Digerati Technologies, Inc.
Form 10-K
November 13, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

(mark one)

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

For the fiscal year ended July 31, 2012

or

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

For the transition period from _______to _________

Commission File Number: 001-15687

DIGERATI TECHNOLOGIES, INC.

(Exact Name of Registrant as Specified in Its Charter)

Nevada	**74-2849995**
(State or Other Jurisdiction of Incorporation or Organization)	(IRS Employer Identification No.)

3463 Magic Drive, Suite 202

San Antonio, Texas	**78229**
(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-know seasoned issuer, as defined in Rule 405 of the Securities Act.

¨ Yes x 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 x 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. x 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). x Yes ¨ No

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. x

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company.

Large accelerated filer ¨ Accelerated filer ¨
Non-accelerated filer ¨ Smaller reporting company x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act) ¨ Yes x No

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the issuer was $1,499,483 based on the closing price of $0.01 per share on January 31, 2012, as reported on the over-the-counter bulletin board.

There were 149,948,268 shares of issuer’s Common Stock outstanding as of November 12, 2012.

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PART I

ITEM 1. BUSINESS.

Overview

We are an established cloud telephony service provider meeting the global communication needs of businesses that are seeking simple, flexible, and cost effective solutions. Unlike legacy phone systems, our telephony services are delivered **Only in the Cloud...™**, or over the Internet, making service available to customers from anywhere Internet access is available. Our cloud-based telephony technology makes traditional phone systems a thing of the past by eliminating the need for costly and complex premise-based phone systems and delivering big business features at significant savings. Over the last 15 years, we have built a carrier grade network with a global footprint that allows us to deliver our **Only in the Cloud…™** telephony services to virtually every region of the world.

History

Digerati Technologies, Inc., a Nevada corporation, was formed in 2004 as the successor to the business originally incorporated in 1994 as a Canadian holding company, Latcomm International, Inc., with a Texas operating subsidiary, Latin America Telecomm, Inc. We operate through our wholly owned subsidiary; Digerati Networks, Inc. Digerati is a premier global VoIP carrier providing international communication services that consist primarily of transporting voice traffic across the world via the Internet.

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 they automatically route 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 PSTN switches, leased and dial-up lines, PBXs and other customer premise equipment (CPE), 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.

A number of large long distance carriers have announced Internet telephony service offerings. Smaller Internet telephony service providers have also begun to offer low-cost Internet telephony services from personal computers to telephones and from telephones to telephones. Traditional carriers have substantial investments in traditional telephone network technology, and therefore have been slow to embrace Internet technology.

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 Digerati are able to avoid direct payment for transport of communications, instead 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.

Strategy and Competitive Conditions

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. Smaller Internet telephony service providers have also begun to 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 have begun to provide voice over the Internet services or adapt 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. We cannot provide assurances, however, that these advantages will enable us to succeed against comparable service offerings from our competitors.

Our strategy is to take advantage of the increasing demand for international communication services and the global shift from the traditional circuit switched network to the Internet for transporting voice traffic. We target traditional telephone companies migrating towards voice over Internet protocol and emerging VoIP service providers seeking reliable and competitively priced worldwide routes. We are also capitalizing on the continued global trend of demonopolization of foreign telecommunications markets. Historically, telecommunication services in most foreign countries have been provided by state-run companies, operating as a legal or *de facto* monopoly. Although these companies historically failed to satisfy the demand for services in their countries, the regulatory scheme effectively precluded competition by foreign carriers. As the demonopolization trend continues in the telecommunications industry throughout the world, many foreign countries are in various stages of migration toward a competitive, multi-carrier market. This has created an opportunity for emerging operators, that typically “leap frog” to the most recent VoIP technology, to enter their respective market.

The worldwide demand for telecommunications services has been strengthened by:

- An expanding global market for voice communications growing at approximately 10% per year
- Deregulation and demonopolization of government-owned telecommunication companies in foreign countries
- Global proliferation of communications devices such as mobile and VoIP phones
- Growth in ethnic communities in the United States; approximately 90 million people belong to an ethnic minority group

- Increase in global trade and travel

- Declining rates for communication services as a result of increased competition

We operate through our wholly owned subsidiary, Digerati Networks, Inc., a premier global VoIP carrier providing international communication services that consist primarily of transporting voice traffic via the Internet. Digerati owns and operates its own VoIP network in San Antonio, Texas for processing voice communication traffic between the United States and rapidly expanding markets in Asia, Europe, the Middle East, and Latin America. Through Digerati, we have established numerous partnerships with foreign carriers and network operators to provide our international voice services. In our VoIP operations, Digerati receives voice traffic from originating carriers who are interconnected to its network via the Internet and routes that traffic over the Internet to local service providers and carriers in the destination countries with whom the Company has agreements or partnerships to manage the completion of the call. Our global VoIP service enables carriers and other communications service providers to outsource international voice and fax traffic.

Our customers, while cost conscious, are increasingly demanding high reliability and quality in service delivery. Sustainability and growth in this segment depends on specific competitive advantages including foreign partnerships or presence of an in-country business infrastructure, network reliability, and favorable termination agreements for voice traffic. We compete with other telecom operators, including dominant providers such as Qwest, IBASIS, and AT&T, for transport and termination of international voice services. We believe that our low cost of operations, international relationships, and cost competitive strategy utilizing VoIP technology provides us with a competitive advantage. Our strengths include our in-depth knowledge of, and relationships within, the telecommunications industry in the United States and select foreign markets.

We are also utilizing a platform developed by NetSapiens, Inc. that allows us to offer additional VoIP applications including IP/PBX services, IP trunking, prepaid calling, call center applications, conferencing, messaging and other innovative IP telephony functionality necessary to offer standard and/or custom services to the Residential and Enterprise markets. We are currently marketing these VoIP services to potential customers through established channel partners that includes data network providers, value added resellers, telecom operators, and wireless Internet service providers. Our strategy is to enable our channel partners to provide specialized VoIP services to their established base of customers, thus creating an additional source of revenue for us and our channel partner.

Due to the potential cost savings and added features of VoIP, consumers, enterprises, traditional telecommunication service providers and cable television providers view VoIP as the future of telecommunications. This is accelerating the migration from traditional telephone service to VoIP services. The recent growth in VoIP services is primarily due to:

- Demand for a lower cost alternative to traditional telephone service;
- Improved quality and reliability of VoIP calls due to technological advances, increased network development and greater bandwidth capacity; and
- New product innovations that can be provided by VoIP services providers, but not currently offered by traditional telephone companies.

Government Regulation

Our operations are subject to federal, state and foreign laws and regulations. There is significant uncertainty regarding the application of the Communications Act of 1934 and the regulations adopted by the Federal Communications Commission to Internet telephone and there is a risk that either the FCC or Congress will impose common carrier restrictions and other requirements of traditional telecommunications providers to providers of VoIP services.

U.S Federal and State Regulation of Carrier Services

We believe that, under U.S. law, the Internet-related services that we provide constitute information services as opposed to regulated telecommunications services, and, as such, are not currently regulated as telecommunications common carriers by the Federal Communications Commission (FCC) or state agencies charged with regulating telecommunications carriers. Nevertheless, aspects of our operations may be subject to state or federal regulation, including regulations governing universal service funding, disclosure of confidential communications and excise tax issues. We cannot provide assurances that Internet-related services will not be actively regulated in the future. Several efforts have been made in the U.S. to enact federal legislation that would either regulate or exempt from regulation services provided over the Internet. Increased regulation of the Internet may slow its growth, particularly if other countries also impose regulations. Such regulation may negatively impact the cost of doing business over the Internet and materially adversely affect our business, operating results, financial condition and future prospects.

To date, the FCC has declined to classify VoIP providers as telecommunications carriers for regulatory purposes. However, the FCC has ruled that certain traffic carried in part utilizing the Internet protocol format was nonetheless regulated telecommunications for which certain regulatory obligations applied. The FCC has considered whether to impose surcharges or other common carrier regulations upon certain providers of Internet telephony, primarily those which, unlike us, provide Internet telephony services directly to end users. The FCC ruled that interconnected VoIP service providers must make contributions to the Universal Service Fund. Additionally, the FCC has a pending proceeding to further examine the question of whether certain forms of VoIP services are information services or telecommunications services. The two are treated differently in several respects, with certain information services being regulated to a lesser degree. The FCC has noted that certain forms of phone-to-phone VoIP services bear many of the same characteristics as more traditional voice telecommunications services and lack the characteristics that would render them information services. The FCC has indicated that the issues as to applicability of access charges and other matters will be considered in that context. Adverse rulings or rulemakings could subject us to licensing requirements and additional fees and subsidies.

If the FCC were to determine that certain Internet-related services including Internet telephony services are subject to FCC regulations as telecommunications services, the FCC could subject providers of such services to traditional common carrier regulation, including payment of access charges to local telephone companies. A decision to impose such charges could also have retroactive effect. It is also possible that the FCC may adopt a regulatory framework other than traditional common carrier regulation that would apply to Internet telephony providers. Any such determinations could materially adversely affect our business, financial condition, operating results and future prospects to the extent that any such determinations negatively affect the cost of doing business over the Internet or otherwise slow the growth of the Internet.

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. Legislation has also been proposed that would clarify the regulatory status of VoIP service. The Company has no way of knowing whether legislation will pass or what form it might take.

Domestic Service Regulation.

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 to file various reports and pay various fees and assessments. Among other things, interstate common carriers must offer service on a nondiscriminatory basis at just and reasonable rates. In addition, as a non-dominant carrier, we are subject to the FCC's complaint jurisdiction.

All interstate telecommunications carriers are required to contribute to the federal universal service programs. The FCC currently is considering revising its universal service funding mechanism. We cannot predict the outcome of these proceedings or their potential effect on us. Although we currently do not provide VoIP services to the end users or consumers, VoIP services that we may provide in the future are not currently subject to direct regulation by the FCC or state regulatory commissions to the extent that they qualify as "enhanced" or "information" services. The FCC defines enhanced services as services that (1) employ computer processing applications that act on the format, content, code, protocol or similar aspects of the subscriber's transmitted information, (2) provide the subscriber additional, different or restructured information, or (3) involve subscriber interaction with stored information. In 1998, in a non-binding report, the FCC observed that "computer-to-computer" VoIP may be appropriately considered to be unregulated but that “phone-to-phone” VoIP may lack the characteristics that would render them unregulated “information” services. In February 2004, the FCC ruled that free computer-to-computer VoIP service is not “telecommunications service” and that it is an interstate “information service.” Although this order clarifies some of the relevant VoIP issues, the FCC has not yet issued a formal decision as to whether other variations of VoIP services should be subject to traditional common carrier telecommunications service regulation, such as access charge obligations. In March 2004, the FCC released a Notice of Proposed Rulemaking (“NPRM”) regarding VoIP service. The NPRM specifically addresses the regulatory classification and jurisdiction of VoIP; the application of access charges; and how to preserve key public policy objectives such as universal service, 911/emergency services, law enforcement surveillance requirements, and the needs of persons with disabilities. In November 2004, the FCC ruled that services provided by a particular VoIP provider are interstate in nature, and not subject to entry regulations of the various state Public Service Commissions. The FCC, however, declined to rule on whether the service is a regulated telecommunications service or an unregulated information service. In addition, in December 2004, the United States Court of Appeals for the 8th Circuit ruled that such VoIP provider’s service is not subject to state regulation. Subsequently, in a series of orders, the FCC has decided to apply universal service, 911/emergency services, law enforcement surveillance requirements, customer privacy requirements, and requirements relating to the provision of services to speech and hearing-impaired persons to providers of “interconnected” VoIP services (i.e., those that are capable of both originating calls from and terminating calls to users of the public switched telephone network), but in each case the FCC has explicitly declined to decide whether such services are “telecommunications” services subject to more comprehensive regulation. Instead, the FCC continues to examine the appropriate regulatory treatment of VoIP on a piecemeal basis. While initial indications from the FCC suggest that regulation of VoIP will be limited in nature, the future regulatory treatment of other variations of VoIP by the FCC and state regulatory bodies continues to be uncertain. Furthermore, Congressional dissatisfaction with the FCC’s treatment of IP telephony could result in legislation requiring the FCC to impose greater or lesser regulation. Changes to, and further clarifications of, the treatment of VoIP services could result in the imposition of burdensome regulation and fees on some of our services and/or increase certain of our operating costs.

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 recently 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 carrier market.

Other General regulations

The Telecommunications Act of 1996 (the "Telecom Act"), which became law in February 1996, was designed to dismantle the monopoly system and promote competition in all aspects of telecommunications. The FCC has promulgated and continues to promulgate major changes to their telecommunications regulations. One aspect of the Telecom Act that is of particular importance to us is that it allows Bell Operating Companies or BOCs to offer in-region long distance service once they have taken certain steps to open their local service monopoly to competition. The FCC has now granted such in-region long distance authorization to BOCs throughout the nation. Given their extensive resources and established customer bases, the entry of the BOCs into the long distance market, specifically the international market, has created increased competition for us.

Although we do not know of any other specific new or proposed regulations that will affect our business directly, the regulatory scheme for competitive telecommunications market is still evolving and there could be unanticipated changes in the competitive environment for communications in general. For example, the FCC is currently considering rules that govern how Internet providers compensate local telephone companies. These rules could affect the role that the Internet ultimately plays in the telecommunications 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.

Employees

As of July 31, 2012, we had 6 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 belong to labor unions.

ITEM 1A. RISK FACTORS.

Our business is subject to various operational and financial risks that could have an adverse effect on our financial condition or our results of operations. In addition the general economic risks associated with operation of a small company in a regulated industry dominated by large well-financed competitors, some of the risk factors that may apply specifically to us are set forth below.

Our results of operations fluctuate from period to period. Our revenue and results of operations have fluctuated and will continue to fluctuate from quarter to quarter in the future due to a number of factors over which we have no control, including:

- Many of our customers are not obligated to route a minimum amount of traffic over our system and the amount of traffic we handle may decline if our customers elect to route traffic over systems they operate or systems operated by other providers;
- increased competition from other telecommunication service providers or from service companies in related fields that offer telecommunication services may adversely affect the amount we can charge for traffic routed over our system;
- we may be required to reduce our charges for routing traffic to maintain high utilization of our equipment;
- the termination fees, connection fees and other charges from our suppliers;
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- fraudulently sent or received traffic for which we are obligated to pay but which we are unable to bill to any customer;
- changes in call volume among the countries to which we complete calls;
- technical difficulties or failures of our network systems or third party delays in expansion or provisioning system components; and
- our ability to manage our traffic on a constant basis so that routes are profitable.

We rely on third parties to provide and maintain the networks over which we transmit traffic. Our business model depends on the availability of the Internet and traditional telephone networks to transmit voice and data. Third parties own and maintain the equipment that translates calls from traditional voice networks to the Internet and vice versa. If the owners of these systems fail to maintain their lines properly, fail to maintain the ability to terminate calls, or otherwise disrupt our ability to provide service to our customers, our ability to complete calls or provide other services could be interrupted.

Our suppliers could increase the cost of services they provide or deny us access to systems that they operate. We maintain relationships with communications service providers in many countries and with other carriers to carry traffic on their systems. There is no assurance that these services will continue to be available to us on acceptable terms, if at all. If we are unable to replace any provider that ceases to provide services to us on acceptable terms, or to identify and develop relationships with new service providers, our ability to provide services in certain countries may be adversely affected.

We are subject to downward pricing pressures and a continuing need to renegotiate overseas rates. As a result of numerous factors, including increased competition and global deregulation of telecommunications services, prices for international long distance calls have been decreasing. This downward trend of prices to end-users has caused us to lower the prices we charge communication service providers for call completion on our network. If this downward pricing pressure continues, we may not be able to offer VoIP services at costs lower than or competitive with, the traditional voice network services with which we compete. Moreover, in order for us to lower our prices, we have to renegotiate rates with our foreign service providers who complete calls for us. We may not be able to renegotiate these terms favorably enough, or fast enough, to allow us to continue to offer services in a particular country on a cost-effective basis. The continued downward pressure on prices and our inability to renegotiate favorable terms in a particular country could have a material adverse effect on our ability to operate our network.

We are subject to risks relating to operations in foreign countries. Because we provide many of our services internationally, we are subject to additional risks related to providing services into foreign countries. Associated risks include:

- unexpected changes in tariffs, trade barriers and regulatory requirements relating to Internet access or VoIP;
- economic weakness, including inflation, or political instability in particular foreign economies and markets;
- difficulty in collecting accounts receivable;
- tax, consumer protection, telecommunications, and other laws;
- foreign currency fluctuations, which could result in increased operating expenses and reduced revenues; and
- unreliable government power to protect our rights.

International governmental regulation and legal uncertainties and other laws could limit our ability to provide our services, make them more expensive, or subject us to legal liability. Many countries currently prohibit or limit competition in the provision of traditional voice telephony services. In some of those countries, licensed telephony carriers as well as government regulators and law enforcement authorities have questioned the legal authority of VoIP services. Our failure to qualify as a properly licensed service provider, or to comply with other foreign laws and regulations, could materially adversely affect our business, financial condition, and results of operations. It is also possible that countries may apply to our activities laws relating to services provided over the Internet, including laws governing:

- user privacy;
- pricing controls and termination costs;
- characteristics and quality of products and services;
- qualification to do business;
- consumer protection;
- cross-border commerce, including laws that would impose tariffs, duties and other import restrictions;
- copyright, trademark and patent infringement; and
- claims based on the nature and content of Internet materials, including defamation, negligence and the failure to meet necessary obligations.

If foreign governments or other bodies begin to impose related restrictions on VoIP or our other services or otherwise enforce other laws against us or our foreign suppliers, such actions could have a material adverse effect on our operations.

If we are not able to keep up with rapid technological change in a cost-effective way, the relative quality of our services could suffer. The technology upon which our services depend is changing rapidly. Significant technological changes could render the hardware and software that we use obsolete, and competitors may begin to offer new services that we are unable to offer. If we are unable to respond successfully to these developments or do not respond in a cost-effective way, we may not be able to offer competitive services and our business results may suffer.

We may not be able to expand and upgrade our network adequately and cost-effectively to accommodate any future growth. Our VoIP business requires that we handle a large number of international calls simultaneously. As we expand our operations, we expect to handle significantly more calls. If we do not expand and upgrade our hardware and software quickly enough, we will not have sufficient capacity to handle the increased traffic and growth in our operating performance would suffer as a result. Even with such expansion, we may be unable to manage new deployments or utilize them in a cost-effective manner. In addition to lost growth opportunities, any such failure could adversely affect customer confidence in our network and services.

Single points of failure on our network may make our business vulnerable. We operate one network control center in San Antonio, Texas. We have not yet designed a redundant system, provided for excess capacity, or taken other precautions against platform and network failures as well as facility failures relating to power, air conditioning, destruction, or theft. We are vulnerable to a network failure that may prohibit us from offering services.

We depend on our current personnel and may have difficulty attracting and retaining the skilled employees we need to execute our business plan. Our future success will depend, in large part, on the continued service of our key management and technical personnel. If any of these individuals or others we employ are unable or unwilling to continue in their present positions, our business, financial condition and results of operations could suffer.

If the Internet infrastructure is not adequately maintained, we may be unable to maintain the quality of our services and provide them in a timely and consistent manner. Our future success will depend upon the maintenance of the Internet infrastructure, including a reliable network backbone with the necessary speed, data capacity and security for providing reliability and timely Internet access and services. To the extent that the Internet continues to experience increased numbers of users, frequency of use or bandwidth requirements, the Internet may become congested and be unable to support the demands placed on it and its performance or reliability may decline thereby impairing our ability to complete calls and provide other services using the Internet at consistently high quality. The Internet has experienced a variety of outages and other delays as a result of failures of portions of its infrastructure or otherwise. Future outages or delays could adversely affect our ability to complete calls and provide other services. Moreover, critical issues concerning the commercial use of the Internet, including security, cost, ease of use and access, intellectual property ownership and other legal liability issues, remain unresolved and could materially and adversely affect both the growth of Internet usage generally and our business in particular. Finally, important opportunities to increase traffic on our network will not be realized if the underlying infrastructure of the Internet does not continue to be expanded to more locations worldwide.

Vulnerability of the Internet to malicious activity. The Internet, and certain components thereof, is susceptible to malicious damage or destruction by the creation and distribution of software designed to interrupt or corrupt the transmission of data, by concerted efforts to cause congestion, and other malicious activities. If such activities are successful in interrupting the transmission of data between our network and the destination of the transmission, it could have an adverse effect on client confidence in our ability to maintain a stable and reliable network. Since we do not control access to the servers, gateways, and other components of the Internet that are used to transmit traffic, we are not able to protect such components from attack.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

Not Applicable

ITEM 2. PROPERTIES.

Our executive office is located at 3463 Magic Drive, Suite 202, San Antonio, Texas, in leased space consisting of 1,090 square feet. The lease for this facility will expire on November 30, 2014. We pay annual rent of $15,804. We believe that our leased facilities are suitable and adequate for their intended use.

ITEM 3. LEGAL PROCEEDINGS.

Not Applicable

ITEM 4. (REMOVED AND RESERVED)

PART II

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

Market for Common Equity

Our common stock is quoted on the OTC Bulletin Board 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 Bulletin Board reflect inter-dealer prices, without retail mark-up, markdown or commission, and may not necessarily represent actual transactions.

Fiscal 2011	Low	High
First Quarter	$0.02	$0.04
Second Quarter	$0.03	$0.05
Third Quarter	$0.05	$0.12
Fourth Quarter	$0.04	$0.09

Fiscal 2012	Low	High
First Quarter	$0.02	$0.05
Second Quarter	$0.01	$0.04
Third Quarter	$0.01	$0.08
Fourth Quarter	$0.00	$0.05

Holders

As of November 12, 2012, there were approximately 6,500 common stockholders.

Dividends

We have not paid cash dividends on our common stock because we have not generated sufficient earnings. We do not anticipate paying a dividend in the future and expect to use all available earnings to provide funds for growth of our business.

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, 2012:

	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans
Equity Compensation plans approved by security holders	-0-	N/A	-0-
Equity Compensation Plans not approved by security holders	26,444,662	$ .05	-0-
Total	26,444,662	$ .05	-0-

The material features of each equity compensation plan are described in Note 9 of the Notes to the Financial Statements.

ITEM 6. SELECTED FINANCIAL DATA.

Not Applicable

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

SPECIAL NOTE: This Annual Report on Form 10-K contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities and Exchange Act of 1934, as amended. "Forward looking statements" are those statements that describe management's beliefs and expectations about the future. We have identified forward-looking statements by using words such as "anticipate," "believe," "could," "estimate," "may," "expect," and "intend," or words of similar import. Although we believe these expectations are reasonable, our operations involve a number of risks and uncertainties, including those listed in Item 1A of this Annual Report on Form 10-K and actual results may be materially different than our expectations.

The following is a discussion of the consolidated financial condition and results of operations of Digerati Technologies, Inc., for the fiscal years ended July 31, 2012 and 2011. It 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 2012 or 2012 refers to the year ended July 31, 2012 and fiscal 2011 or 2011 refers to the year ended July 31, 2011.

Sources of revenue and direct cost

Sources of revenue:

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

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

Direct Costs:

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

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

Results of Operations

The following table sets forth certain items included in our results of operations in thousands of dollars amounts and variances between periods for the years ended July 31, 2012 and 2011.

Year Ended July 31, 2012 Compared to Year ended July 31, 2011

	Years ended July 31,			
	2012	2011	Variances	%
OPERATING REVENUES:				
Global VoIP services	$3,746	$14,970	$(11,224)	-75 %
Cloud-based hosted services	389	257	132	51 %
Total operating revenues	4,135	15,227	(11,092)	-73 %
Cost of services (exclusive of depreciation and amortization, shown below)	3,811	14,061	(10,250)	-73 %
GROSS MARGIN	324	1,166	(842)	-72 %
Selling, general and administrative expense (exclusive of legal and professional fees)	1,481	2,146	(665)	-31 %
Legal and professional fees	197	304	(107)	-35 %
Bad debt	-	40	(40)	100 %
Depreciation and amortization expense	119	100	19	19 %
OPERATING LOSS	(1,473)	(1,424)	(49)	3 %
OTHER INCOME (EXPENSE):				
Gain on sale of an asset	90	-	90	100 %
Gain / loss derivative instruments	626	-	626	100 %

Loss on debt extinguishment	(75)	(100)	25	-25 %
Gain on forgiveness of accrued interest	-	92	(92)	-100 %
Interest expense	(412)	(205)	(207)	101 %
Total other income (expense)	229	(213)	442	-208 %
NET LOSS	$(1,244)	$(1,637)	$393	-24 %

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Global VoIP Services. Global VoIP services revenue decreased by $11,224,000, or 75%, from the year ended July 31, 2011 to the year ended July 31, 2012. Global VoIP minutes carried by our network decreased by 79% from approximately 414,767,375 minutes of voice traffic during the year ended July 31, 2011 to approximately 86,240,439 minutes of voice traffic during the year ended July 31, 2012. Our average revenue per minute increased from $0.0361 during the year ended July 31, 2011 to $0.0434 for the year ended July 31, 2012. The increase in average revenue per minute is attributable to the emphasis in targeting higher revenue rate per minute countries with higher quality of services. The decrease in revenue is attributable primarily to the price pressure in our industry due to a reduction of international termination and the overall reduction in the number of carriers connected to our network.

Cloud-based hosted Services. Cloud-based hosted services revenue increased by $132,000, or 51%, from the year ended July 31, 2011 to the year ended July 31, 2012. The increase in revenue between periods is primarily attributed to the increase in customers that are generating significant monthly recurring hosted services revenue. Hosted services include fully hosted IP/PBX services, IP trunking, call center applications, prepaid services, interactive voice response auto attendant, call recording, simultaneous calling, voicemail to email conversion, SIP trunking and multiple other IP/PBX features in a hosted environment.

C*ost of Services (exclusive of depreciation and amortization).* The consolidated cost of services decreased by $10,250,000, or 73%, from the year ended July 31, 2011 to the year ended July 31, 2012. The decrease in cost of services is a direct correlation to the decrease in Global VoIP services revenue. Cost of services, as a percentage of revenue decreased by .18% between periods, from 92.34% of revenue during the year ended July 31, 2011 to 92.16% of revenue during the year ended July 31, 2012. The decrease in cost of services as a percentage of revenue was due to the decrease in costs from our vendors realized during the period ended July 31, 2012.

Selling, General and Administrative (SG&A) Expenses (exclusive of legal and professional fees). SG&A expenses decreased by $665,000, or 31%, from the year ended July 31, 2011 to the year ended July 31, 2012. The decrease in SG&A "cash basis" between periods is approximately $568,000, but the decrease in SG&A is overshadowed by the recognition of $767,000 non-cash in non-cash expense related to a consulting agreement with various individuals for investor relations services during the year ended July 31, 2011. During the year ended July 31, 2012 the company only recognized $670,000 related to the stock grant contribution to the company sponsored 401K profit sharing plan and warrants issued to consultants. The decrease in SG&A "cash basis" between periods of $568,000 is attributable to the cost reduction measures undertaken during fiscal 2012 in order to realign our current operations.

Legal and professional fees. Legal and professional fees decreased by $107,000, or 35%, from the year ended July 31, 2011 to the year ended July 31, 2012. During the year ended July 31, 2011 we incurred legal fees associated with our rebranding strategy and various SEC filings. We did not incur these expenses during the year ended July 31, 2012, thus the decrease between periods.

Bad debt. Bad debt decreased by $40,000, or 100%, from the year ended July 31, 2011 to the year ended July 31, 2012. The decrease is attributable to the recognition of bad debt expense for certain accounts receivable we deemed we were unlikely to collect in 2011. We did not recognize any bad debt expense during the year ended July 31, 2012.

Depreciation and amortization. Depreciation and amortization increased by $19,000 or 19%, from the year ended July 31, 2011 to the year ended July 31, 2012. The increase is as a result of the new assets acquired during the year ended July 31, 2012 that required recognition of additional depreciation.

Operating loss. The Company reported an operating loss of $1,473,000 for the year ended July 31, 2012 compared to an operating loss of $1,424,000 for the year ended July 31, 2011. The increase in operating loss is primarily attributed to decline in gross margin, from $1,166,000 during the year ended July 31, 2011 to $324,000 during the year ended July 31, 2012. The decline in gross margin was somewhat offset by the decline in non-cash compensation expense between periods, from $767,000 in non-cash compensation expense during the year ending July 31, 2011 to $670,000 in non-cash compensation and warrant expense during the period ending July 31, 2012. Also the decline in our gross margin was offset by the decline in our legal and professional fees between periods by $107,000 and the decline in our bad debt by $40,000 between periods.

Other income (expense). Other income (expenses) improved by $442,000, or 208% from the year ended July 31, 2011 to the year ended July 31, 2012. The primary reason for the improvement in other income (expenses) is attributed to the recognition of $90,000 in gain on sale of an asset; during the year ended July 31, 2012 we recognized a gain on the sale of our minority interest in our Mexican concession. At the time of the transaction, we had a value of $0 in our books for this asset; as a result the total purchase price was recognized as a gain. Additionally, we recognized $626,000 in a gain on derivative instruments, we are required to re-measure all derivative instruments at the end of each reporting period and adjust those instruments to market. These benefits were slightly offset by the recognition of $75,000 in loss on extinguishment of debt related to the pay-off of various notes in common stock. Additionally, during the period ending July 31, 2012 we recognized $176,000 in accretion expense related to the adjustment to the present value of various convertible notes. Also, our interest expense increased between periods by $31,000 related to the increase in interest expense for various notes secured during the year ended July 31 2012.

Net Loss. Net loss improved by $393,000 from the year ended July 31, 2011 to the year ended July 31, 2012. The improvement in net loss is primarily attributed to the improvement in other income (expense) between periods by $442,000. And the decline in non-cash compensation expense between periods, from $767,000 in non-cash compensation expense during the year ended July 31, 2011 to $670,000 in non-cash compensation and warrant expense during the year ended July 31, 2012. Additionally, our legal and professional fees decreased between periods by $107,000.

Liquidity and Capital Resources

Cash Position: We had a cash balance of $2,000 as of July 31, 2012. Net cash used by operating activities during the year ended July 31, 2012 was approximately $180,000. Investing activities during the year ended July 31, 2012 generated $52,000, consisting of the acquisition of various servers and computers for $33,000 and the proceeds from the sale of a concession for $85,000. Financing activities during the year ended July 31, 2012 provided $70,000 in cash. We received proceeds of $163,000 from various promissory notes and $50,000 from various convertible debentures during the year ended July 31, 2012. The cash consumed during the period is associated with the debt principal payments of $143,000 related to various notes payable. Overall, our net operating, investing and financing activities during the year ended July 31, 2012 consumed $58,000 of our available cash.

We are currently utilizing our available cash to fund any deficiencies in our cash flows from operations. On August 2, 2010, we entered into a $750,000 revolving credit facility with Thermo Credit to finance our expected growth during the year ending July 31, 2013.

Our current cash expenses are expected to be approximately $57,000 per month, including wages, rent, utilities and corporate professional fees. As described elsewhere herein, we do not have sufficient funds to pay our ongoing operating expenses, or to pay our current liabilities which are approximately $2,479,000. We also need approximately $500,000 of additional working capital to fund our ongoing operations. Additionally, we have accumulated a deficit of approximately $77,201,000 and a working capital deficit of approximately $2,448,000, which raises substantial doubt about the Company's ability to continue as a going concern.

During the year ended July 31, 2012, we entered into four nine-month convertible promissory notes with Asher Enterprise, Inc. for $163,000; additionally during the year ended July 31, 2012 we received $50,000 under various convertible debentures. The funds secured were utilized to cover our cash short falls from operations. We will continue to work with various funding sources to secure additional debt and equity financings. However, we cannot offer any assurance that it will be successful in executing the aforementioned plans to continue as a going concern.

Critical Accounting Policies

Revenue Recognition. We derive our revenue from Global VoIP Services. Revenue is recognized when persuasive evidence of an arrangement exists, service or network capacity has been provided, the price is fixed or determinable, collectibles 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 disputes can result from disagreements with customers regarding the duration, destination or rates charged for each call. Digerati recognizes Cloud-based Enhanced 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 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. We use the following key assumptions in determining the fair market value of its options:

	For the Years Ended July 31,			
	2012		2011	
Expected dividend yield	0.00	%	0.00	%
Expected stock price volatility	415.75	%	218.67% - 223.86%	
Risk-free interest rate	1.42	%	2.04% - 3.12%	
Expected term	3.5 - 4.25 years		3.5 - 4.75 years	

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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 sheet of Digerati Technologies, Inc. and its subsidiaries (collectively, “Digerati”) as of July 31, 2012, and the related consolidated statements of operations, stockholders’ deficit and cash flows for the year then ended. These consolidated financial statements are the responsibility of Digerati's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit 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 audit provides 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 Technologies, Inc. and its subsidiaries as of July 31, 2012 and the consolidated results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that Digerati will continue as a going concern. As discussed in Note 2 to the 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 financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ LBB & Associates Ltd., LLP

www.lbbcpa.com

Houston, Texas

November 12, 2012

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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 sheet of Digerati Technologies, Inc. and its subsidiaries (collectively, "Digerati") as of July 31, 2011, and the related consolidated statements of operations, changes in stockholders' deficit and cash flows for the year then ended. These consolidated financial statements are the responsibility of Digerati's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit 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 audit 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 audit provides 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 Technologies, Inc. and its subsidiaries as of July 31, 2011 and the consolidated results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that Digerati will continue as a going concern. As discussed in Note 2 to the 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 financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ MALONEBAILEY, LLP

www.malonebailey.com

Houston, Texas

October 31, 2011

PART 1. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS
DIGERATI TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In thousands, except per share amounts)

	July 31, 2012	July 31, 2011
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$2	$60
Accounts receivable, net	10	562
Prepaid and other current assets	19	68
Total current assets	31	690
LONG-TERM ASSETS:		
Deferred financing fees	-	34
Intangible assets, net of accumulated amortization of $61 and $46, respectively	89	104
Property and equipment, net	104	65
Total assets	$224	$893
LIABILITIES AND STOCKHOLDERS' DEFICIT		
CURRENT LIABILITIES:		
Accounts payable	$869	$841
Accrued liabilities	257	143
Current portion of long term debt, net of unamortized discount of $28 and $0, respectively	1,259	794
Derivative liability	94	10
Total current liabilities	2,479	1,788
LONG-TERM LIABILITIES:		
Long term debt, net of current portion	-	647
10% Convertible debentures, net of unamortized discount of $67 and $0, respectively	8	-
Customer deposits	124	125
Total long-term liabilities	132	772
Total liabilities	2,611	2,560
Commitments and contingencies		
STOCKHOLDERS' DEFICIT:		
Preferred stock, 16,063,000 shares authorized, none issued and outstanding	-	-
Common stock, $0.001, 150,000,000 shares authorized, 112,058,316 and 65,882,410 issued and outstanding, respectively	112	66

Additional paid in capital	74,701	74,223
Accumulated deficit	(77,201)	(75,957)
Other comprehensive income	1	1
Total stockholders' deficit	(2,387)	(1,667)
Total liabilities and stockholders' deficit	$224	$893

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, 2012	2011
OPERATING REVENUES:		
Global VoIP services	$3,746	$14,970
Cloud-based hosted services	389	257
Total operating revenues	4,135	15,227
OPERATING EXPENSES:		
Cost of services (exclusive of depreciation and amortization)	3,811	14,061
Selling, general and administrative expense (exclusive of legal and professional fees)	1,481	2,146
Legal and professional fees	197	304
Bad debt	-	40
Depreciation and amortization expense	119	100
Total operating expenses	5,608	16,651
OPERATING LOSS	(1,473)	(1,424)
OTHER INCOME (EXPENSE):		
Gain on sale of an asset	90	-
Gain derivative instruments	626	-
Loss on debt extinguishment	(75)	(100)
Gain on forgiveness of accrued interest	-	92
Interest expense	(412)	(205)
Total other income (expense)	229	(213)
NET LOSS	(1,244)	(1,637)
LOSS PER SHARE - BASIC AND DILUTED	$(0.02)	$(0.03)
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING - BASIC AND DILUTED	75,423,982	57,934,037

See accompanying notes to consolidated financial statements

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DIGERATI TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT
FOR THE YEARS ENDED JULY 31, 2012 AND 2011
(In thousands, except share amounts)

	Common Shares	Par	Additional Paid-in Capital	Accumulated Deficit	Other Comprehensive Income	Totals
BALANCE, July 31, 2010	45,504,120	$46	$ 73,276	$ (74,320)	$ 1	$(997)
Stock option expense	-	-	197	-	-	197
Stock issued for settlement of debt	5,000,000	5	195	-	-	200
Stock issued for services	15,378,290	15	555	-	-	570
Net loss	-	-	-	(1,637)	-	(1,637)
BALANCE, July 31, 2011	65,882,410	$66	$ 74,223	$ (75,957)	$ 1	$(1,667)
Stock option expense	-	-	131	-	-	131
Stock issued for services	14,094,150	14	275	-	-	289
Warrants issued for services	-	-	250	-	-	250
Warrants - derivative liability	-	-	(634)	-	-	(634)
Stock issued for debt	32,081,756	32	456	-	-	488
Net loss	-	-	-	(1,244)	-	(1,244)
BALANCE, July 31, 2012	112,058,316	$112	$ 74,701	$ (77,201)	$ 1	$(2,387)

See accompanying notes to consolidated financial statements

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DIGERATI TECHNOLOGIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands, except per share amounts)

	Years ended July 31, 2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$(1,244)	$(1,637)
Adjustments to reconcile net loss to cash used in operating activities:		
Loss on debt extinguishment	75	100
Gain on forgiveness of accrued interest	-	(92)
Gain on sale of concession	(90)	-
Gain derivative instruments	(626)	-
Depreciation and amortization	119	100
Write-off accounts receivables	-	40
Amortization of deferred financing fees	34	36
Amortization of debt discount	176	1
Issuance of stock grants and options for services	420	767
Issuance of warrants for services	250	-
Changes in operating assets and liabilities:		
Accounts receivable	552	(77)
Prepaid expenses and other current assets	54	(17)
Accounts payable	(57)	204
Accrued liabilities	158	64
Customer deposits	(1)	109
Net cash (used in) operating activities	(180)	(402)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from the sale of concession	85	-
Purchases of property & equipment	(33)	(21)
Net cash provided by / (used in) investing activities	52	(21)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payment of deferred financing fees	-	(73)
Payments on debt	(143)	(539)
Proceeds from convertible debt	163	1,097
Proceeds from convertible debentures	50	-
Acquisition of put option on warrants	-	(75)
Net cash provided by financing activities	70	410
DECREASE IN CASH AND CASH EQUIVALENTS	(58)	(13)
CASH AND CASH EQUIVALENTS, beginning of period	60	73

CASH AND CASH EQUIVALENTS, end of period	$2	$60
SUPPLEMENTAL DISCLOSURES:		
Cash paid for interest	$87	$152
NON-CASH INVESTING AND FINANCING TRANSACTIONS		
Accrued interest added to debt principal	$44	$-
Property and equipment purchased on account	$110	$-
Stock issued for settlement of debt	$488	$200
Derivative liability on tainted warrants	$634	$-
Conversion of accounts payable to convertible debentures	$25	$-

See accompanying notes to consolidated financial statements

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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”, the “Company”, “Digerati”) was incorporated in the state of Nevada on May 24, 2004. Digerati is an established cloud telephony service provider meeting the global communication needs of businesses. Unlike legacy phone systems, our telephony services are delivered **Only in the Cloud...™**, 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 the Company, and its subsidiaries, which are either majority owned or controlled by the Company. In accordance with ASC 810-10-05 which sets out the guidance on consolidation of variable interest entities, the Company identifies entities for which control is achieved through means other than through voting rights (a "variable interest entity" or "VIE") and determines when and which business enterprise, if any, should consolidate the VIE. In addition, the Company discloses information pertaining to such entities wherein the Company is the primary beneficiary or other entities wherein the Company has a significant variable interest. 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 deposits 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-based Hosted 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-based hosted Services: We provide enhanced VoIP services to resellers and enterprise customers. The service include fully hosted IP/PBX services, IP trunking, call center applications, prepaid services, interactive voice response auto attendant, call recording, simultaneous calling, voicemail to email conversion, and multiple customized IP/PBX features in a hosted environment for specialized applications.

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-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.

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.

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, 2012 and 2011, Digerati's allowance for doubtful accounts balance was $0.

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. As of July 31, 2012 and 2011, Digerati has derivative instruments related to, convertible debt, debentures and warrants (see Note 5).

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. No liability for unrecognized tax benefits was recorded as of July 31, 2012 and 2011.

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 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, 2012, potential dilutive securities had an anti-dilutive effect and were not included in the calculation of diluted net 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.

Our derivative liabilities as of July 31, 2012 and 2011 of $94,000 and $10,000, respectively, were valued using Level 3 inputs.

The following table provides a summary of the changes in fair value of the derivative financial instruments measured at fair value on a recurring basis using significant unobservable inputs:

Balance at July 31, 2011	$10,000
Derivative liability - convertible debt	84,000
Balance at July 31, 2012	$94,000

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 July 31, 2012 have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities in the normal course of business. Digerati has incurred net losses and has accumulated a deficit of approximately $77,201,000 and a working capital deficit of approximately $2,448,000, which raises substantial doubt about the Company’s ability to continue as a going concern.

Management Plans to Continue as a Going Concern

The Company continues to implement plans to enhance its ability to continue as a going concern. Management has scaled back its operations and reduced operating cost to conserve capital while it secures additional sources of capital to fund its operations. Effective August 15, 2011, the executive officers and employees entered into a salary deferral program for 75% and 15% of their compensation, respectively. In addition, management also reduced its work force by 60% and it downsized its office space by 70%.

On October 1, 2011, November 9, 2011, February 3, 2012, and March 15, 2012 the Company entered into nine month convertible promissory notes with Asher Enterprise, Inc. for $50,000, $37,500, $32,500 and $42,500, respectively. The funds secured are being utilized to cover some of the cash short falls from operations. The Company will continue to work with various funding sources to secure additional debt and equity financings. However, the Company 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, 2012 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 loaned $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 the Residential and Enterprise markets. The NetSapiens' License is being amortized equally over a period of 10 years.

NOTE 4 - PROPERTY AND EQUIPMENT

Following is a summary of Digerati's property and equipment at July 31, 2012 and 2011 (in thousands):

	Useful lives	2012	2011
Telecom equipment & software	1-5 years	$1,020	$877
Less: accumulated depreciation		(916)	(812)
Net–property and equipment		$104	$65

For the years ended July 31, 2012 and 2011, depreciation and amortization totaled approximately $119,000 and $100,000, respectively.

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NOTE 5 – DEBT

At July 31, 2012 and July 31, 2011, outstanding debt consisted of the following: (In thousands, except per share amounts).

	July 31, 2012	July 31, 2011
Note payable to Alfonso Torres, payable upon maturity, bearing interest of 6.00% per annum, maturing July 31, 2012, unsecured.	$390	$370
Note payable to Vantage Bank payable in monthly installments, bearing interest at 8.00% per annum, maturing December 29, 2011, collateralized by Digerati's assets. (See details below)	13	39
Note payable to ATV Texas Ventures payable in monthly installments, bearing interest at 12.00% per annum, maturing November 10, 2011, collateralized by Digerati's assets.	-	18
Note payable to ATV Texas Ventures payable in monthly installments, bearing interest at 12.00% per annum, maturing January 10, 2012, collateralized by Digerati's assets.	-	27
Note payable to ATV Texas Ventures payable in monthly installments, bearing interest at 12.00% per annum, maturing March 10, 2012, collateralized by Digerati's assets.	-	18
Note payable to ATV Texas Ventures IV payable in monthly installments, bearing interest at 12.00% per annum, maturing October 10, 2012, collateralized by Digerati's assets. (See details below)	122	131
Note payable to Recap Marketing & Consulting LLP, bearing interest at 3% per annum, maturing October 1, 2010. If the note is not extinguished by the maturity date, the note may be converted to Digerati's common stock at a rate per share mutually agreeable by the parties, however, if converted; the company will issue no more than 1,666,666 common shares.	21	20
Note payable to ATVF II payable in monthly installments, bearing interest at 12% for the first year and 18% during the second year, maturing January 10, 2013, collateralized by Digerati's assets. (See details below)	154	154
Note payable to ATVF II payable in monthly installments, bearing interest at 16% for the first year	186	187

and 18% during the second year, maturing May 10, 2013, collateralized by Digerati's assets. (See details below)		
Note payable to Thermo Credit, LLC., interest payment for the first twenty-three months with a balloon payment on the twenty-fourth month, maturing August 2, 2012, collateralized by Digerati's accounts receivable. Bearing an annual interest rate equivalent to the lesser of the maximum rate and the greater of the prime rate plus 8.25% and 11.5%, a commitment fee of 2% and weekly monitoring fee of .05%. Digerati is required to maintain the following financial covenants: 1) A consolidated debt service coverage ratio, for the 12-month period, of not less than 1.0 as of the last day of each quarter and 2) A consolidated operating income, for the 12-month period, of not less than zero as of the last day of each fiscal year. (See details below)	325	477
Note payable to Asher Enterprises, Inc., bearing interest at 8% per annum, maturing October 23, 2012. The holder has the option to convert the principal and accrued interest into Digerati's common shares at a price equal to the greater of 58% of the average of the lowest three trading prices during the ten day trading period prior to conversion or $.00009, net of debt discount of $28 and $0, respectively.	5	-
Note payable to Asher Enterprises, Inc., bearing interest at 8% per annum, maturing December 19, 2012. The holder has the option to convert the principal and accrued interest into Digerati's common shares at a price equal to the greater of 58% of the average of the lowest three trading prices during the ten day trading period prior to conversion or $.00009.	43	-
Total outstanding long-term debt	1,259	1,441
Current portion of long-term debt	(1,259)	(794)
Long-term debt, net of current portion	$-	$647

Digerati analyzed the new notes issued to Asher for derivative accounting consideration and determined that the embedded conversion option qualify as a derivative instrument, due to the variable conversion price. Therefore, as of the period ending July 31, 2012, the company recognized a net debt discount of $27,576 associated to the Asher convertible note with a maturity date of July 18, 2012. Additionally, the company recognized derivative liability of $39,634.

During the year ended July 31, 2012, the Company issued 29,032,249 common shares upon conversion of various notes in the principal amount of $162,500.

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During the year ended July, 2012, the Company issued 3,049,477 common shares and 3,430,662 warrants upon conversion of certain ATV notes and related interest totaling to $54,891. Upon conversion, the Company recognized a loss on debt extinguishment amounting to $74,604.

On October 12, 2010, three of the warrant holders exercised their put rights and as a result, the Company made payments to the related warrant holders amounting to $75,000 which was charged to derivative liability and resulted in a remaining balance of $10,000 as of July 31, 2012. The Company cancelled the related warrants as a result of the payment made for the put rights.

On April 3, 2012, May 15, 2012 and June 21, 2012 the Company entered into three Convertible Debentures for $50,000. The holders can convert the debentures into common stock at a rate of $0.03. Additionally, the Company issued 1,000,000 warrants at an exercise price of $0.03 to the debenture holders. Digerati analyzed the new debentures for derivative accounting consideration and determined that the warrants qualify as a derivative instrument, due to the exercise price adjustment provision. Therefore, as of the period ending July 31, 2012, the company recognized a net debt discount of $44,363. Additionally, the Company recognized derivative liability of $3,706.

On May 2, 2012, the Company entered into a consulting agreement and issued a Convertible Debentures for $25,000. The holder can convert the debentures into common stock at a rate of $0.03. Additionally, the Company issued 500,000 warrants at an exercise price of $0.03 to the debenture holder. Digerati analyzed the new debentures for derivative accounting consideration and determined that the warrants qualify as a derivative instrument, due to the exercise price adjustment provision. Therefore, as of the period ending July 31, 2012, the company recognized a net debt discount of $22,309. Additionally, the Company recognized derivative liability of $1,853.

As of July 31, 2012, the Company was in default of its notes with Vantage Bank Texas, National Association (formerly San Antonio National Bank) and Thermo Credit, LLC due to its failure to meet certain debt covenant ratios. The Company was able to obtain a waiver until July 31, 2012 from Vantage Bank for such defaults. On July 5, 2012, Vantage Bank filed a lawsuit in Bexar County, Texas against the Company for failure to pay the remaining indebtedness, according the lawsuit the principal balance outstanding is $13,119 and interest of $1,482. The Company is defending the claims, at this time we can not predict the outcome of this lawsuit and the impact to the ongoing operations.

Additionally, on April 18, 2012, the Company entered into a forbearance agreement with Thermo Credit, LLC, in which the lender agreed to temporarily forbear the defaults under the promissory note. The Company is currently negotiating the extension of the promissory note with Thermo Credit, as of the date of this filing no agreement has been reached. At this time we can not predict the terms or when the final agreement will be executed, also we can not predict the impact of the agreement to the ongoing operations.

As of the date of this filing, the Company is in default of its notes with Alfonso Torres and Recap Marketing and Consulting LLP. The Company is currently negotiating the extension of the promissory notes with these lenders, as of the date of this filing no agreement has been reached. At this time we can not predict the terms or when the final agreement will be executed, also we can not predict the impact of the agreement to the ongoing operations.

NOTE 6 - INCOME TAXES

At July 31, 2012, Digerati had a consolidated net operating loss carry-forward (“NOL”) of approximately $19,660,000 expiring in 2020 through 2030. The loss carry forwards are subject to certain limitations under the Internal Revenue Code including Section 382 of the Tax Reform Act of 1986.

Digerati conducts a periodic examination of its valuation allowance. Factors considered in the evaluation include recent and expected future earnings and Digerati's liquidity and equity positions. As of July 31, 2012, Digerati has determined that a valuation allowance is necessary for the entire amount of deferred tax assets.

Deferred tax assets are comprised of the following as of July 31, 2012 and 2011:

	2012	2011
Net operating loss carryover	$6,881,000	$6,777,000
Valuation allowance	(6,881,000)	(6,777,000)
Total deferred tax asset, net	$-	$-

NOTE 7 - COMMITMENTS AND CONTINGENCIES

Digerati leases its office space with monthly payments of $1,363; the lease expires in November 2014. The annual rent expense under the operating lease was $27,836 and $55,240 for 2012 and 2011, respectively. The future minimum lease payment under the operating lease for fiscal year 2013 and 2014 amount to $16,350 and $16,895, respectively.

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

NOTE 8 – EQUITY

During the year ended July 31, 2012 Digerati issued a total of 14,094,150 common shares to employees, directors and consultants for services rendered. See Note 9 for details.

During the year ended July 31, 2012 Digerati issued a total of 32,081,756 common shares to various creditors for the conversion of $143,000 of debt into common stock.

NOTE 9 – STOCK -BASED COMPENSATION

In September 2005, Digerati adopted its 2005 stock compensation plan. This plan, as amended, authorizes the grant of up to 30 million shares of common stock (warrants, stock options, restricted common shares, non-restricted common shares and other awards) to employees, Directors, and certain other persons. The number of authorized shares of common stock will automatically increase as of the date of any new grants pursuant to the Plan by the aggregate number of shares subject to such grant. The plan is intended to permit Digerati to retain and attract qualified individuals who will contribute to the overall success of Digerati. Digerati's Board of Directors determines the terms of any grants under the plan. Exercise prices of all warrants, stock options and other awards vary based on the market price of the shares of common stock as of the date of grant. The warrants, stock options, restricted common stock, non-restricted common stock and other awards vest based on the terms of the individual grant.

During the year ended July 31, 2012, we issued:

- 5,772,962 common shares to various employees as part of the Company's profit sharing plan contribution. The Company recognized stock-based compensation expense of $173,189 equivalent to the value of the shares calculated based on the share's closing price at the grant dates.

- 6,987,855 common shares to various employees for services. The Company recognized stock-based compensation expense of $75,370 equivalent to the value of the shares calculated based on the share's closing price at the grant dates.

- 1,333,333 common shares to our Board of Directors for services. The Company recognized stock-based compensation expense of $40,000 equivalent to the value of the shares calculated based on the share's closing price at the grant dates.

- 5,350,000 options to purchase common shares to various employees and directors with an exercise price of $0.05 per share and a term of 7 years. One third of the options vest upon issuance, the remaining balance vest equally over a period of two years. Upon issuance the options had a fair market value of $227,490. The Company recognized stock-based compensation expense of $84,627 equivalent to the fair market value of the options vested at issuance.

The fair market value of all options issued was determined using the Black-Scholes option pricing model which used the following assumptions:

Expected dividend yield	0.00%
Expected stock price volatility	415.75%
Risk-free interest rate	1.42%
Expected term	3.5 - 4.25 years

As of July 31, 2012, Digerati had 14,589,000 outstanding options with a weighted average exercise price of $0.046, a weighted average remaining term of 5.6 years and an intrinsic value of zero.

Digerati recognized approximately $420,000 and $767,000 in stock based compensation expense to employees and consultants during the year ended July 31, 2012 and 2011, respectively. Unamortized compensation cost totaled $152,000 and $44,000 at July 31, 2012 and July 31, 2011, respectively

A summary of the options as of July 31, 2012 and 2011 and the changes during the years ended July 31, 2012 and 2011 are presented below:

	Options	Weighted-average exercise price	Weighted-average remaining term (years)
Outstanding at July 31, 2010	7,494,000	0.04	5.0
Granted	4,935,000	0.05	7.0
Forfeited	(930,000)	0.06	6.9
Outstanding at July 31, 2011	11,499,000	0.04	4.9
Granted	5,350,000	0.05	7.6
Forfeited	(2,260,000)	0.04	4.5
Outstanding at July 31, 2012	14,589,000	0.05	5.6
Exercisable at July 31, 2012	10,382,332	0.04	4.8

The options at July 31, 2012 and 2011 have an intrinsic value of $0 and $6,300, respectively.

NOTE 10 – WARRANTS

During the year ended July 31, 2012, we issued:

- 7,500,000 warrants to various consultants for services rendered at an average exercise price of $0.049. The Company recognized warrant expense of $250,000 equivalent to the value of the warrants calculated based on the share's closing price at the grant dates.

- 1,000,000 warrants to various convertible debenture holders, at an exercise price of $0.03, for their $50,000 investment in the Company. Digerati analyzed the new debentures for derivative accounting consideration and determined that the warrants qualify as a derivative instrument, due to the exercise price adjustment provision. Therefore, as of the period ending July 31, 2012, the company recognized a net debt discount of $44,363. Additionally, the Company recognized derivative liability of $3,706.

- 3,430,662 warrants to ATV TX Ventures at an exercise price of $0.016, the warrants were issued as part of a conversion of $55,000 of debt into common stock. Upon conversion, the Company recognized a loss on the extinguishment of debt of $75,000.

The fair market value of all warrants issued were determined using the Black-Scholes option pricing model which used the following assumptions:

Expected dividend yield	0.00%
Expected stock price volatility	226.93% - 418.67%
Risk-free interest rate	0.73% - 0.89%
Expected term	3.0 - 6.0 years

A summary of the warrants as of July 31, 2012 and 2011 and the changes during the years ended July 31, 2012 and 2011 are presented below:

	Warrants	Weighted-average exercise price	Weighted-average remaining contractual term (years)
Outstanding at July 31, 2010	800,000	0.19	4.5
Granted	-	-	-
Exercised	-	-	-
Forfeited and cancelled	(375,000)	0.19	4.5
Outstanding at July 31, 2011	425,000	0.18	3.5
Granted	11,930,662	0.04	4.5
Exercised	-	-	-
Forfeited and cancelled	-	-	-
Outstanding at July 31, 2012	12,355,662	0.04	4.5
Exercisable at July 31, 2012	12,355,662	0.04	4.5

As of July 31, 2012, Digerati had outstanding warrants totaling 12,355,662 with a weighted average exercise price of $0.04, a weighted average remaining term of 4.50 years and an intrinsic value of zero. Warrants totaling 375,000 were cancelled during fiscal 2011 as a result of the warrant holders exercising their related put rights (see Note 5)

NOTE 11 – FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENTS

The carrying value of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities approximate their fair values because of the short-term nature of these instruments. Management believes the Company is not exposed to significant interest or credit risks arising from these 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. Valuation techniques used to measure fair value maximize the use of observable inputs and minimize the use of unobservable inputs. The Company utilizes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable.

Level 1 — Quoted prices in active markets for identical assets or liabilities. These are typically obtained from real-time quotes for transactions in active exchange markets involving identical assets.

Level 2 — Quoted prices for similar assets and liabilities in active markets; quoted prices included for identical or similar assets and liabilities that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets. These are typically obtained from readily-available pricing sources for comparable instruments.

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Level 3 — Unobservable inputs, where there is little or no market activity for the asset or liability. These inputs reflect the reporting entity's own beliefs about the assumptions that market participants would use in pricing the asset or liability, based on the best information available in the circumstances.

During the year ended July 31, 2012, as a result of the variable conversion rate in the Asher notes (see Note 5), certain outstanding warrants of the Company totaling to 10,805,662 that were not previously accounted as derivatives were "tainted" and as result, required derivative accounting. Consequently, the Company reclassified the fair value the warrants amounting to $633,951 from additional paid in capital to derivative liability.

The following table presents the derivative financial instruments, measured and recorded at fair value on the Company's consolidated balance sheets on a recurring basis, and their level within the fair value hierarchy as of July 31, 2012:

	Amount	Level 1	Level 2	Level 3
Embedded conversion derivative liability	$55,000	$ -	$ -	$55,000
Warrant derivative liabilities	39,00	-	-	39,000
	$94,000	$ -	$ -	$94,000

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

Balance at July 31, 2011	$10,000
Fair value of embedded conversion derivative liability at issuance	183,380
Fair value of warrant derivative liabilities	666,198
Settlement of derivative liability due to conversion of debt	(139,578)
Unrealized derivative gains included in other income (expense)	(626,000)
Balance at July 31, 2012	$94,000

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

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

NOTE 12 – 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 $46,000 per year. Contributions under the plan are fully vested upon funding. During the year ended July 31, 2012 and 2011, we contributed $173,189 and $380,892, respectively.

NOTE 13 - SALE OF MINORITY INTEREST IN MEXICAN CONCESSION

On December 7, 2011, the Company entered into a Stock Purchase Agreement with Next Communications, Inc. (“Next”), where it agreed to sell for $90,000 its minority interest in ATSI Comunicaciones, S. A de C.V., a Mexican entity that holds a concession license. Next agreed to pay $15,000 upon execution of the agreement; $15,000 in VoIP international termination services and $60,000 upon approval of the sale by the Mexican Ministry of Communications and Transportations. At the time of the sale, the Company had a $0 value on its books for this interest; as a result the total purchase price of $90,000 was recognized as a gain on the sale of the concession.

NOTE 14 – MAJOR CUSTOMERS AND MAJOR VENDORS

Digerati generated 21% of its revenues from its top three customers during the year ended July 31, 2012 and 12% of its revenues from its top three customers during the year ended July 31, 2011. Although the Company believes that in the event of loss of such customers the Company will still be able to generate comparable sales, there can be no assurance concerning such revenues.

Digerati incurred 20% of its cost of revenues from its top three vendors during the year ended July 31, 2012 and 14% percent of its cost of revenues from its top three vendors during the year ended July 31, 2011. The Company believes that there are potential alternative vendors and that it will be necessary to establish relationships with new providers. However, there can be no assurance that the Company can establish such relationships or that they will result in increased revenues.

NOTE 15 - SUBSEQUENT EVENTS

During the quarter ended October 31, 2012, the Company issued 35,200,249 common shares upon conversion of various notes in the principal amount of $54,500.

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, 2012.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Based on our evaluation under the framework in *Internal Control—Integrated Framework* issued by COSO, our management concluded that our internal control over financial reporting was effective as of July 31, 2012 in providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

ITEM 9B. OTHER INFORMATION.

None

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.

Business Experience

The following table contains the name, age of our Directors and executive officers.

Name	Age	Position Held	Held Office Since
Arthur L. Smith	48	President, Chief Executive Officer and Director	2003
Antonio Estrada Jr.	38	Sr. Vice President, Finance & Corporate Controller	2007
John R. Fleming	58	Director, Interim Executive Chairman of the Board	2002
Murray R. Nye	58	Director	1996

Our Directors are elected for a term of one year and until their successors are elected and qualified. Our officers serve at the pleasure of the Board of Directors and may be removed at any time. We do not have an employment contract or other agreement under which any person was elected as one of our officers or Directors. There are no family relationships between any of our Directors or officers.

Arthur L. Smith, has served as our Chief Executive Officer and Director since May 2003. Art has over 20 years of specialized experience in the global telecommunications industry. As the founder of Digerati, Art has held various positions within the Company, including Chairman and CEO from June 1996 through July 2002 and President of the Company's Mexican subsidiary from August 2002 through April 2003. Prior to founding Digerati in 1994, he was the Director of International Sales for GeoComm Partners, Inc., an international telecommunications firm providing satellite network services to Fortune 500 corporations. Art is frequently invited to speak or serve on panels at professional and trade events related to the global telecommunications industry such as Simposio Annual ASISAT 2001 organized by the Asociación de la Industria Satelital Mexicana and the Latin America Telecommunications Conference 2002 organized by the North Texas Global Telecommunications Society. Art attended the University of Texas-Pan American.

Antonio Estrada Jr. has served as our Sr. Vice President of Finance since August 2007. Antonio is a seasoned financial executive with over 12 years of experience in the telecommunications industry, with a vast experience in financial reporting and modeling, strategic planning, grant writing, and cash management. Antonio has served as the Sr. VP of Finance and Corporate Controller of Digerati since 2008. From January 1999 to 2008, Antonio served in various roles within Digerati, including International Accounting Manager, Treasurer, Internal Auditor, and

Controller. Antonio currently overseas financial reporting, treasury management, credit, internal audit, tax compliance, contracts, internal controls and Sarbanes Oxley compliance. Prior to joining Digerati in 1999, Antonio served as a Senior Accountant for the Epilepsy Association of San Antonio and South Texas. Antonio graduated from the University of Texas at San Antonio, with a Bachelors of Business Administration, with a concentration in Accounting.

John R. Fleming has served as our Non-executive Chairman of the Board since August 2002 and as one of our Directors since January 2001. Mr. Fleming is the principal and founder of Vision Corporation, an early-stage investment company that focuses on communications technologies, service and hardware. Mr. Fleming also sits on the board of Mediaxstream Communications which is a high definition delivery system that services major studios and sports venues throughout the country. Prior to forming Vision Corporation, Mr. Fleming served as President, International of IXC Communications, Inc. from April 1998 to December 1999. Immediately prior to that he served as IXC's President of Emerging Markets from December 1997, as Executive Vice President of IXC from March 1996 through November 1997 and as Senior Vice President of IXC from October 1994 through March 1996. He served as Vice President of Sales and Marketing of IXC from its formation in July 1992 until October 1994. Prior to that, Mr. Fleming served as Director of Business Development and Director of Carrier Sales of CTI from 1986 to March 1990 and as Vice President of Marketing and Sales of CTI from March 1990 to July 1992. Mr. Fleming was a Branch Manager for Satellite Business Systems from 1983 to 1986 (a unit of IBM).

Murray R. Nye has served as one of our Directors since our formation in June 1996. Mr. Nye also served as the Chief Executive Officer and a Director of ATSI-Canada from its formation in May 1994. From December 1993 until May 1994, Mr. Nye served in the same positions with Latcomm International Inc., which company amalgamated with Willingdon Resources Ltd. to form ATSI-Canada in May 1994. From 1992 to 1995, Mr. Nye served as President of Kirriemuir Oil & Gas Ltd. From 1989 until 1992, Mr. Nye was self-employed as a consultant and Mr. Nye is again currently self-employed as a consultant. Mr. Nye serves as a Director of D.M.I. Technologies, Inc., an Alberta Stock Exchange-traded company.

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, during the fiscal year ended July 31, 2012, 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. A copy of the Executive Code of Ethics will be provided without charge upon written request to Digerati Technologies, Inc., 3463 Magic Drive, Suite 202, San Antonio, Texas 78229.

Nominating Committee and Nomination of Directors

We do not have a formal 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 person 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 202, San Antonio, Texas 78229 and, if the nominee is to be elected at a meeting of the stockholders, must be received by the Chief Executive Officer at least 180 days prior to the anniversary date of our most recent annual meeting of stockholders.

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. We do not have an audit committee financial expert because none of our current Directors have the necessary training or experience to qualify as a financial expert.

ITEM 11. EXECUTIVE COMPENSATION.

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.

Annual Incentive Awards. Our objective for offering annual cash bonus awards to our named executive officers is to motivate them to achieve our annual financial goals, while taking into account their individual goals and responsibilities. Our Board of Directors implemented our executive officer bonus plan, effective as of the first quarter of fiscal 2009 pursuant to which our named executive officers became eligible to receive cash bonus awards calculated and paid on a quarterly basis. The amounts payable under our executive officer bonus plan were to be calculated based on our revenue, margin, cash balance and net income for 2011 against the 2011 financial plan approved by our Board of Directors. During the year ended July 31, 2012, the executive officer bonus plan was terminated.

Under our executive officer bonus plan, we assigned a specific bonus target to each executive for performance during the fiscal year. Our Board of Directors designed these bonus targets to allow for additional compensation in the event we meet our targets set fort under the financial plan approved by our Board of Directors. Cash bonus targets were determined based on individual responsibility levels and performance expectations and would be payable in a proportionate amount representing the percentage of our targeted corporate net income goal pursuant to our financial plan for the fiscal year. After discussion and deliberation, our Board of Directors ultimately approved our management's recommendations as detailed below:

Name	Title	2007 Target Bonus
Arthur L. Smith	President, Chief Executive Officer and Director	$ 82,500
Antonio Estrada Jr.	Sr. Vice President & Corporate Controller	$ 60,500

Payouts under our executive officer bonus plan are dependent on our achievement towards our revenue, margin, cash balance and net income goal such that 100% of the bonus target amounts would be paid upon achievement of 100% of the net income goal. Above and below target performance methodologies were also established

We consider the specific performance goals established in the 2011 financial plan to be our confidential information, the disclosure of which would cause us to experience financial harm. We believe that tying annual bonus payments for each of our named executive officers to the achievement of challenging revenue, margin, cash balance and net income goals best aligns the interest of our executives with the interests of our stockholders and promotes a unity of purpose among our key business leaders. Regardless of our actual financial performance under our 2011 financial plan, our Board of Directors retained the discretion to adjust bonuses payable under our 2011 executive officer bonus plan up or down as it deemed appropriate.

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 2005 Stock 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 Plan.

SUMMARY COMPENSATION TABLE

Name and Principal Position	Year	**Salary** **($)**	**Bonus (1)** **($)**	Stock Awards ($)	Option Awards ($) (2)	**All Other Compensation (3)** **($)**	**Total** **($)**
Arthur L. Smith	2012	$64,525	$ -0-	$ -0-	$ 44,348	$46,000	$154,873
CEO & President	2011	$165,000	$20,059	$ -0-	$ 28,217	$92,000	$305,276
Antonio Estrada Jr.	2012	$55,630	$ -0-	$ -0-	$ 39,131	$36,370	$131,131
Senior Vice President of Finance & Corporate Controller	2011	$121,000	$ 24,479	$ -0-	$ 28,217	$81,846	$255,542

(1) Bonus amounts paid during fiscal 2011 were paid for achieving monthly margin requirements as stipulated in the annual compensation plan and closing of financings for FY2011.

(2) A description of the assumptions made in valuation of options granted can be found in Note 9 to the Financial Statements, which is deemed to be a part of this Item.

(3) All other compensation consists of contributions to the Non-Standardized Profit Sharing Plan.

Equity-based Compensation Plans

Our Board of Directors adopted the 2005 Stock Compensation Plan (the "Plan"). Under the Plan the Board of Directors may grant up to 30 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 of authorized shares of common stock will automatically increase as of the date of any new grants pursuant to the Plan by the aggregate number of shares subject to such grant. 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. The Board of Directors has not retroactively granted options, but has repriced options under the Plan. The following tables set forth information about the number of grants made during fiscal 2012 and 2011 and the number of outstanding stock options held by each of our named executive officers as of July 31, 2012.

GRANTS OF PLAN-BASED AWARDS

(1) Contributions to the Non-Standardized Profit Sharing Plan for FY08, FY09, FY10 and FY11

(2) This represents the re-pricing of previously issued stock options. A description of the assumptions made in valuation of options granted can be found in Note 8 to the Financial Statements, which is deemed to be a part of this Item.

(3) Issuance of stock options and stock grants, a description of the assumptions made in valuation of options and stock granted can be found in Note 9 to the Financial Statements, which is deemed to be a part of this Item.

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END

Name	Option Awards **Number of Securities Underlying Unexercised Options** **(#)** **Exercisable**	**Number of Securities Underlying Unexercised Options** **(#)** **Unexercisable**	**Option Exercise Price** **($)**	Option Expiration Date	Stock Awards **Number of Shares or Units of Stock That Have Not Vested** **(#)**	**Market Value of Shares or Units of Stock That Have Not Vested** **($)**
Arthur L. Smith	420,000	-	$ 0.040	9/29/2015	-	-
	525,000	-	$ 0.040	10/3/2015	-	-
	300,000	-	$ 0.040	9/25/2016	-	-

	450,000	-	$	0.040	8/15/2017	-	-
	650,000	-	$	0.045	2/01/2018	-	-
	1,250,000	-	$	0.050	4/06/2019	-	-
Antonio Estrada Jr.	347,000	-	$	0.040	9/29/2015	-	-
	475,000	-	$	0.040	10/3/2015	-	-
	250,000	-	$	0.040	9/25/2016	-	-
	375,000	-	$	0.040	8/15/2017	-	-
	650,000	-	$	0.045	2/01/2018	-	-
	950,000	-	$	0.050	4/06/2019	-	-

Non-Standardized Profit Sharing Plan

We currently provide a Non-Standardized Profit Sharing Plan. The Board of Directors approved the plan on September 15, 2006. Under the plan our employees qualified to participate in the plan after one year of employment. Contribution under the plan by us is based on 25% of the annual base salary of each eligible employee up to $46,000 per year. Contributions under the plan are fully vested upon funding. The following table contains certain information relating to the benefits accrued under the Non-Standardized Profit Sharing Plan for the named executive officers.

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NONQUALIFIED DEFERRED COMPENSATION

Name	Executive Contribution in Last FY	Registrant Contribution for FY2011 & FY2012	Aggregate Earnings in Last FY	Aggregate Withdrawals /Distributions	Aggregate Balance at Last FYE
	($)	**($)(1)**	**($)**	**($)**	**($)(2)**
Arthur L. Smith	$ -0-	$92,000	$ -0-	$ -0-	$92,000
Antonio Estrada, Jr.	$ -0-	$72,216	$ -0-	$ -0-	$72,216

(1) All amounts reported in this column are included as Other Compensation for fiscal 2011 & 2012 in the Summary Compensation Table.
(2) All amounts reported in this column are included as Other Compensation for fiscal 2011 & 2012 in the Summary Compensation Table.

Compensation of Directors

Each Director that is not an officer of the Company receives $2,000 for each meeting of the Board attended in person and $500 for each meeting attended by telephone. In addition to the foregoing, each Director is reimbursed the reasonable out-of-pocket expenses in connection with their travel to an attendance at meetings of the Board of Directors.

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 serves on our Board of Directors 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 of this Annual Report on Form 10-K.

The following table lists the beneficial ownership of shares of our Common Stock (i) each person know to the Company to own more than 5% of the outstanding voting securities issued by the Company, (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, 2012 and is based on the books and records of the Company 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 the Company’s principal executive office and all securities are beneficially owned solely by the person indicated.

NAME OF INDIVIDUAL OR GROUP	COMMON STOCK		% OF CLASS (1)		TOTAL VOTING INTEREST	
INDIVIDUAL OFFICERS, DIRECTORS AND NOMINEES						
Arthur L. Smith President, Chief Executive Officer Director	11,070,426	(2)	9.2	%	11,070,426	(2)
Antonio Estrada Jr. Sr. VP of Finance & Corporate Controller	9,871,707	(3)	8.2	%	9,871,707	(3)
John R. Fleming Director	4,836,201	(4)	4.0	%	4,836,201	(4)
Murray R. Nye Director	4,836,201	(5)	4.0	%	4,836,201	(5)
ALL OFFICERS AND DIRECTORS AS A GROUP	30,614,535	(6)	25.3	%	30,614,535	(6)

(1) Based upon 120,800,316 shares of common stock outstanding as of July 31, 2012. Any shares represented by options exercisable within 60 days after July 31, 2012 are treated as being outstanding for the purpose of computing the percentage of the class for such person but not otherwise.

(2) Includes 2,761,667 shares subject to options exercisable at July 31, 2012.

(3) Includes 2,413,667 shares subject to options exercisable at July 31, 2012.

(4) Includes 1,783,333 shares subject to options exercisable at July 31, 2012.

(5) Includes 1,783,333 shares subject to options exercisable at July 31, 2012.

(6) Includes 8,742,000 shares subject to options exercisable at July 31, 2012.

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

None

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

The following table sets forth the aggregate fees paid to MaloneBailey; LLP for audit services rendered in connection with the audits and reviews of Digerati's consolidated financial statements and reports for the years ended July 31, 2012 and 2011.

	Year Ended July 31,	
Description of Fees	2012	2011
Audit Fees	$46,400	$46,650
Audit Related Fees	-0-	-0-
Tax fees	$1,750	-0-
All Other Fees	-0-	-0-

The Board of Directors has instructed MaloneBailey, LLP that any fees for non-audit services must be approved before being incurred. During fiscal 2012 we incurred $1,750 in non-audit fees to MaloneBailey, LLP for tax work related to our 2010 tax return.

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PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES.

The following documents are exhibits to this report.

2.1 Plan and Agreement of Merger of ATSI Communications, Inc. with and into ATSI Merger Corporation, dated as of March 24, 2004. *(Exhibit 2.1 to Form 8-K of ATSI filed on May 24, 2004)*

3.1 Articles of Incorporation of ATSI Merger Corporation. *(Exhibit 3.1 to Form 8-K of ATSI filed on May 24, 2004)*

3.2 Bylaws of ATSI Merger Corporation. *(Exhibit 3.2 to Form 8-K of ATSI filed on May 24, 2004)*

3.3 Articles of Merger of ATSI Communications, Inc. with and into ATSI Merger Corporation. *(Exhibit 3.3 to Form 8-K of ATSI filed on May 24, 2004)*

4.1 Promissory note payable to Alfonso Torres dated October 1, 2007 in the principal amount of $459,170. *(Exhibit 10.4 to Form 10-QSB for the period ended October 31, 2006 filed December 1 4, 2007)*

4.2 Promissory Notes payable to several holders dated September 26, 2008 in the principal amount of $850,000. *(Exhibit 4.6 to Form 10-KSB for the period ended July 31, 2008 filed October 29, 2008)*

4.3 Promissory note payable to San Antonio National Bank dated October 23, 2008 in the principal amount of $425,000. *(Exhibit 10.1 to Form 10-KSB for the period ended October 31, 2008 filed December 15, 2008)*

4.4 Promissory note payable and security agreement with ATV Texas Ventures III, LP. dated November 11, 2009 in the principal amount of $100,000. *(Exhibit 10.1 to Form 10-K for the period ended October 31, 2009 filed December 12, 2009)*

4.5 Promissory note payable and security agreement with ATV Texas Ventures III, LP. dated January 10, 2010 in the principal amount of $100,000. *(Exhibit 10.1 to Form 10-K for the period ended January 31, 2010 filed March 12, 2010)*

4.6 Promissory note payable and security agreement with ATV Texas Ventures III, LP. dated March 16, 2010 in the principal amount of $50,000. *(Exhibit 10.1 to Form 10-K for the period ended April 30, 2010 filed June 9, 2010)*

4.7 Loan and Security Agreement and Promissory Note dated August 2, 2010 between ATSI Communications, Inc. and Thermo Credit, LLC. *(Exhibits 4.1 and 4.2 to Form 8-K for ATSI filed August 19, 2010)*

4.8 Securities Purchase Agreement dated October 11, 2011 between Digerati Technologies, Inc. and Asher Enterprises, Inc. *(Exhibits 4.8 Form 10-K for Digerati filed October 31, 2011)*

4.9 Promissory Note dated October 11, 2011 between Digerati Technologies, Inc. and Asher Enterprises, Inc. *(Exhibits 4.9 Form 10-K for Digerati filed October 31, 2011)*

4.10 Promissory Note dated January 18, 2012 between Digerati Technologies, Inc. and Asher Enterprises, Inc. *(Exhibits 10.1 Form 10-Q for Digerati filed March 14, 2012)*

4.11 Promissory Note dated Mach 15, 2012 between Digerati Technologies, Inc. and Asher Enterprises, Inc. *(Exhibits 10.1 Form 10-Q for Digerati filed June 13, 2012)*

10.1 Interconnection Agreement TELMEX and ATSICOM (English summary) (*Exhibit 10.26 to Annual Report on Form 10-K for year ended July 31, 2003 filed November 12, 2003)*

10.2	Interconnection Agreement TELMEX and ATSICOM (English Translation) *(Exhibit 10.27 to Amended Annual Report on Form 10-K/A for the year ended July 31, 2003 filed March 2, 2004)*
10.3	Settlement Agreement dated December 10, 2007 between ATSI Communications, Inc. and The Shaar Fund, Inc. *(Exhibit 10.3 to Form 10-QSB for the period ended October 31, 2006 filed December 1 4, 2007)*
10.4	Confidential Settlement Agreement dated August 27, 2007 between ATSI Communications, Inc. and RGC International Investors, LDC. *(Exhibit 10.7 to Annual Report on Form 10-KSB for the period ended July 31, 2007 filed October 17, 2007)*
10.5	Settlement Agreement dated October 20, 2008 between ATSI Communications, Inc. and the 9% Convertible Debenture holders. *(Exhibit 10.4 to Form 10-KSB for the period ended October 31, 2008 filed December 15, 2008)*
21.1	Subsidiary List *
31.1	Certification of our President and Chief Executive Officer, under Section 302 of the Sarbanes-Oxley Act of 2002. *
31.2	Certification of our Corporate Controller and Principal Financial Officer, under Section 302 of the Sarbanes-Oxley Act of 2002. *
32.1	Certification of our President and Chief Executive Officer, under Section 906 of the Sarbanes-Oxley Act of 2002. *
32.2	Certification of our Corporate Controller and Principal Financial Officer, under Section 906 of the Sarbanes-Oxley Act of 2002. *

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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: November 13, 2012 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.

Signature	Title	Date
/s/ Arthur L. Smith	Principal Executive Officer and Director	November 13, 2012
Arthur L. Smith		
/s/ Antonio Estrada Jr.	Principal Accounting Officer	November 13, 2012
Antonio Estrada Jr.	Principal Finance Officer	
/s/ John R. Fleming	Director	November 13, 2012
John R. Fleming		
/s/ Murray R. Nye	Director	November 13, 2012

EXHIBIT INDEX

Number	Description
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