

Digerati Technologies, Inc.  
Form 10-K  
December 14, 2017

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

**FORM 10-K**

(mark one)

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

For the fiscal year ended July 31, 2017

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**

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(State or Other Jurisdiction of  
Incorporation or Organization)

(IRS Employer  
Identification No.)

**3463 Magic Drive, Suite 355**

**78229**

**San Antonio, Texas**

(Address of Principal Executive Offices) (Zip Code)

Registrant's Telephone Number, Including Area Code: **(210) 614-7240**

Securities registered pursuant to Section 12(b) of the Act: NONE

Securities registered pursuant to Section 12(g) of the Act:

**Common Stock, Par Value \$0.001 Per Share**

(Title of Class)

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

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

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

Indicate by 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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the issuer was \$4,067,179 based on the closing price of \$0.43 per share on December 13, 2017, as reported on the over-the-counter bulletin board.

There were 9,458,556 shares of issuer's Common Stock outstanding as of December 13, 2017.

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## **PART I**

### **ITEM 1. BUSINESS.**

#### **Overview**

Digerati Technologies, Inc., a Nevada corporation (including our subsidiaries, “we,” “us,” “Company” or “Digerati”), through our wholly-owned subsidiary, Shift8 Networks, Inc. (“Shift8”), provides 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. Our services are designed to provide enterprise-class, carrier-grade services to small-to-medium sized businesses ("SMB") at affordable monthly rates. Our services, known as Unified Communications as a Service (“UCaaS”) or cloud communications, include fully hosted IP/PBX, mobile applications, Voice over Internet Protocol (“VoIP”) transport, SIP trunking, and customized VoIP services all delivered *Only in the Cloud™*.

#### **History**

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 VoIP technologies.

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.

During FY 2016 Flagship Energy Company, a wholly-owned subsidiary of Digerati, entered into an Agreement with a Texas-based contract-for-hire oil and gas operator (“Operator”). Under the Agreement, Flagship utilized the Operator for the drilling, completion and the 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 Agreement, the Operator agreed to transfer all field-level operations and assign 100% of a certain oil, gas and mineral lease to Flagship upon demand,

which included a tract of land located in South Texas. Additionally, Flagship entered into a Joint Operating Agreement ("JOA") with Operator, whereby the parties agreed 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. During the fiscal year ended July 31, 2017 the Company recognized an impairment loss of \$248,000 for the total capitalized investment amount in the oil and gas properties.

## **Recent Developments**

In May 2017, Shift8 and T3 Acquisition, Inc., a Florida corporation ("Acquisition Sub"), and newly formed wholly-owned subsidiary of Shift8 Technologies, Inc. ("Shift8 Tech"), entered into an Agreement and Plan of Merger (the "Merger Agreement") with T3 Communications, Inc., a Florida corporation ("T3"). The Merger Agreement provides that, upon the terms and subject to the conditions thereof, the Acquisition Sub will be merged with and into T3, with T3 continuing as the surviving corporation and as a wholly-owned subsidiary of Shift8 Tech. The Company anticipates closing the transaction during the second quarter of fiscal year 2018. The Merger has been approved by the Shareholders of T3 and is subject to certain customary closing conditions.

Between April and October 2017, we have raised \$840,000 through the issuance of 1,680,000 shares of Digerati common stock and three-year warrants to purchase up to 315,000 shares of common stock at an exercise price of \$0.50 per share.

On December 1, 2017, Shift8 Technologies, Inc., a Nevada corporation (“Shift8”), a wholly owned subsidiary of Digerati Technologies, Inc., a Nevada corporation (the “Company”), and Synergy Telecom, Inc., a Texas corporation (“Synergy”), closed a transaction to acquire all the assets, assumed all customers, and critical vendor arrangements from Synergy. The agreed purchase price was \$450,000. Shift8 paid \$125,000 upon execution of the Agreement and issued 500,000 shares of common stock with an agreed market value of \$200,000. In addition, Shift8 entered into a promissory note with the seller for \$125,000 with an effective annual interest rate of 6%, 5 quarterly payments and a maturity date of February 28, 2019.

## **Products and Services**

We provide a comprehensive suite of Internet-based communication services to meet the global needs of businesses that are seeking simple, flexible, and cost-effective communication solutions. Our Internet-based services include fully hosted IP/PBX services, mobile applications, SIP 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 or cloud environment. Our services, known as UCaaS or cloud communications, are specifically designed for the needs of the small to medium-sized business, enterprise customers, call centers with international communication requirements, and regional Internet service providers that do not have the scale necessary to acquire their own telephony infrastructure.

In addition, we operate a VoIP network for processing voice communication services to U.S. and foreign telecommunications companies that lack transmission facilities or require additional capacity to terminate VoIP traffic in Mexico, Asia, the Middle East and Latin America.

## **Voice over Internet Protocol Networks**

The basic technology of traditional telecommunications systems was designed for slow mechanical switches. Communications over the traditional telephone network are routed through circuits that must dedicate all circuit resources to each call from its inception until the call ends, regardless of whether anyone is actually talking on the circuit. This circuit-switching technology incurs a significant cost per call and does not efficiently support the integration of voice with data services. Data networks, however, were designed for electronic switching. They break the data stream into small, individually addressed packages of data (“packets”) that are routed independently of each other from the origin to the destination. Therefore, they do not require a fixed amount of bandwidth to be reserved between the origin and destination of each call and they do not waste bandwidth when it is not being used for actual transmission of information. This allows multiple voice or voice and data calls to be pooled, resulting in these networks being able to carry more calls with an equal amount of bandwidth. Moreover, they do not require the same complex switching methods required by traditional voice telephone networks, instead using a multiplicity of routers to direct each packet to its destination and automatically routing packets around blockages, congestion or outages.

Packet switching can be used within a data network or across networks, including the public Internet. The Internet itself is not a single data network owned by any single entity, but rather a loose interconnection of networks belonging to many owners that communicate using the Internet Protocol (“IP”). By converting voice signals to digital data and handling the voice signals as data, it can be transmitted through the more efficient switching networks designed for data transmissions and through the Internet using the IP. The transmission of voice signals as digitalized data streams over the Internet is known as Voice over Internet Protocol or “VoIP”. A VoIP network has the following advantages over traditional networks:

**Simplification:** An integrated infrastructure that supports all forms of communication allows more standardization, a smaller equipment complement, and less equipment management.

**Network Efficiency:** The integration of voice and data fills up the data communication channels efficiently, thus providing bandwidth consolidation and reduction of the costs associated with idle bandwidth. This combined infrastructure can support dynamic bandwidth optimization and a fault tolerant design. The differences between the traffic patterns of voice and data offer further opportunities for significant efficiency improvements.

**Co-existence with traditional communication mediums:** IP telephony can be used in conjunction with existing public telephone system switches, leased and dial-up lines, PBXs and other customer premise equipment, enterprise LANs, and Internet connections. IP telephony applications can be implemented through dedicated gateways, which in turn can be based on open standards platforms for reliability and scalability.



**Cost reduction:** Under the VoIP network, the connection is directly to the Internet backbone and as a result the telephony access charges and settlement fees are avoided.

The growth of voice over the Internet was limited in the past due to poor sound quality caused by technical issues such as delays in packet transmission and by bandwidth limitations related to Internet network capacity and local access constraints. However, the continuing addition of data network infrastructure, improvements in packet switching and compression technology, new software algorithms and improved hardware have substantially reduced delays in packet transmissions and resulted in better sound quality. Nevertheless, certain VoIP routes into countries with limited or poor Internet infrastructure continue to lack the consistent quality required for voice transport and termination.

We believe that the infrastructure required for a global network is too expensive for most companies to acquire and deploy on their own. As a result, many companies use a network consisting of a combination of gateways owned by different operators. For a network to achieve optimal functionality and quality, however, the gateways need to be interoperable, or able to communicate with one another. Technological solutions have emerged that support interoperability between different protocols and/or gateways. Cisco Systems, Inc. has emerged as a dominant supplier of VoIP gateways and other manufacturers often seek to make their equipment interoperable with Cisco.

Long distance telephone calls transported over the Internet are less expensive than similar calls carried over the traditional telephone network primarily because the cost of using the Internet is not determined by the distance those calls need to travel. Also, routing calls over the Internet is more cost-effective than routing calls over the traditional telephone network because the technology that enables Internet telephony is more efficient than traditional telephone network technology. The greater efficiency of the Internet creates cost savings that can be passed on to the consumer in the form of lower long-distance rates or retained by the carrier as higher margins.

By using the public Internet, VoIP providers like us are able to avoid direct payment for transport of communications, instead of paying for large “pipes” into the public Internet, billed by bandwidth rather than usage, which transmits calls to a distant gateway. The Internet, which has its origins in programs devised by the Department of Defense to provide multiple routes and therefore redundancy which was largely immune from the failure of a single network element, provides great redundancy and can be “self healing” in the event of an outage in a particular network element or transmission path. Moreover, adding an additional entry or exit point (a Point of Presence or “PoP”) does not require any expensive or time-consuming reconfiguration or reprogramming of existing network elements. The new element is simply installed with a specific IP address and it can send or receive information to or from any other IP address on the Internet.

## **Cloud Communications**

Cloud communications are Internet-based voice and data communications where telecommunications applications, switching and storage are hosted by a third-party service provider outside of the organization using the services. Services are accessed by the user over the public Internet. Cloud telephony refers specifically to voice services and more specifically the replacement of conventional business telephone equipment (such as a PBX) with VoIP service hosted by a third-party service provider and delivered over the Internet.

We operate a cloud communication network that consists of a VoIP switching system and cloud telephony application platform. Our network allows us to provide end-to-end cloud telephony solutions designed to provide significant benefits to businesses of all sizes, with single or multiple locations. The integration of our cloud communication platform and global VoIP network allows us to provide our customers with virtually any type of telephony solution on a global basis.

Our cloud communication solutions, also known as UCaaS, are designed to minimize upfront capital costs, increase the scalability and flexibility of the customer's communications network and service environment, provide robust features and functionality to increase productivity and reduce the overall cost of communications.

## **Strategy**

Our strategy is to target the small to medium-sized business market through distributors and Value-Added Resellers (“VARs”) that we enable with our communication network. Our typical VAR is an information technology services firm, traditional PBX vendor, managed service provider, or systems integrator that has established relationships with businesses in its local market. These VARs are currently providing local customer support for other IT or PBX services, but lack the technology infrastructure to provide cloud communication and VoIP services to their customers. Our strategy allows these VARs to focus on their strength of providing first tier support to their customers while we provide the second and third tier technical support required to operate a cloud communication and VoIP network. In addition, we transform our VARs’ business model by introducing new cloud telephony services and adding a new and lucrative recurring revenue stream that increases the VARs’ value proposition for its current and prospective customers.

Our cloud-based technology platform enables our VARs to deliver enhanced voice services to their business customers. The features supported on our cloud communication platform include all standard telephone features and value-added applications such as voicemail to email, VoIP peering, teleconferencing, IVR auto attendant, and dial-by-name directory. Our system allows the VAR and its customers a migration path from a traditional PBX system to a complete cloud-based PBX solution.

Our strategic initiatives to successfully meet our long-term business objectives include:

Repositioning around our cloud and session-based communication services, segments of the industry that are experiencing significant growth and where there are new business opportunities for us.

Emphasis on our sales distribution model that enables our VARs to offer cloud and session-based communication services to the enterprise market in various regions and industries.

Leverage our existing global network and relationships to provide new and innovative VoIP solutions in high demand by enterprise customers.

Continue enhancing our infrastructure and back office system to streamline operations, automate key processes, and support the scalability of our VAR distribution model.

## **Competitive Conditions**

The cloud services industry, including the provisioning of cloud communications services, cloud connectivity, cloud storage and cloud computing, as well as carrier voice and data services, is highly competitive, rapidly evolving and subject to constant technological change and intense marketing by providers with similar products and services. We expect that new, smaller, but very agile carrier competitors, specializing in providing service to regional and emerging markets at low margin and hence low cost, may have an impact on the carrier market. Similarly, the business services market includes competitors who may be significantly larger and have substantially greater market presence, financial, technical, operational and marketing resources than we do, including Tier 1 carriers, cable companies and premise-based solutions providers. In the event that such a competitor expends significant sales and marketing resources in one or several markets where we compete with them, we may not be able to compete successfully in those markets. Specialized cloud services providers, who focus on one or more cloud service or application, could adopt aggressive pricing and promotion practices that could impact our ability to compete. We also believe that competition will continue to increase, placing downward pressure on prices. Such pressure could adversely affect our gross margins if we are not able to reduce our costs commensurate with the price reductions of our competitors. In addition, the pace of technological change makes it impossible for us to predict whether we will face new competitors using different technologies to provide the same or similar services offered or proposed to be offered by us. If our competitors were to provide better and more cost-effective services than ours, we may not be able to increase our revenues or capture any significant market share.

The long-distance telephony market and the Internet telephony market are highly competitive. Our competitors include major telecommunications carriers in the U.S., foreign telecommunications carriers (which may be owned by foreign governments), and numerous small competitors. We expect to face continuing competition based on price and service offerings from existing competitors and new market entrants in the future. The principal competitive factors in our market include price, coverage, customer service, technical response times, reliability, and network size/capacity. The competitive landscape is rapidly altering the number, identity and competitiveness of the marketplace, and we are unable to determine with certainty the impact of potential consolidation in our industry.

A number of large long-distance carriers have introduced services that make Internet telephony or voice services over the Internet available to other carriers. All major telecommunications companies either presently do or could route traffic to destinations worldwide and compete directly with us. Emerging Internet telephony service providers also offer low-cost Internet telephony services from personal computers to telephones and from telephones to telephones. In addition, Internet service providers and other companies currently in related markets are now providing voice over the Internet services or have adapted their products to enable voice over the Internet services. These related companies may migrate into the Internet telephony market as direct competitors.

Many of our competitors have substantially greater financial, technical and marketing resources, larger customer bases, longer operating histories, greater name recognition and more established relationships in the industry than we have. As a result, certain of these competitors may be able to adopt more aggressive pricing policies that could hinder our ability to market our services. We believe that our key competitive advantages are our ability to deliver reliable, high quality voice service over the Internet in a cost-effective manner and our VAR distribution model. We cannot provide assurances, however, that these advantages will enable us to succeed against comparable service offerings from our competitors.

## **Government Regulation**

VoIP and other communications services, like ours, have been subject to less regulation at the state and federal levels than traditional telecommunications services. Providers of traditional telecommunications services are subject to the highest degree of regulation, while providers of VoIP and other information services are largely exempt from most federal and state regulations governing traditional common carriers. The FCC has subjected VoIP service providers to a smaller subset of regulations that apply to traditional telecommunications service providers and has not yet classified VoIP services as either telecommunications or information. The FCC is currently examining the status of VoIP service providers and the services they provide in multiple open proceedings. In addition, many state regulatory agencies impose taxes and other surcharges on VoIP services, and certain states take the position that offerings by VoIP providers are intrastate telecommunications services and therefore subject to state regulation. These states argue that if the beginning and end points of communications are known, and if some of these communications occur entirely within the boundaries of a state, the state can regulate that offering. We believe that the FCC has preempted states from regulating VoIP offerings in the same manner as providers of traditional telecommunications services. However, this issue has not been resolved definitively as a matter of law, and it remains possible that the FCC could determine that such services are not information services, or that there could be a judicial or legislative determination that the states are not preempted from regulating VoIP services as traditional telecommunications services. We cannot predict how or when these issues will be resolved or its potential future impact on our business at this time.

The effect of any future laws, regulations and orders on our operations, including, but not limited to, our cloud-based communications and collaboration services, cannot be determined. But as a general matter, increased regulation and the imposition of additional funding obligations increases service costs that may or may not be recoverable from our customers, which could result in making our services less competitive with traditional telecommunications services if

we increase our prices or decreasing our profit margins if we attempt to absorb such costs.

Federal, state, local and foreign governmental organizations are considering other legislative and regulatory proposals that would regulate and/or tax applications running over the Internet. We cannot predict whether new taxes will be imposed on our services, and depending on the type of taxes imposed, whether and how our services would be affected thereafter. Increased regulation of the Internet may decrease its growth and hinder technological development, which may negatively impact the cost of doing business via the Internet or otherwise materially adversely affect our business, financial condition and results of operations.

*Regulation of Internet-based Telecommunication Services in the United States*

We have the necessary authority under Section 214 of the Communications Act to operate as a domestic and international carrier. We are considered a non-dominant domestic interstate carrier subject to minimal regulation by the FCC. We are not required to obtain FCC authority to initiate or expand our domestic interstate operations, but we are required to obtain FCC approval to transfer control or discontinue service and are required to file various reports and pay various fees and assessments. In addition, we must offer service on a nondiscriminatory basis at just and reasonable rates and are subject to the FCC's complaint jurisdiction. Generally, our international carrier traffic is subject to minimal regulation by state and local jurisdictions.

The FCC requires Internet voice communications service providers, such as our company, to provide E-911 service in all geographic areas covered by the traditional wire-line E-911 network. Under the FCC's rules, Internet voice communications providers must transmit the caller's phone number and registered location information to the appropriate public safety answering point, or PSAP, for the caller's registered location. The FCC also requires interconnected VoIP service providers to make Universal Service Fund ("USF") contributions. We believe that our services are currently compliant with all applicable requirements of the FCC, and we have made and are making the required contributions to the USF. However, should we at some time fail to meet certain requirements or fail to make required contributions, we could be subject to revocation of our authority to operate or to fines or penalties.

Some states have tried to directly regulate VoIP services on an intrastate basis, but these efforts have not held up to court challenges to date. Many states are holding hearings to research and discuss the issues surrounding the regulation of VoIP services. Others are encouraging or even requesting VoIP service providers to subject themselves to public service commission jurisdiction and obtain certification as telephone companies. However, most have adopted a "wait and see" attitude. We monitor the actions of the various state regulatory agencies to ensure that we are in compliance with the applicable regulations, including any new regulations that may be passed. However, there can be no assurance that we will become aware of all applicable requirements on a timely basis, or that we will always be fully compliant with applicable rules and regulations. Should we fail at any time to be compliant with applicable state regulations, or to file required reports to state regulatory agencies, we could be subject to fines or other penalties.

#### *Other regulations affecting the Internet in the United States.*

Congress has enacted legislation that regulates certain aspects of the Internet, including online content, user privacy and taxation. In addition, Congress and other federal entities are considering other legislative and regulatory proposals that would further regulate the Internet. Congress has, for example, considered legislation on a wide range of issues including Internet spamming, database privacy, gambling, pornography and child protection, Internet fraud, privacy and digital signatures. Various states have adopted and are considering Internet-related legislation. Increased U.S. regulation of the Internet may slow its growth, particularly if other governments follow suit, which may negatively impact the cost of doing business over the Internet and materially adversely affect our business, financial condition, results of operations and future prospects.

#### *International Regulation*

The regulatory treatment of Internet telephony outside of the U.S. varies widely from country to country. A number of countries that currently prohibit competition in the provision of voice telephony also prohibit Internet telephony. Other countries permit but regulate Internet telephony. Some countries will evaluate proposed Internet telephony service on a case-by-case basis and determine whether it should be regulated as a voice service or as another telecommunications service. In many countries, Internet telephony has not yet been addressed by legislation or

regulation. Increased regulation of the Internet and/or Internet telephony providers or the prohibition of Internet telephony in one or more countries could materially adversely affect our business, financial condition, operating results and future prospects.

The International Settlements Policy governs settlements between U.S. carriers' and foreign carriers' costs of terminating traffic over each other's networks. The FCC enacted certain changes in rules designed to allow U.S. carriers to propose methods to pay for international call termination that deviate from traditional accounting rates and the International Settlement Policy. The FCC has also established lower benchmarks for the rates that U.S. carriers can pay foreign carriers for the termination of international services and these benchmarks may continue to decline. These rule changes have lowered the costs of our competitors to terminate traffic in the United States and are contributing to the downward pricing pressure facing us in the market.



## **Customers and Suppliers**

We rely on various suppliers to provide services in connection with our communication services. We use various global VoIP companies to complete our voice over Internet traffic between US, Mexico, Asia, the Middle East and Latin America. Our customers include traditional carriers, telephony resellers and other VoIP carriers. We are not dependent upon any single supplier or customer.

During the year ended July 31, 2017, the Company derived a significant amount of revenue from four customers, comprising 24%, 24%, 11%, and 8% of the total revenue for the period, respectively, compared to four customers, comprising 26%, 19%, 16%, and 13% of the total revenue for the year ended July 31, 2016.

As of the year ended July 31, 2017, the Company derived a significant amount of accounts receivable from three customers, comprising 37%, 27% and 14% of the total accounts receivable for the period, compared to three customers, comprising 68%, 25% and 7% of the total accounts receivable for the year ended July 31, 2016.

## **Employees**

As of July 31, 2017, we had 7 employees, all of whom performed operational, technical and administrative functions. We believe our future success will depend to a large extent on our continued ability to attract and retain highly skilled and qualified employees. We consider our employee relations to be good. None of these aforementioned employees belongs to labor unions.

## **ITEM 1A. RISK FACTORS.**

Not Applicable to smaller reporting companies.

## **ITEM 1B. UNRESOLVED STAFF COMMENTS.**

Not Applicable to smaller reporting companies.

**ITEM 2. PROPERTIES.**

Our executive office is located at 3463 Magic Drive, Suite 355, San Antonio, Texas, in leased space consisting of 1,090 square feet. The lease for this facility is on a month to month basis. We pay annual rent of \$6,997. We believe that our leased facilities are suitable and adequate for their intended use.

**ITEM 3. LEGAL PROCEEDINGS.**

None.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not Applicable.

## **PART II**

### **ITEM MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS 5. AND ISSUER PURCHASES OF EQUITY SECURITIES.**

#### **Market for Common Equity**

Our common stock is quoted on the OTC PK under the symbol "DTGI". The following table sets forth the high and low bid prices for our common stock for the two most recently completed fiscal years, as reported by Bloomberg, LP. Price quotations on the OTC PK reflect inter-dealer prices, without retail mark-up, markdown or commission, and may not necessarily represent actual transactions.

| Fiscal 2016    | Low    | High   |
|----------------|--------|--------|
| First Quarter  | \$0.13 | \$0.47 |
| Second Quarter | \$0.15 | \$0.60 |
| Third Quarter  | \$0.25 | \$0.34 |
| Fourth Quarter | \$0.16 | \$0.38 |

| Fiscal 2017    | Low    | High   |
|----------------|--------|--------|
| First Quarter  | \$0.17 | \$0.35 |
| Second Quarter | \$0.24 | \$0.35 |
| Third Quarter  | \$0.20 | \$1.00 |
| Fourth Quarter | \$0.37 | \$0.61 |

#### **Holders**

As of December 13, 2017, there were approximately 594 record holders of our Common Stock.

#### **Dividends**

We have not paid cash dividends on our common stock and we do not anticipate paying a dividend in the foreseeable future.

## Equity Compensation Plans

The following table provides information regarding securities that have been or are authorized to be issued under our equity compensation plans as of July 31, 2017.

|                                                            | Number of<br>Securities to<br>be Issued<br>Upon<br>Exercise of<br>Outstanding<br>Options,<br>Warrants<br>and Rights | Weighted-Average<br>Exercise Price of<br>Outstanding<br>Options, Warrants<br>and Rights | Number of<br>Securities<br>Remaining<br>Available for<br>Future<br>Issuance<br>Under Equity<br>Compensation<br>Plans |
|------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------|
| Equity Compensation plans approved by security holders     | -0-                                                                                                                 | —                                                                                       | -0-                                                                                                                  |
| Equity Compensation Plans not approved by security holders | 1,170,000                                                                                                           | \$ 0.24                                                                                 | 4,251,973                                                                                                            |
| Total                                                      | 1,170,000                                                                                                           | \$ 0.24                                                                                 | 4,251,973                                                                                                            |

## **Sales of Unregistered Securities**

In June 2017, the Company issued an aggregate of 40,000 shares of common stock for \$20,000 and 3-year warrants to purchase 7,500 shares of common stock at an exercise price of \$0.50 per share.

In July 2017, the Company issued an aggregate of 1,080,000 shares of common stock for \$540,000 and 3-year warrants to purchase 202,500 shares of common stock at an exercise price of \$0.50 per share.

In August 2017, the Company issued an aggregate of 480,000 shares of common stock for \$240,000 and 3-year warrants to purchase 90,000 shares of common stock at an exercise price of \$0.50 per share.

In September 2017, the Company issued an aggregate of 12,500 shares of common stock with a market value at time of issuance of \$4,375. The shares were issued for consulting services.

In October 2017, the Company issued an aggregate of 80,000 shares of common stock for \$40,000 and 3-year warrants to purchase 15,000 shares of common stock at an exercise price of \$0.50 per share.

In December 2017, the Company closed a transaction to acquire all the assets, assumed all customers, and critical vendor arrangements from Synergy Telecom, Inc. for total consideration of \$450,000, including the issuance of 500,000 shares of common stock valued at \$200,000. See Item 1 – Recent developments for further discussion.

The sales and issuances of the securities described above were made pursuant to the exemptions from registration contained in to Section 4(a)(2) of the Securities Act and Regulation D under the Securities Act. Each purchaser represented that such purchaser's intention to acquire the shares for investment only and not with a view toward distribution. We requested our stock transfer agent to affix appropriate legends to the stock certificate issued to each purchaser and the transfer agent affixed the appropriate legends. Each purchaser was given adequate access to sufficient information about us to make an informed investment decision. Except as described in this prospectus, none of the securities were sold through an underwriter and accordingly, there were no underwriting discounts or commissions involved.

## **ITEM 6. SELECTED FINANCIAL DATA.**

Not Applicable to smaller reporting companies.

**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.**

*This Annual Report contains "forward-looking 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," and "intend," or words of similar import. Although we believe these expectations are reasonable, our operations involve a number of risks and uncertainties and actual results may be materially different than our expectations.*

*The following is a discussion of the consolidated financial condition and results of operations for the fiscal years ended July 31, 2017 and 2016, and should be read in conjunction with our Consolidated Financial Statements, the Notes thereto, and the other financial information included elsewhere in this annual report on Form 10-K. 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.*

***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 includes fully hosted IP/PBX services, SIP 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 or cloud environment.

***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***

*Global VoIP Services.* Global VoIP services revenue decreased by \$48,000, or 100%, from fiscal 2016 to fiscal 2017. The decrease in revenue is as a result of deemphasizing this product, therefore no Global VoIP revenue was generated during the fiscal 2017.

*Cloud-based hosted Services.* Cloud-based hosted services revenue decreased by \$39,000, or 17%, from fiscal 2016 to fiscal 2017. The decrease in revenue between periods is primarily attributed to the decrease in customers that generated monthly recurring services revenue unrelated to the Company's core sales strategy and product line. In addition, our revenue decreased between periods as a result of the overall decline in revenue from some of our key customers. Hosted services include the following, fully hosted IP/PBX services, SIP 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 or cloud environment.

*Cost of Services (exclusive of depreciation and amortization).* The cost of services decreased by \$9,000, or 6%, from fiscal 2016 to fiscal 2017. During fiscal 2017 the Company received various credits and discounts from key vendors,

the Company did not receive similar credits during the period ended July 31, 2016, thus the decrease in cost of services between periods.

*Loss on disposal of unproven oil and gas properties.* The Company reported a loss on disposal of unproven oil and gas properties of \$248,000 for the period ended July 31, 2017 compared to a loss on disposal of unproven oil and gas properties of \$0 for the period ended July 31, 2016. During the period ended July 31, 2017 the Company terminated its investment in the oil and gas properties and recognized a loss of \$248,000 for the total capitalized investment amount.

*Selling, General and Administrative (SG&A) Expenses (exclusive of legal and professional fees).* SG&A expenses decreased by \$95,000, or 9%, from fiscal 2016 to fiscal 2017. The decrease is primarily attributed to the reduction in cash compensation to the Company's management team, the reduction in cash compensation was recognized during fiscal 2017, thus the reduction in SG&A between periods.

*Stock Compensation.* Stock compensation expense increased by \$751,000, from fiscal 2016 to fiscal 2017. The increase between periods is attributed to the recognition of \$241,000 in stock compensation expense associated with the Company's contribution to the Profit Sharing Plan during FY2017, stock compensation expense recognition of stock option expense of \$137,000 associated with the stock options awarded to various employees and stock compensation expense of \$351,000 associated with the issuance of common stock in lieu of cash compensation to the Company's management team. The Company also issued 75,000 shares of common stock in exchange for \$44,000 of public relations consulting services.

*Legal and professional fees.* Legal and professional fees increased by \$94,000, or 48%, from fiscal 2016 to fiscal 2017. The increase is attributed to professional and legal expenses incurred related to professionals conducting the due diligence on an acquisition.



*Bad debt.* Bad debt improved by \$8,000 between periods. During Fiscal 2017 the Company recognized a recovery of \$8,000 for accounts that were previously deemed uncollectable.

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

*Operating loss.* The Company reported an operating loss of \$2,184,000 for the fiscal period ended July 31, 2017 compared to an operating loss of \$1,116,000 for the fiscal period ended July 31, 2016. The increase in operating loss between periods is primarily attributed to the recognition of \$248,000 related to the loss on disposal of unproven oil and gas properties and the \$773,000 in stock compensation expense recognized during the period ended July 31, 2017.

*Gain on disposal of assets.* Gain on disposal of assets decreased by \$2,000 between periods. During the period ending July 31, 2017, the Company did not recognize any loss on disposal of assets. During the period ending July 31, 2016, the Company recognized \$2,000 in a loss on disposal of various small assets that reached their useful life.

*Miscellaneous gain.* Miscellaneous gain for the year ended July 31, 2017 was \$2.6 Million compared to miscellaneous gain for the period ended July 31, 2016 of \$0. The miscellaneous gain was a result of a tax refund received in July 2015 and previously recorded by the Company as an accrued liability until such time as it could determine the proper accounting. During fiscal 2017, management determined that the Company was the legal owner of the refund and, therefore, recorded the miscellaneous gain. The Company did not have such gains during the year ended July 31, 2016.

*Interest expense.* Interest income (expense) decreased by \$26,000 from the fiscal period ended July 31, 2016 to the period ended July 31, 2017. The reason for the decrease in interest income (expense) is attributed to the decrease between periods in interest expense as a result of the Company currently not having any promissory notes that incur interest expense.

*Net income (loss).* Net income for the year ended July 31, 2017 was \$493,000 compared to a net loss for the period ended July 31, 2016 of \$1,134,000. The net income is primarily attributed as a result of the miscellaneous gain recorded during fiscal 2017, this was offset by an increase in stock compensation expense of \$773,000 and the loss of \$248,000 related to a loss on disposal of unproven oil and gas properties.

### ***Liquidity and Capital Resources***

*Cash Position:* We had a consolidated cash balance of \$673,000 as of July 31, 2017. Net cash consumed by operating activities during the period ended July 31, 2017 was approximately \$1,016,000, primarily as a result of operating expenses, that included \$773,000 in stock compensation expense and a loss of \$248,000 on disposal of unproven oil and gas properties.

Cash used in investing activities was \$40,000 for the purchases of oil and gas property. Cash provided by financing activities during the period ended July 31, 2017 was \$560,000. The Company secured the funds from various accredited investors through the issuance of 1,120,000 restricted common shares with a price of \$0.50 per share and 210,000 warrants with an exercise price of \$0.50 per share. Overall, our net operating, investing and financing activities during the period ended July 31, 2017 consumed approximately \$496,000 of cash.

We are currently taking initiatives to reduce our overall cash deficiencies on a monthly basis. During fiscal 2018 we anticipate reducing fixed costs, professional fees and general expenses, in addition, certain members of our management team have taken a significant portion of their compensation in common stock to reduce the depletion of our available cash. 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, as a result during the due diligence process we anticipate incurring significant legal and professional fees. On May 8, 2017 we entered into a definitive Agreement and Plan of Merger to acquire T3, a leading provider of cloud communication and broadband solutions in Southwest Florida. We anticipate closing the acquisition during the second quarter of fiscal year 2018. The acquisition of T3 will allow the Company to accelerate its revenue growth and expand into new markets.

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, issuing stock-based compensation to certain members of the executive management team in lieu of cash, or generating sufficient revenue in excess of costs. At such time as the Company requires additional funding, the Company will seek to secure such best-efforts funding from various possible sources, including equity or debt financing, sales of assets, or collaborative arrangements. 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 curtail its operations, and the Company may not be able to pay off its obligations, if and when they come due.

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 July 31, 2017, our total liabilities were approximately \$1,355,000. 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 during Fiscal 2018.

In August 2017, the Company raised \$240,000 through the issuance of 480,000 shares of common stock and three-year warrants to purchase 90,000 shares of common stock at \$0.50 per share.

In October 2017, the Company issued an aggregate of 80,000 shares of common stock for \$40,000 and 3-year warrants to purchase 15,000 shares of common stock at an exercise price of \$0.50 per share.

Digerati's consolidated financial statements for the year ending July 31, 2017 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 \$77,637,000 and a working capital deficit of approximately \$527,000 which raises substantial doubt about Digerati's ability to continue as a going concern.

***Critical Accounting Policies***

*Revenue Recognition.* We derive our revenue from Global VoIP Services and Cloud Communication Services. Revenue is recognized when persuasive evidence of an arrangement exists, service or network capacity has been provided, the price is fixed or determinable, collectability is reasonably assured and there are no significant obligations remaining.

We record and report our revenue on the gross amount billed to our customers in accordance with the following “gross indicators”:

Digerati is the primary obligor in its arrangements,

Digerati has latitude in establishing pricing,

Digerati changes the product or performs part of the service and is involved in the determination of the product or service specifications,

Digerati has discretion in supplier selection; and

Digerati assumes credit risk for the amount billed to the customer

We recognize revenue from Global VoIP Services in the period the service is provided, net of revenue reserves for potential billing credits. Such credits can result from disagreements with customers regarding the duration, destination or rates charged for each call. We recognize Cloud Communication Services revenue during the period the services are provided.

*Stock-based Compensation.* We account for share-based compensation in accordance with provisions on share-based payments which require measurement of compensation cost for all stock-based awards at fair value on the date of grant and recognition of compensation over the service period for awards expected to vest. The fair value of stock grants is determined using the Black-Scholes valuation model. During fiscal 2016 and 2017, the Company issued 121,135 common shares and 1,003,970 common shares, respectively to various employees as part of our profit sharing plan contribution. At the time of issuance during fiscal 2016 and 2017 we recognized stock based compensation expense of approximately \$22,000 and \$241,000, respectively equivalent to the market value of the shares issued calculated based on the share's closing price at the grant dates.

*Derivative financial instruments.* We do not use derivative instruments to hedge exposures to cash flow, market, or foreign currency risks. However, we evaluate the application of derivative accounting for all convertible financial instruments and freestanding warrants.

For derivative financial instruments that meet the definition of liabilities, the derivative instrument is initially recorded at its fair value and is then re-valued at each reporting date, with changes in the fair value reported as charges or credits to income. For option-based derivative financial instruments, we use the Black-Scholes option-pricing model to value the derivative instruments. The classification of derivative instruments, including whether such instruments should be recorded as liabilities or as equity, is re-assessed at the end of each reporting period. Derivative instrument liabilities are classified in the balance sheet as current or non-current based on whether or not net-cash settlement of the derivative instrument could be required within 12 months of the balance sheet date.

## **ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.**

Not Applicable to smaller reporting companies.

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

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## **REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Stockholders

Digerati Technologies, Inc.

San Antonio, Texas

We have audited the accompanying consolidated balance sheets of Digerati Technologies, Inc. and its subsidiaries (collectively, “Digerati”) as of July 31, 2017 and July 31, 2016, and the related consolidated statements of operations, stockholders’ deficit and cash flows each of the years in the two-year period ended 2017. Digerati Technologies, Inc.’s management is responsible for these financial statements. Our responsibility is to express an opinion on these consolidated financial statements.

We conducted our audits in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. Digerati is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Digerati’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Digerati as of July 31, 2017 and July 31, 2016 and the consolidated results of their operations and their cash flows for each of the years in the two-year period ended 2017, in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that Digerati will continue as a going concern. As discussed in Note 2 to the consolidated financial statements, Digerati suffered losses from operations and has a working capital deficit, which raises substantial doubt about its ability to continue as a going concern. Management’s plans regarding those matters are also described in Note 2. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ LBB & Associates Ltd., LLP

LBB & Associates Ltd., LLP

Houston, Texas

December 13, 2017



## PART 1. FINANCIAL INFORMATION

### ITEM 1. FINANCIAL STATEMENTS

#### DIGERATI TECHNOLOGIES, INC. AND SUBSIDIARIES

#### CONSOLIDATED BALANCE SHEETS

(In thousands)

|                                                     | July 31,<br>2017 | July 31,<br>2016 |
|-----------------------------------------------------|------------------|------------------|
| <b><u>ASSETS</u></b>                                |                  |                  |
| <b>CURRENT ASSETS:</b>                              |                  |                  |
| Cash and cash equivalents                           | \$673            | \$1,169          |
| Accounts receivable, net                            | 15               | 2                |
| Prepaid and other current assets                    | 9                | 8                |
| Total current assets                                | 697              | 1,179            |
| <b>LONG-TERM ASSETS:</b>                            |                  |                  |
| Intangible assets, net                              | 14               | 29               |
| Property and equipment, net                         | 2                | 3                |
| Oil and gas property - unproven                     | -                | 210              |
| Total assets                                        | \$713            | \$1,421          |
| <b><u>LIABILITIES AND STOCKHOLDERS' DEFICIT</u></b> |                  |                  |
| <b>CURRENT LIABILITIES:</b>                         |                  |                  |
| Accounts payable                                    | \$859            | \$789            |
| Accrued liabilities                                 | 365              | 2,906            |
| Total current liabilities                           | 1,224            | 3,695            |
| <b>LONG-TERM LIABILITIES:</b>                       |                  |                  |
| Customer deposits                                   | 131              | 140              |
| Total long-term liabilities                         | 131              | 140              |
| Total liabilities                                   | 1355             | 3835             |
| Commitments and contingencies                       |                  |                  |
| <b>STOCKHOLDERS' DEFICIT:</b>                       |                  |                  |

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|                                                                                                                    |          |          |
|--------------------------------------------------------------------------------------------------------------------|----------|----------|
| Preferred stock, \$0.001, 50,000,000 shares authorized, none issued and outstanding                                |          |          |
| Common stock, \$0.001, 150,000,000 shares authorized, 8,386,056 and 5,234,158 issued and outstanding, respectively | 8        | 5        |
| Additional paid in capital                                                                                         | 76,986   | 75,656   |
| Accumulated deficit                                                                                                | (77,637) | (78,076) |
| Other comprehensive income                                                                                         | 1        | 1        |
| Total stockholders' deficit                                                                                        | (642 )   | (2,414 ) |
| Total liabilities and stockholders' deficit                                                                        | \$713    | \$1,421  |

See accompanying notes to consolidated financial statements

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

|                                                               | Years ended July 31, |           |
|---------------------------------------------------------------|----------------------|-----------|
|                                                               | 2017                 | 2016      |
| OPERATING REVENUES:                                           |                      |           |
| Global VoIP services                                          | \$-                  | \$48      |
| Cloud-based hosted services                                   | 193                  | 232       |
| Total operating revenues                                      | 193                  | 280       |
| OPERATING EXPENSES:                                           |                      |           |
| Cost of services (exclusive of depreciation and amortization) | 134                  | 143       |
| Loss on disposal of unproven oil and gas properties           | 248                  | -         |
| Selling, general and administrative expense                   | 922                  | 1,017     |
| Stock compensation expense                                    | 773                  | 22        |
| Legal and professional fees                                   | 290                  | 196       |
| Bad debt                                                      | (8)                  | -         |
| Depreciation and amortization expense                         | 18                   | 18        |
| Total operating expenses                                      | 2,377                | 1,396     |
| OPERATING LOSS                                                | (2,184)              | (1,116)   |
| OTHER INCOME (EXPENSE):                                       |                      |           |
| Gain on derivative instruments and disposal of fixed assets   | -                    | 2         |
| Miscellaneous gain                                            | 2,623                | -         |
| Interest income (expense)                                     | -                    | (26)      |
| Total other income (expense)                                  | 2,623                | (24)      |
| NET INCOME (LOSS)                                             | \$439                | \$(1,140) |
| INCOME (LOSS) PER SHARE - BASIC                               | \$0.07               | \$(0.22)  |
| INCOME (LOSS) PER SHARE - DILUTED                             | \$0.06               | \$(0.22)  |
| WEIGHTED AVERAGE COMMON SHARES OUTSTANDING - BASIC            | 6,339,906            | 5,183,817 |
| WEIGHTED AVERAGE COMMON SHARES OUTSTANDING - DILUTED          | 6,982,081            | 5,183,817 |

See accompanying notes to consolidated financial statements

DIGERATI TECHNOLOGIES, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT  
YEARS ENDED JULY 31, 2017 AND 2016

(In thousands, except for share amounts)

|                                            | Common<br>Shares | Par  | Additional<br>Paid-in<br>Capital | Subscription<br>Receivable | Accumulated<br>Deficit | Other<br>Comprehensive<br>Income | Totals    |
|--------------------------------------------|------------------|------|----------------------------------|----------------------------|------------------------|----------------------------------|-----------|
| BALANCE, July 31, 2015                     | 5,113,023        | \$ 5 | \$ 75,634                        | \$ (29 )                   | \$ (76,936 )           | \$ 1                             | \$(1,325) |
| Stock issued for services, to<br>employees | 121,135          | -    | 22                               | -                          | -                      | -                                | 22        |
| Stock issued for debt & cash               | -                | -    | -                                | 29                         | -                      | -                                | 29        |
| Net loss                                   | -                | -    | -                                | -                          | (1,140 )               | -                                | (1,140)   |
| BALANCE, July 31, 2016                     | 5,234,158        | \$ 5 | \$ 75,656                        | \$ -                       | \$ (78,076 )           | \$ 1                             | \$(2,414) |
| Stock issued for services, to<br>employees | 1,956,898        | 2    | 727                              | -                          | -                      | -                                | 729       |
| Stock issued for professional<br>services  | 75,000           | -    | 44                               | -                          | -                      | -                                | 44        |
| Stock issued for cash                      | 1,120,000        | 1    | 559                              | -                          | -                      | -                                | 560       |
| Net Income                                 | -                | -    | -                                | -                          | 439                    | -                                | 439       |
| BALANCE, July 31, 2017                     | 8,386,056        | \$ 8 | \$ 76,986                        | \$ -                       | \$ (77,637 )           | \$ 1                             | \$(642 )  |

See accompanying notes to consolidated financial statements

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

|                                                                            | Years ended July<br>31, |                |
|----------------------------------------------------------------------------|-------------------------|----------------|
|                                                                            | 2017                    | 2016           |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                               |                         |                |
| Net income (loss)                                                          | \$439                   | \$(1,140)      |
| Adjustments to reconcile net loss to cash used in by operating activities: |                         |                |
| Gain on derivative instruments and disposal of assets                      | -                       | (2 )           |
| Loss on disposal of unproven oil and gas properties                        | 248                     | -              |
| Depreciation and amortization                                              | 18                      | 18             |
| Stock compensation                                                         | 773                     | 22             |
| Changes in operating assets and liabilities:                               |                         |                |
| Accounts receivable                                                        | (13 )                   | (1 )           |
| Prepaid expenses and other current assets                                  | (1 )                    | (7 )           |
| Accounts payable                                                           | 70                      | (149 )         |
| Accrued liabilities and customer deposits                                  | (2,550)                 | 2,637          |
| Net cash (used in) provided by operating activities                        | (1,016)                 | 1,378          |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                               |                         |                |
| Acquisition of oil and gas property                                        | (38 )                   | (210 )         |
| Purchases of property & equipment                                          | (2 )                    | (4 )           |
| Net cash used in investing activities                                      | (40 )                   | (214 )         |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                               |                         |                |
| Subscription receivable proceeds                                           | -                       | 29             |
| Proceeds from issuance of common stock                                     | 560                     | -              |
| Payments on debt, related party                                            | -                       | (68 )          |
| Proceeds from notes payable, related party                                 | -                       | 25             |
| Net cash provided by (used in) financing activities                        | 560                     | (14 )          |
| <b>DECREASE IN CASH AND CASH EQUIVALENTS</b>                               | <b>(496 )</b>           | <b>1,150</b>   |
| <b>CASH AND CASH EQUIVALENTS, beginning of period</b>                      | <b>1,169</b>            | <b>19</b>      |
| <b>CASH AND CASH EQUIVALENTS, end of period</b>                            | <b>\$673</b>            | <b>\$1,169</b> |
| <b>SUPPLEMENTAL DISCLOSURES:</b>                                           |                         |                |
| Cash paid for interest                                                     | \$-                     | \$4            |

See accompanying notes to consolidated financial statements

**DIGERATI TECHNOLOGIES, INC.**

**AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Description of Business.** Digerati Technologies, Inc. (“we”, “our”, “Company” or “Digerati”) was incorporated in the state of Nevada on May 24, 2004. Digerati is a diversified holding company that has no independent operations apart from its subsidiaries. Through our wholly owned subsidiary, Shift8 Technologies, Inc., we are an established cloud telephony service provider that offers a comprehensive suite of cloud communication services to meet the global needs of businesses that are seeking simple, flexible, and cost-effective communication solutions. Unlike legacy phone systems, our telephony services are delivered **Only in the Cloud...**<sup>TM</sup>, or over the Internet, making service available to customers from anywhere internet access is available.

**Principles of Consolidation.** The consolidated financial statements include the accounts of Digerati, and its subsidiaries, which are majority owned by Digerati In accordance with ASC 810-10-05. All significant inter-company transactions and balances have been eliminated.

**Reclassifications.** Certain amounts in the consolidated financial statements of the prior year have been reclassified to conform to the presentation of the current year for comparative purposes.

**Use of Estimates.** In preparing financial statements, management makes estimates and assumptions that affect the reported amounts of assets and liabilities in the balance sheet and revenue and expenses in the statement of operations. Actual results could differ from those estimates.

**Concentration of Credit Risk.** Financial instruments that potentially subject Digerati to concentration of credit risk consist primarily of trade receivables. In the normal course of business, Digerati provides credit terms to its customers. Accordingly, Digerati performs ongoing credit evaluations of its customers and maintains allowances for possible losses, which, when realized, have been within the range of management’s expectations. Digerati maintains cash in bank deposit accounts, which, at times, may exceed federally insured limits. Digerati has not experienced any losses in such accounts and Digerati does not believe it’s exposed to any significant credit risk on cash and cash equivalents.

**Revenue Recognition.** Digerati derives revenue from two product offerings Global VoIP Services and Cloud Communication Services. Revenue is recognized when persuasive evidence of an arrangement exists, services have been provided, the price is fixed or determinable, collectability is reasonably assured and there are no significant obligations remaining.

Digerati records and reports its revenue on the gross amount billed to its customers in accordance with the following indicators:

Digerati is the primary obligor in its arrangements,

Digerati has latitude in establishing pricing,

Digerati changes the product or performs part of the service and is involved in the determination of the product or service specifications,

Digerati has discretion in supplier selection and

Digerati assumes credit risk for the amount billed to the customer.

***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 Communication Services: We provide cloud communication services to value-added resellers and enterprise customers. The service includes fully hosted IP/PBX services, SIP 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 or cloud environment.

***Cost of Services:***

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





Cloud Communication Services: We incur bandwidth, licensing, and co-location charges in connection with cloud communication services. The bandwidth charges are incurred as part of the connection between our customers to allow them access to our services.

***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 properties.***

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. During the fiscal year ended July 31, 2017 the Company recognized an impairment loss of \$248,000 on the Company's oil and gas properties.

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 or unproved properties as of July 31, 2017.

***Allowance for Doubtful Accounts.***

Bad debt expense is recognized based on management's estimate of likely losses each year based on past experience and an estimate of current year uncollectible amounts. As of July 31, 2017 and 2016, Digerati's allowance for doubtful accounts balance was \$0 and \$0, respectively.

**Property and equipment.** Property and equipment is recorded at cost. Additions are capitalized and maintenance and repairs are charged to expense as incurred. Gains and losses on dispositions of equipment are reflected in operations. Depreciation is provided using the straight-line method over the estimated useful lives of the assets, which are one to five years.

**Impairment of Long-Lived Assets.** Digerati reviews the carrying value of its long-lived assets annually or whenever events or changes in circumstances indicate that the value of an asset may no longer be appropriate. Digerati assesses recoverability of the carrying value of the asset by estimating the future net cash flows expected to result from the asset, including eventual disposition. If the future net cash flows are less than the carrying value of the asset, an impairment loss is recorded equal to the difference between the asset's carrying value and fair value.

**Derivative financial instruments.** Digerati does not use derivative instruments to hedge exposures to cash flow, market, or foreign currency risks. However, Digerati analyzes its convertible instruments and free-standing instruments such as warrants for derivative liability accounting.

For derivative financial instruments that are accounted for as liabilities, the derivative instrument is initially recorded at its fair value and is then re-valued at each reporting date, with changes in the fair value reported as charges or credits to income. For option-based derivative financial instruments, Digerati uses the Black-Scholes option-pricing model to value the derivative instruments.

The classification of derivative instruments, including whether such instruments should be recorded as liabilities or as equity, is re-assessed at the end of each reporting period. Derivative instrument liabilities are classified in the balance sheet as current or non-current based on whether or not net-cash settlement of the derivative instrument is probable within the next 12 months from the balance sheet date.

**Income taxes.** Digerati 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. Digerati 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, Digerati 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, Digerati 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. As of July 31, 2017 we have no liability for unrecognized tax benefits.

**Stock-based compensation.** Digerati accounts for share-based compensation in accordance with the provisions on share-based payments which require measurement of compensation cost for all stock-based awards at fair value on date of grant and recognition of compensation over the service period for awards expected to vest. The fair value of stock options is determined using the Black-Scholes valuation model.

**Basic and diluted net income (loss) per share.** The basic net loss per common share is computed by dividing the net loss by the weighted average number of common shares outstanding. Diluted net loss per common share is computed by dividing the net loss adjusted on an “as if converted” basis, by the weighted average number of common shares outstanding plus potential dilutive securities. For the year ended July 31, 2017 and 2016, potential dilutive securities including options and warrants had dilutive effect and were included in the calculation of diluted net income (loss) per common share.

**Fair Value of Financial Instruments.** Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. A fair value hierarchy is used which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The fair value hierarchy based on the three levels of inputs that may be used to measure fair value are as follows:

*Level 1* – Quoted prices in active markets for identical assets or liabilities.

*Level 2* – Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

*Level 3* – Unobservable inputs that are supported by little or no market activity and that are financial instruments whose values are determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant judgment or estimation.

For certain of our financial instruments, including cash and cash equivalents, accounts receivable, accounts payable and accrued expenses, the carrying amounts approximate fair value due to the short maturity of these instruments. The carrying value of our long-term debt approximates its fair value based on the quoted market prices for the same or similar issues or the current rates offered to us for debt of the same remaining maturities.

***Recently issued accounting pronouncements.*** Digerati does not expect the adoption of any recently issued accounting pronouncements to have a significant impact on Digerati's results of operations, financial position or cash flows.

## **NOTE 2 – GOING CONCERN**

### ***Financial Condition***

Digerati's consolidated financial statements for the year ending July 31, 2017 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 \$77,637,000 and a working capital deficit of approximately \$527,000 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 July 31, 2017 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 – INTANGIBLE ASSETS**

During fiscal 2008, Digerati made a loan of \$150,000 to NetSapiens Inc. The note receivable had a maturity date of June 26, 2008 with interest at 8% per year. The note was secured by NetSapiens' proprietary Starter Platform License and SNAPsolution modules. On June 26, 2008 Digerati converted the outstanding interest and principal balance into a lifetime and perpetual NetSapiens' License. The License provides Digerati with the ability to offer Hosted PBX (Private Branch eXchange), IP Centrex application, prepaid calling, call center, conferencing, messaging and other innovative telephony functionality necessary to offer standard and/or custom services to enterprise markets. The NetSapiens' License, in the amount of \$150,000, is being amortized equally over a period of 10 years. For the years ended July 31, 2017 and 2016, amortization totaled approximately \$15,000 and \$15,000, respectively.

**NOTE 4 – PROPERTY AND EQUIPMENT**

Following is a summary of Digerati's property and equipment at July 31, 2017 and 2016 (in thousands):

|                                | Useful lives | 2017  | 2016  |
|--------------------------------|--------------|-------|-------|
| Telecom equipment & software   | 1-5 years    | \$ 16 | \$ 14 |
| Less: accumulated depreciation |              | (14)  | (11)  |
| Net-property and equipment     |              | \$ 2  | \$ 3  |

For the years ended July 31, 2017 and 2016, depreciation totaled approximately \$3,000 and \$3,000, respectively.

**NOTE 5 – INCOME TAXES**

Digerati files a consolidated tax return. The current tax year is subject to examination by the Internal Revenue Service and certain state taxing authorities. As of July 31, 2017, Digerati had net operating loss carry-forwards of approximately \$3,664,000 to reduce future federal income tax liabilities; the loss carryforwards will start to expire in 2020. Income tax benefit (provision) for the years ended July 31, 2017 and 2016 are as follows:

The effective tax rate for Digerati is reconciled to statutory rates as follows:

|                                                         | 2017    | 2016    |
|---------------------------------------------------------|---------|---------|
| Expected Federal benefit (provision), at statutory rate | 35.0 %  | 35.0 %  |
| Change in valuation allowance                           | (35.0)% | (35.0)% |
|                                                         | 0.0 %   | 0.0 %   |

Deferred tax assets are comprised of the following as of July 31, 2017 and 2016:

|                               | 2017         | 2016       |
|-------------------------------|--------------|------------|
| Net operating loss carryover  | \$ 1,282,000 | \$ 358,000 |
| Valuation allowance           | (1,282,000)  | (358,000)  |
| Total deferred tax asset, net | \$-          | \$-        |

At July 31, 2017, realization of Digerati's deferred tax assets was not considered likely to be realized. The change in the valuation allowance for 2017 was approximately \$924,000. Management has evaluated and concluded that there are no significant uncertain tax positions requiring recognition in Digerati's combined financial statements. The current

year remains open to examination by the major taxing jurisdictions in which Digerati is subject to tax. The Company files a calendar year return and the net operating loss was adjusted for the fiscal year ended July 31, 2017.

We record unrecognized tax benefits as liabilities in accordance with ASC 740 and adjust these liabilities when our judgment changes as a result of the evaluate on new information not previously available. Because of the complexity of some of these uncertainties, the ultimate resolution may result in a payment that is materially different from our current estimate of the unrecognized tax benefit liabilities. These differences will be reflected as increases or decreases to income tax expense in the period in which new information is available.

#### **NOTE 6 – MISCELLANEOUS GAIN**

The Company received a tax refund in July 2015. The Company recorded the funds as an accrued liability until such time as it could determine the proper accounting for the refund. Subsequent to its receipt, management has determined that the Company is the legal owner of the refund which has been recorded as a miscellaneous gain during fiscal 2017. The refund did not result from taxes paid by the Company and will not be taxed as it originated from the Internal Revenue Service.

#### **NOTE 7 – COMMITMENTS AND CONTINGENCIES**

##### ***Commitments***

Digerati leases its office space with monthly payments of \$583; the lease is on a month to month basis. The annual rent expense under the operating lease was \$6,996 and \$7,740, for 2017 and 2016, respectively. The future minimum lease payment under the operating lease for fiscal year 2017 is \$6,996.

##### ***Contingencies***

Not applicable.

#### **NOTE 8 – 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 period ended July 31, 2017, we issued:

1,003,970 common shares to various employees as part of the Company's profit sharing plan contribution. The Company recognized stock-based compensation expense of approximately \$241,000 equivalent to the value of the shares calculated based on the share's closing price at the grant dates.

952,928 common shares to the Company's Management team in lieu of cash compensation. The Company recognized stock-based compensation expense of approximately \$351,000.

During fiscal 2017 Digerati's board of directors granted 1,170,000 options to purchase Common Shares to directors and employees, with an exercise price of \$0.24 per share, an average vesting period of 2 years and weighted average remaining contractual life 4.5 years. The Black-Scholes pricing model was used to estimate the fair value of the options to purchase Common Shares granted during the period, using the assumptions of a risk-free interest rate of 1.73%, dividend yield of 0%, volatility of 245%, and an expected life of 5 years. The options have a fair value of approximately \$226,000. Unamortized compensation cost totaled \$88,000 and \$0, respectively as of July 31, 2017 and July 31, 2016.

A summary of the stock options of July 31, 2017 and 2016 and the changes during the years ended July 31, 2017 and 2016 are presented below:

|                              | Options   | Weighted-average<br>exercise price | Weighted-average<br>remaining<br>contractual<br>term (years) |
|------------------------------|-----------|------------------------------------|--------------------------------------------------------------|
| Outstanding at July 31, 2015 | -         | \$ -                               | -                                                            |
| Granted                      | -         | -                                  | -                                                            |
| Exercised                    | -         | -                                  | -                                                            |
| Forfeited and cancelled      | -         | -                                  | -                                                            |
| Outstanding at July 31, 2016 | -         | \$ -                               | -                                                            |
| Granted                      | 1,170,000 | \$ 0.24                            | 5.00                                                         |
| Exercised                    | -         | -                                  | -                                                            |
| Forfeited and cancelled      | -         | -                                  | -                                                            |
| Outstanding at July 31, 2017 | 1,170,000 | \$ 0.24                            | 4.30                                                         |
| Exercisable at July 31, 2017 | 721,111   | \$ 0.24                            | 4.30                                                         |

## NOTE 9 – WARRANTS

During the year ended July 31, 2017, the Company secured \$560,000 from various accredited investors under a private placement and issued 1,120,000 shares of its common stock at a price of \$0.50 per share and warrants to purchase an additional 210,000 shares of its common stock at an exercise price of \$0.50 per share. We determined that the warrants issued in connection with the private placement were equity instruments and did not represent derivative instruments.

A summary of the warrants as of July 31, 2017 and 2016 and the changes during the years ended July 31, 2017 and 2016 are presented below:

|                              | Warrants | Weighted-average<br>exercise price | Weighted-average<br>remaining<br>contractual<br>term (years) |
|------------------------------|----------|------------------------------------|--------------------------------------------------------------|
| Outstanding at July 31, 2015 | 300,000  | \$ 0.14                            | 4.46                                                         |
| Granted                      | -        | -                                  | -                                                            |
| Exercised                    | -        | -                                  | -                                                            |
| Forfeited and cancelled      | -        | -                                  | -                                                            |
| Outstanding at July 31, 2016 | 300,000  | \$ 0.14                            | 3.45                                                         |

|                              |         |    |      |      |
|------------------------------|---------|----|------|------|
| Granted                      | 210,000 | \$ | 0.50 | 3.00 |
| Exercised                    | -       | -  | -    | -    |
| Forfeited and cancelled      | -       | -  | -    | -    |
| Outstanding at July 31, 2017 | 510,000 | \$ | 0.29 | 2.87 |
| Exercisable at July 31, 2017 | 300,000 | \$ | 0.14 | 2.45 |

**NOTE 10 – NON-STANDARDIZED PROFIT SHARING PLAN**

We currently provide a Non-Standardized Profit Sharing Plan, adopted September 15, 2006. Under the plan our employees qualify to participate in the plan after one year of employment. Contributions under the plan are based on 25% of the annual base salary of each eligible employee up to \$53,000 per year. Contributions under the plan are fully vested upon funding. During the years ended July 31, 2017 and July 31, 2016, the Company issued 1,003,970 and 121,135, respectively, common shares to various employees as part of the Company's profit sharing plan contribution. The Company recognized stock-based compensation expense for July 31, 2017 and July 31, 2016 of \$241,000 and \$22,000, respectively, equivalent to the value of the shares calculated based on the share's closing price at the grant dates.

**NOTE 11 – SIGNIFICANT CUSTOMERS**

During the year ended July 31, 2017, the Company derived a significant amount of revenue from four customers, comprising 24%, 24%, 11%, and 8% of the total revenue for the period, respectively, compared to four customers, comprising 26%, 19%, 16%, and 13% of the total revenue for the year ended July 31, 2016.

As of the year ended July 31, 2017, the Company derived a significant amount of accounts receivable from three customers, comprising 37%, 27% and 14% of the total accounts receivable for the period, compared to three customers, comprising 68%, 25% and 7% of the total accounts receivable for the year ended July 31, 2016.

#### **NOTE 12 – AGREEMENT AND JOINT OPERATING AGREEMENT**

On February 29, 2016 Flagship Energy Company ("Flagship"), a wholly-owned subsidiary of Digerati, entered into an Agreement with a Texas-based contract-for-hire oil and gas operator ("Operator"). Under the Agreement, Flagship utilized the Operator for the drilling, completion and the 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 Agreement, the Operator agreed to transfer all field-level operations and assign 100% of a certain oil, gas and mineral lease to Flagship upon demand, which included a tract of land located in South Texas. Additionally, Flagship entered into a Joint Operating Agreement ("JOA") with Operator, whereby the parties agreed 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.

During the fiscal year ended July 31, 2017 the Company recognized an impairment loss of \$248,000 for the total capitalized investment amount in the oil and gas properties.

#### **NOTE 13 – AGREEMENT AND PLAN OF MERGER**

On May 8, 2017, Shift8 Technologies, Inc., a Nevada corporation ("Shift8 Tech"), a wholly owned subsidiary of Digerati Technologies, Inc., a Nevada corporation (the "Company"), and T3 Acquisition, Inc., a Florida corporation (Acquisition Sub"), and newly formed wholly-owned subsidiary of Shift8 Tech, entered into an Agreement and Plan Merger (the "Merger Agreement") with T3 Communications, a Florida corporation ("T3"). The Merger Agreement provides that, upon the terms and subject to the conditions thereof, the Acquisition Sub will be merged with and into T3, with T3 continuing as the surviving corporation and as a wholly-owned subsidiary of Shift8 Tech. The Company anticipates closing the transaction during second quarter of fiscal year 2018, the Merger has been approved by the Shareholders of T3 and is subject to certain customary closing conditions.

#### **NOTE 14 – 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 had 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 July 31, 2017, the outstanding balance was \$0 and the Revolving Line of Credit has been terminated.

## **NOTE 15 – SUBSEQUENT EVENTS**

### ***2017 Private Placement***

In August and October 2017, the Company secured \$280,000 from various accredited investors and issued 560,000 shares of its common stock at a price of \$0.50 per share and warrants to purchase an additional 105,000 shares of its common stock at an exercise price of \$0.50 per share to an accredited investor. The warrants have a term of three years and are exercisable at any time after the one-year anniversary.

### ***Other Matters***

On December 1, 2017, Shift8 Technologies, Inc., a Nevada corporation (“Shift8”), a wholly owned subsidiary of Digerati Technologies, Inc., a Nevada corporation (the “Company”), and Synergy Telecom, Inc., a Texas corporation (“Synergy”), closed a transaction to acquire all the assets, assumed all customers, and critical vendor arrangements from Synergy. Shift8 paid \$125,000 upon execution of the agreement, issued 500,000 shares of common stock with an agreed market value of \$200,000, and entered into a promissory note for \$125,000 with an effective annual interest rate of 6% with 5 quarterly payments and a maturity date of February 28, 2019.

**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.**

None

**ITEM 9A. 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 July 31, 2017.

*Management's Report on Internal Control 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 July 31, 2017, 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.

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.

#### **ITEM 9B. OTHER INFORMATION.**

None

**PART III****ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.**

The following table contains the name, age of our Directors and executive officers as of July 31, 2017.

| <b>Name</b>         | <b>Age</b> | <b>Position Held</b>                | <b>Held Office Since</b> |
|---------------------|------------|-------------------------------------|--------------------------|
| Arthur L. Smith     | 52         | President & Chief Executive Officer | 2003                     |
| Craig K. Clement    | 59         | Chairman of the Board               | 2014                     |
| Maxwell A. Polinsky | 59         | Director                            | 2014                     |
| Antonio Estrada Jr. | 43         | Chief Financial Officer             | 2007                     |

*Arthur L. Smith* (52) is our Chief Executive Officer, President, and Secretary. Mr. Smith has over 25 years of specialized experience in the telecommunications, technology, and oil and gas industries. As the founder of Digerati, formerly known as ATSI Communications, Inc. (“ATSI”), he led the Company’s start-up operation focused on the USA – Mexico telecommunications corridor to over US\$65 million in annual revenue and a listing on the American Stock Exchange that resulted in a market value of over US\$450 million. Between 1999 and 2009, ATSI was a three-time recipient of Deloitte and Touche's Fast 500 Award for recognition as one of the 500 fastest growing technology companies in North America. As CEO of ATSI, Mr. Smith also co-founded the Company’s highly successful Internet software subsidiary, GlobalSCAPE, Inc., in 1996 (NYSE MKT: GSB). As Chairman of the Board of GlobalSCAPE, he led the Company's strategic and business development efforts from inception through its growth strategy that resulted in a listing on a public stock exchange and the subsequent sale of ATSI’s ownership to private investors in June 2002. Through FY2014, Mr. Smith served as a director for the Company’s oilfield services subsidiaries, Dishon Disposal, Inc. and Hurley Enterprises, Inc. and is currently President and CEO of the Company’s cloud communications subsidiary, Shift8 Technologies, Inc.

*Craig K. Clement* (59) is our Chairman of the Board. Mr. Clement has over 35 years of executive and board of director experience with Technology (telecom, software, hardware) and Oil Exploration and Production (E&P) entities (Buffalo Royalty, Petroleum Search, Yucca, and NASDAQ: PAN), where he was responsible for asset management, acquisitions and divestitures, strategic and tactical planning, financial operations, corporate finance, legal, transaction structuring, business development, investor relations and oversight. He assisted in the growth of a San Antonio-based telecom provider (AMEX: AI) from 10 employees to 500, achieving a public market valuation of nearly US\$500 million. He was the founding CEO of GlobalSCAPE, Inc. (NYSE MKT: GSB), the developer and owner of the popular FTP client software utility, CuteFTPTM, and was the former COO of XPEL Technologies Corp. (TSXV:DAP.U). Craig was the former Chairman of the South Texas Regional Center for Innovation and Commercialization, which screened and supported entrepreneurs through the Texas Emerging Technology Fund managed by the Texas Governor's office, which invested more than \$350 million in Texas-based technology start-ups. From early 2011 through September 2014, Craig served as a consultant to various E&P entities including Morning Star, BP, and Forge Energy (EnCap and Pine Brook - private equity sponsored).



*Maxwell A. Polinsky* (59) is our Director. Mr. Polinsky is currently the President and a Director of Winston Gold Mining, a Canadian-based mineral exploration company that is traded on the CSE Exchange, and a principal in Venbanc Investment and Management Group Inc., an investment and merchant bank he co-founded in 1994. From 2009 to 2011, Mr. Polinsky was the Chief Financial Officer and a director of RX Exploration Inc., a company that successfully re opened the previous old historic Drumlummon gold mine in Montana. Mr. Polinsky also served as a director of Nerium Biotechnology from 2006 to 2010, XPEL Technologies from 2003 to 2009, and Nighthawk Systems from 2001 to 2007 and Cougar Minerals from 2012 to 2014. Mr. Polinsky holds a Bachelor of Commerce degree from the University of Manitoba.

*Antonio Estrada Jr.* (43) is our Chief Financial Officer and Treasurer. Mr. Estrada is a seasoned financial executive with over 18 years of experience in the telecommunications and oil and gas industries. Mr. Estrada's vast experience includes financial reporting and modeling, strategic planning, grant writing, and cash management. Mr. Estrada served as the Sr. VP of Finance and Corporate Controller of Digerati, formerly known as ATSI Communications, Inc., from 2008 to 2013. From 1999 to 2008, Mr. Estrada served in various roles within ATSI, including International Accounting Manager, Treasurer, Internal Auditor, and Controller. Mr. Estrada graduated from the University of Texas at San Antonio, with a Bachelors of Business Administration, with a concentration in Accounting.

### ***Section 16(a) Beneficial Ownership Reporting Compliance***

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires our Directors and executive officers and persons who own more than 10% of a registered class of our equity securities to file various reports with the Securities and Exchange Commission concerning their holdings of, and transactions in, securities we issued. Each such person is required to provide us with copies of the reports filed. Based on a review of the copies of such forms furnished to us and other information, we believe that none of our officers, Directors or owners of 10% of any class of our securities failed to report transactions in our securities or reported transactions in our securities late.

### ***Code of Ethics***

We adopted an Executive Code of Ethics that applies to the Chief Executive Officer, Chief Financial Officer, Controller and other members of our management team. The Executive Code of Ethics may be viewed on our Website, [www.digerati-inc.com](http://www.digerati-inc.com). A copy of the Executive Code of Ethics will be provided without charge upon written request to Digerati Technologies, Inc., 3463 Magic Drive, Suite 355, San Antonio, Texas 78229.

### ***Nominating Committee and Nomination of Directors***

We do not have a nominating committee because the size of our Board of Directors is too small to establish separate standing committees. Our Directors perform the function of a nominating committee.

The Directors consider candidates recommended by other members of the Board of Directors, by executive officers and by one or more substantial, long-term stockholders. In addition, the Board of Directors may seek candidates through a third-party recruiter. Generally, stockholders who individually or as a group have held 5% of our shares for over one year will be considered substantial, long-term stockholders. In considering candidates, the Directors take into consideration the needs of the Board of Directors and the qualifications of the candidate. The Board of Directors has not established a set of criteria or minimum qualifications for candidacy and each candidate is considered based on the demonstrated competence and knowledge of the individual. To have a candidate considered by the Directors, a stockholder must submit the recommendation in writing and must include the following information:

The name of the stockholder and evidence of ownership of our shares, including the number of shares owned and the length of time of ownership; and

The name of the candidate, the candidate's resume or a listing of her or his qualifications to be one of our Directors and the person's consent to be named as a Director if nominated by the Directors.

The stockholder's recommendation and information described above must be sent to us at 3463 Magic Drive, Suite 355, San Antonio, Texas 78229.

***Audit Committee and Audit Committee Financial Expert***

We do not have an audit or other committee of our Board of Directors that performs equivalent functions. Our Board of Directors performs all functions of the audit committee. Mr. Maxwell A. Polinsky served as the Audit Committee Financial Expert during the year ended July 31, 2017.

**ITEM 11. EXECUTIVE COMPENSATION.**

The compensation programs presently in effect with respect to the Chief Executive Officer, Chief Financial Officer and Chairman of the Board were established by the Board of Directors.

Arthur Smith serves as our President and Chief Executive Officer. Mr. Smith does not have a written employment agreement with the Company. Effective October 1, 2015, Mr. Smith's annual salary was approved by the Board of Directors to be set at \$165,000. The Board of Directors also approved the reimbursement of monthly expenses up to \$1,667. During FY2017 the Board of Directors approved the issuance of common stock in lieu of cash compensation equivalent to 40% of Mr. Smith's annual salary. No other cash compensation is presently being paid to Mr. Smith.

Antonio Estrada Jr., serves as our Chief Financial Officer. Mr. Estrada does not have a written employment agreement with the Company. Effective October 1, 2015, Mr. Estrada's annual salary was approved by the Board of Directors to be set at \$165,000. The Board of Directors also approved the reimbursement of monthly expenses up to \$1,667. During FY2017 the Board of Directors approved the issuance of common stock in lieu of cash compensation equivalent to 40% of Mr. Estrada's annual salary. No other cash compensation is presently being paid to Mr. Estrada.

Craig K. Clement, serves as our Chairman of the Board, Chief Executive Officer and President of Flagship Energy Company, a wholly-owned subsidiary of Digerati. Mr. Clement does not have a written employment agreement with the Company. Effective October 1, 2015, Mr. Clement's annual salary was approved by the Board of Directors to be set at \$195,000. During FY2017 the Board of Directors approved the issuance of common stock in lieu of cash compensation equivalent to 40% of Mr. Clement's annual salary. No other cash compensation is presently being paid to Mr. Clement.

### ***Compensation Discussion and Analysis***

Our compensation programs are designed to meet the following objectives:

Offer compensation opportunities that attract highly qualified executives, reward outstanding initiative and achievement, and retain the leadership and skills necessary to build long-term stockholder value;

Emphasize pay-for-performance by maintaining a portion of executives' total compensation at risk, tied to both our annual and long-term financial performance and the creation of stockholder value; and

Further our short and long-term strategic goals and values by aligning executive officer compensation with business objectives and individual performance.

Our Board of Directors believes that an executive's compensation should be tied to the performance of the individual and the performance of the complete executive team against both financial and non-financial goals, some of which are subjective and within the discretion of the Board of Directors.

Our executive compensation program is intended to be simple and clear, and consists of the following elements (depending on individual performance):

Base salary;

Annual performance-based cash bonus;

Long-term incentives in the form of stock options; and

Benefits that are offered to executives on the same basis as our non-executive employees.

***Role of Management in Determining Compensation Decisions***

At the request of our Board of Directors, our management makes recommendations to our Board of Directors relating to executive compensation program design, specific compensation amounts, bonus targets, incentive plan structure and other executive compensation related matters for each of our executive officers, including our Chief Executive Officer. Our Board of Directors maintains decision-making authority with respect to these executive compensation matters.

Our Board of Directors reviews the recommendations of our management with respect to total executive compensation and each element of compensation when making pay decisions. In allocating compensation among compensation elements, we emphasize incentive, not fixed compensation to ensure that executives only receive superior pay for superior results. We equally value short- and long-term compensation because both short- and long-term results are critical to our success. In addition, our compensation program includes various benefits provided to all employees, including life insurance, health insurance and other customary benefits. The objectives and details of why each element of compensation is paid are described below.

**Base Salary.** Our objective for paying base salaries to executives is to reward them for performing the core responsibilities of their positions and to provide a level of security with respect to a portion of their compensation. We consider a number of factors when setting base salaries for executives, including:

Existing salary levels;

Competitive pay practices;

Individual and corporate performance; and

Internal equity among our executives, taking into consideration their relative contributions to our success.

**Long-term Incentive Awards.** We award long-term incentive compensation to focus our executives on our long-term growth and stockholder return, as well as to encourage our executives to remain with us for the long-term. Long-term incentive awards are primarily in the form of grants of stock options and/or stock award pursuant to our 2015 Equity Compensation Plan (the “Plan”). We selected this form because of the favorable accounting and tax treatment and the expectation of key employees in our industry that they would receive stock options and/or stock grants. We do not have pre-established target award amounts for long-term incentive grants. In determining long-term incentive awards for the Named Executive Officers, our Board of Directors relies on recommendations from our Chief Executive Officer, who considers the individual performance of the executives, the relation of the award to base salary and annual incentive compensation, and associated accounting expense. The terms of and amount of awards are made by our Board of Directors in accordance with the Stock Option Plan.

### ***Executive Compensation***

The following table sets forth the compensation paid to each of our principal executive officers (the “Named Executive Officers”) during the last two completed fiscal years:

#### **SUMMARY COMPENSATION TABLE**

| Name and Principal Position         | Year | Salary<br>(\$) | Bonus<br>(\$) | Stock<br>Awards<br>(\$) (1) | Option<br>Awards<br>(\$) (2) | All Other<br>Compensation<br>(\$) | Total<br>(\$) |
|-------------------------------------|------|----------------|---------------|-----------------------------|------------------------------|-----------------------------------|---------------|
| Arthur L. Smith                     | 2017 | \$125,000      | \$ -0-        | \$166,000                   | \$56,000                     | \$ -0-                            | \$347,000     |
| President & Chief Executive Officer | 2016 | \$170,002      | \$ -0-        | \$8,640                     | \$-0-                        | \$ -0-                            | \$178,642     |

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|                         |      |           |        |           |          |        |           |
|-------------------------|------|-----------|--------|-----------|----------|--------|-----------|
| Antonio Estrada Jr.     | 2017 | \$125,000 | \$ -0- | \$166,000 | \$56,000 | \$ -0- | \$347,000 |
| Chief Financial Officer | 2016 | \$178,775 | \$ -0- | \$8,640   | \$-0-    | \$ -0- | \$187,415 |
| Craig K. Clement        | 2017 | \$156,000 | \$ -0- | \$177,000 | \$57,000 | \$ -0- | \$390,000 |
| Chairman of the Board   | 2016 | \$179,504 | \$ -0- | \$-0-     | \$-0-    | \$ -0- | \$179,504 |

During the year ended July 31, 2017 and 2016, Digerati issued common shares as part of the Company's profit (1)sharing plan contribution. In addition, during the year ended July 31, 2017, Digerati issued common stock in lieu of cash compensation to its Officers.

During the year ended July 31, 2017, Digerati issued 900,000 options to its Officers to acquire common shares at (2)an exercise price of \$0.24 and a fair value at the time issuance of \$169,000. The options vest ratably on a monthly basis through November 21, 2017.

Our Board of Directors adopted the 2015 Equity Compensation Plan (the "Plan"). Under the Plan the Board of Directors may grant up to 7.5 million shares of our common stock to our officers, Directors, employees and consultants. Grants may be in the form of incentive stock options, non-statutory stock options, restricted stock awards, and/or unrestricted stock awards. The number and terms of each award is determined by the Board of Directors, subject to the limitation that the exercise price of any option may not be less than the fair market value of the common stock on the date of grant.

We currently provide a Non-Standardized Profit Sharing Plan (the “Profit Sharing Plan”). The Board of Directors approved the Profit Sharing Plan on September 15, 2006. Under the Profit Sharing Plan our employees qualified to participate in the Profit Sharing Plan after one year of employment. Contribution under the Profit Sharing Plan by us is based on 25% of the annual base salary of each eligible employee up to \$53,000 per year. Contributions under the Profit Sharing Plan are fully vested upon funding.

#### OUTSTANDING EQUITY AWARDS AS OF JULY 31, 2017

| Name                | Option Awards                                       |                                                     |                       | Option Expiration Date | Stock Awards                                            |                                                               |
|---------------------|-----------------------------------------------------|-----------------------------------------------------|-----------------------|------------------------|---------------------------------------------------------|---------------------------------------------------------------|
|                     | Number of Securities Underlying Unexercised Options | Number of Securities Underlying Unexercised Options | Option Exercise Price |                        | Number of Shares or Units of Stock That Have Not Vested | Market Value of Shares or Units of Stock That Have Not Vested |
|                     | (#)                                                 | (#)                                                 | (\$)                  |                        | (#)                                                     | (\$)                                                          |
| Arthur L. Smith     | 200,000                                             | 100,000                                             | \$ 0.24               | 11/21/2021             | -                                                       | -                                                             |
| Antonio Estrada Jr. | 200,000                                             | 100,000                                             | \$ 0.24               | 11/21/2021             | -                                                       | -                                                             |
| Craig K. Clement    | 200,000                                             | 100,000                                             | \$ 0.24               | 11/21/2021             | -                                                       | -                                                             |

During the year ended July 31, 2017, Digerati issued 900,000 options to its Officers to acquire common shares at (1) an exercise price of \$0.24 and a fair value at the time issuance of \$169,000. The options vest ratably on a monthly basis through November 21, 2017.

#### *Compensation of Directors*

Each Director that is not an officer is reimbursed the reasonable out-of-pocket expenses in connection with their travel to attend meetings of the Board of Directors. Each Director that is not an officer was paid \$1,000 per month.



***Compensation Committee Interlocks and Insider Participation***

We do not have a compensation committee of our Board of Directors or other committee that performs the same functions. Mr. Arthur L. Smith is presently our Chief Executive Officer and participates in deliberations concerning executive compensation.

***Compensation Committee Report***

Our Board of Directors reviewed and discussed the Compensation Discussion and Analysis with management and, based on such discussion, included the Compensation Discussion and Analysis in this Annual Report on Form 10-K.

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.**

Information regarding securities authorized to be issued under equity compensation plans is set forth under Item 5 Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

The following table lists the beneficial ownership of shares of our Common Stock by (i) each person known to own more than 5% of our outstanding voting securities, (ii) each Director and nominee, (iii) the Named Executive Officers and (iv) all Directors and officers as a group. Information with respect to officers, Directors and their families is as of July 31, 2017 and is based on our books and records and information obtained from each individual. Information with respect to other stockholders is based upon the Schedule 13D or Schedule 13G filed by such stockholders with the Securities and Exchange Commission. Unless otherwise stated, the business address of each individual or group is the same as the address of our principal executive office and all securities are beneficially owned solely by the person indicated.

| Name of Beneficial Owner                                          | Shares<br>Owned | Vested                     | Total                   | % Of<br>Class<br>(1) |
|-------------------------------------------------------------------|-----------------|----------------------------|-------------------------|----------------------|
|                                                                   |                 | Warrants<br>and<br>Options | Beneficial<br>Ownership |                      |
| INDIVIDUAL OFFICERS,<br>DIRECTORS AND NOMINEES                    |                 |                            |                         |                      |
| Arthur L. Smith<br>President, Chief Executive Officer<br>Director | 762,620         | 200,000                    | 962,620                 | 11.48 %              |
| Antonio Estrada Jr.<br>Chief Financial Officer                    | 765,120         | 200,000                    | 965,120                 | 11.51 %              |
| Craig k. Clement (2)<br>Chairman of the Board                     | 2,665,393       | 500,000                    | 3,165,393               | 37.75 %              |
| Maxwell A. Polinsky<br>Director                                   | 4,400           | 66,667                     | 71,067                  | 0.85 %               |
| ALL OFFICERS AND<br>DIRECTORS AS A GROUP                          | 4,197,533       | 966,667                    | 5,164,200               | 61.59 %              |

(1)Based upon 8,386,056 shares of common stock outstanding as of July 31, 2017.

As of July 31, 2017, Mr. Clement has an indirect beneficial ownership of 2,113,048 common shares and warrants (2)to purchase 300,000 common shares through Flagship Oil and Gas Corp. In addition, Mr. Clement has a direct beneficial ownership of 552,345 common shares and 200,000 vested options.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE.**

For a director to be considered independent according to the standards set forth in Section 303A.02 of the New York Stock Exchange Listed Company Manual (the “NYSE Manual”), the Board of Directors must affirmatively determine that the director has no material relationship with Digerati, either directly or as a partner, shareholder or officer of an organization that has a relationship with Digerati. In addition, the NYSE Manual provides that a director will not be considered independent if, within the preceding three years, the director or an immediate family member (i) was an employee of Digerati, (ii) received more than \$120,000 per year in direct compensation from Digerati, (iii) is affiliated with or employed by a present or former internal or external auditor of Digerati, (iv) employed as an executive officer of another company for which an executive officer of Digerati serves on the compensation committee or (v) is an executive officer or employee that makes payments to or receives payments from Digerati of more than \$1,000,000 or two percent of such other company’s gross revenues.

The Board has determined that Mr. Maxwell A. Polinsky satisfies the independence requirements in the NYSE Manual. In making the determination of director independence with respect to Mr. Craig K. Clement, the Board of Directors considered that the indirect beneficial ownership through Flagship Oil and Gas Corp., of 28.77% of our outstanding Common Stock and determined that Mr. Clement did not meet the requirements to be considered independent.

**ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.**

The following table sets forth the aggregate fees paid to LBB & Associates Ltd., LLP during 2017 and 2016 for audit services rendered in connection with the audits and reviews of our consolidated financial statements.

| Description of Fees | 2017     | 2016     |
|---------------------|----------|----------|
| Audit Fees          | \$21,700 | \$18,700 |
| Review Fees         | 11,700   | 11,500   |
| Tax fees            | -0-      | -0-      |
| All Other Fees      | -0-      | -0-      |

During the years ended July 31, 2017 and 2016, the Company paid \$9,038 and \$9,080, respectively to MiddletonRainesZapata, LLP for tax work related to the consolidated tax returns.

***Pre-Approval of Audit and Non-Audit Services***

The Board of Directors considered whether the non-audit services provided by LBB & Associates Ltd., LLP are compatible with maintaining their independence. Prior to engagement of an independent accounting firm for the next year's audit, the Board of Directors is asked to pre-approve the engagement of the independent accounting firm, and the projected fees for audit services and audit-related services that we will incur. The fee amounts approved for the audit and audit-related services are updated to the extent necessary at meetings of the Board of Directors during the year. In the 2016 fiscal year, there were no fees paid to LBB & Associates Ltd., LLP under a de minimis exception to the rules that waives pre-approval for certain non-audit services.

## **PART IV**

### **ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES.**

The following documents are exhibits to this report.

| <b>Number</b> | <b>Description</b>                                                                                                                                                                                                                      |
|---------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 2.1           | <u>Agreed Order Confirming Joint Plan of Reorganization filed by Plan Proponents. (field as Exhibit 2.1 to Form 8-K filed on April 11, 2014)</u>                                                                                        |
| 2.2           | <u>Plan Proponents' Joint Chapter 11 Plan of Reorganization as Modified on the Record on April 4, 2014. (field as Exhibit 2.2 to Form 8-K filed on April 11, 2014)</u>                                                                  |
| 2.3           | <u>Plan Supplement Naming Independent Director in Connection With Plan Proponents' Joint Chapter 11 Plan of Reorganization. (field as Exhibit 2.3 to Form 8-K filed on April 11, 2014)</u>                                              |
| 2.4           | <u>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)</u>                          |
| 2.5           | <u>Bankruptcy Settlement Agreement dated January 15, 2014. (field as Exhibit 10.1 to Form 8-K filed on January 23, 2014)</u>                                                                                                            |
| 2.6           | <u>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)</u>    |
| 2.7           | <u>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.(field as Exhibit 2.7 to Form 8-K filed on July 24, 2014)</u> |
| 3.1           | <u>Amended and Restated Articles of Incorporation. (filed as Exhibit 3.1 to Form 8-K filed on April 11, 2014)</u>                                                                                                                       |
| 3.2           | <u>Amended and Restated Bylaws. (filed as Exhibit 3.2 to Form 8-KA filed on April 25, 2014)</u>                                                                                                                                         |
| 3.3           | <u>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 (File No. 001-15687)).</u>                                                                          |
| 10.1          | <u>Form of stock award agreement under the Company's 2015 Stock Compensation Plan for grants to qualifying employees' 401K Retirement Accounts (filed as Exhibit 10.7 to Form 8-K filed on January 21, 2015 (File No. 001-15687)).</u>  |
| 10.2          | <u>2015 Equity Compensation Plan (filed as Exhibit 4.1 to Form S-8 filed on November 18, 2015 (File No. 001-15687)).</u>                                                                                                                |
| 21.1          | <u>Subsidiary list</u>                                                                                                                                                                                                                  |
| 31.1          | <u>Certification of our President and Chief Executive Officer, under Section 302 of the Sarbanes-Oxley Act of 2002.</u>                                                                                                                 |
| 31.2          | <u>Certification of our Chief Financial Officer, under Section 302 of the Sarbanes-Oxley Act of 2002.</u>                                                                                                                               |
| 32.1          | <u>Certification of our President and Chief Executive Officer, under Section 906 of the Sarbanes-Oxley Act of 2002.</u>                                                                                                                 |
| 32.2          | <u>Certification of our Chief Financial Officer, under Section 906 of the Sarbanes-Oxley Act of 2002.</u>                                                                                                                               |

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) 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.**

Date: December 14, 2017 By: /s/ Arthur L. Smith  
Arthur L. Smith  
President and  
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacity and on the dates indicated.

| <b>Signature</b>                               | <b>Title</b>                                              | <b>Date</b>       |
|------------------------------------------------|-----------------------------------------------------------|-------------------|
| /s/ Arthur L. Smith<br>Arthur L. Smith         | Principal Executive Officer                               | December 14, 2017 |
| /s/ Antonio Estrada Jr.<br>Antonio Estrada Jr. | Principal Accounting Officer<br>Principal Finance Officer | December 14, 2017 |
| /s/ Craig K. Clement<br>Craig K. Clement       | Director                                                  | December 14, 2017 |
| /s/ Maxwell A. Polinsky<br>Maxwell A. Polinsky | Director                                                  | December 14, 2017 |

## EXHIBIT INDEX

| Number | Description                                                                                                              |
|--------|--------------------------------------------------------------------------------------------------------------------------|
| 21.1   | <u>Subsidiary List</u>                                                                                                   |
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