the quarter ended October 31, 2016. The increase in net loss 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 $802,000 as of October 31, 2016. Net cash consumed by operating activities during the period ended October 31, 2016 was approximately $366,000, primarily as a result of operating expenses. Cash used in investing activities was $1,000 primarily for the purchases of property and equipment . Overall, our net operating, investing and financing activities during the period ended October 31, 2016 consumed approximately $367,000 of cash.

We are currently taking initiatives to reduce our overall cash deficiencies on a monthly basis. During fiscal 2017 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, we have also secured various agent agreements to accelerate revenue growth. In addition, we will continue to focus on selling a greater number of comprehensive services to our existing customer base. Further, in an effort to increase our revenues, we will continue to evaluate the acquisition of various assets with emphasis in VoIP Services and Cloud Communication Services, in addition to evaluating multiple oil and gas properties, as a result during the due diligence process we anticipate incurring significant legal and professional.

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 October 31, 2016 our total liabilities were approximately $3,837,000. We will continue to use our available cash on hand to cover our deficiencies in operating expenses.

We estimate that we need approximately $500,000 of additional working capital to fund our ongoing operations. Additionally, we have an accumulated Stockholders' Deficit of approximately $78,358,000, 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, there can be no assurance that we will be successful in executing the aforementioned plans and

be able to continue as a going

Item 3. Quantitative and Qualitative Disclosures About Market Risks.

Not Applicable.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

In accordance with Exchange Act Rules 13a-15 and 15a-15, we carried out an evaluation, under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of October 31, 2016.

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, 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.

None

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
3.1	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).
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.

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: November 30, 2016	By:	/s/ Arthur L. Smith
	Name:	Arthur L. Smith
	Title:	President and Chief Executive Officer (Duly Authorized Officer and Principal Executive Officer)
Date: November 30, 2016	By:	/s/ Antonio Estrada Jr.
	Name:	Antonio Estrada Jr.
	Title:	Chief Financial Officer (Duly Authorized Officer and Principal Financial Officer)