DIGERATI TECHNOLOGIES, INC.

FORM 8-K/A
(Amended Current report filing)

Filed 07/16/21 for the Period Ending 11/17/20

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CIK	0001014052
Symbol	DTGI
SIC Code	7374 - Services-Computer Processing and Data Preparation
Industry	Integrated Telecommunications Services
Sector	Telecommunication Services
Fiscal Year	07/31

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K/A

Current Report Pursuant
to Section 13 or 15(d) of the
Securities Exchange Act of 1934

Date of Report (Date of earliest event reported) November 17, 2020

Digerati Technologies, Inc.
(Exact Name of Registrant as Specified in its Charter)

Nevada
(State or Other Jurisdiction of Incorporation)

001-15687	74-2849995
(Commission File Number)	(IRS Employer Identification No.)
825 W. Bitters, Suite 104, San Antonio, TX	78216
(Address of Principal Executive Offices)	(Zip Code)

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

(Former Name or Former Address, if Changed Since Last Report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (*see* General Instruction A.2. below):

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
None	N/A	N/A

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

Emerging Growth Company ☐

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

Explanatory Note

On November 23, 2020, Digerati Technologies, Inc. (the "Company") filed a Current Report on Form 8-K (the "Initial Form 8-K") reporting under Item 2.01 the completion of the acquisition of ActiveServe, Inc., a Florida corporation (the "Seller") by our indirect, wholly owned subsidiary, T3 Communications, Inc., a Florida corporation, via an Asset Purchase Agreement (the "Purchase Agreement"). This Amendment No. 1 to the Initial Form 8-K amends and supplements the Initial Form 8-K to include financial statements and pro forma financial information permitted to be filed by amendment.

Item 9.01 Financial Statements and Exhibits

(a) Financial statements of businesses acquired

The audited balance sheet of the Seller as of July 31, 2020, the related audited statement of operations, changes in shareholders' equity, and cash flows of the Seller for the year ended July 31, 2020, the notes related thereto and the Report of Independent Registered Public Accounting Firm, are attached hereto as Exhibit 99.1, and incorporated herein by reference.

The unaudited balance sheet of the Seller as of October 31, 2020, the related unaudited statement of operations, changes in shareholders' equity, and cash flows of the Seller for the Three Months ended October 31, 2020, and 2019, the notes related thereto, are attached hereto as Exhibit 99.2, and incorporated herein by reference.

(b) Pro forma financial information

The unaudited pro forma combined consolidated balance sheet of the Company as of October 31, 2020, the unaudited pro forma consolidated statement of operations of the Company for the Three Months ended October 31, 2020, and for the Year Ended July 31, 2020, and the notes to the unaudited pro forma consolidated financial statements, all giving effect to the acquisition by the Company of ActiveServe's assets, are attached hereto as Exhibit 99.3 and incorporated herein by reference.

(c) Exhibits.

Exhibit No.	Description
99.1	Audited financial statements of ActiveServe, Inc., for the year ended July 31, 2020.
99.2	Unaudited Financial Statements of ActiveServe, Inc. for the Three Months Ended October 31, 2020, and 2019.
99.3	Unaudited Pro Forma Consolidated Balance sheet of the Company as of October 31, 2020, Unaudited Pro Forma Consolidated Statements of Operations of the Company for the Three Months Ended October 31, 2020, and the Year Ended July 31, 2020, and Notes to the Unaudited Pro Forma Consolidated Financial Statements, all giving effect to the Acquisition by the Company of ActiveServe's assets.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: July 16, 2021

Digerati Technologies, Inc.

By: */s/ Antonio Estrada Jr.*
Antonio Estrada Jr.,
Chief Financial Officer

Financial Statements and Supplementary Data.

ACTIVESERVE, INC.
Index to Financial Statements
July 31, 2020

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of
ActiveServe, Inc.
Miami, Florida

Opinion on the Financial Statements

We have audited the accompanying balance sheet of ActiveServe, Inc. (the "Company") as of July 31, 2020, and the related statement of operations, stockholders' equity, and cash flows for the year then ended, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of July 31, 2020, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB and in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audit, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

/s/ MaloneBailey, LLP
www.malonebailey.com
We have served as the Company's auditor since 2020.
Houston, Texas
July 16, 2021

ACTIVESERVE, INC.
BALANCE SHEET
(In thousands)

		July 31, 2020
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$	424
Accounts receivable, net		57
Prepaid and other current assets		27
Total current assets		508
LONG-TERM ASSETS:		
Intangible assets, net		11
Property and equipment, net		4
Total assets	$	523
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$	3
Accrued liabilities		219
Note payable, current		1
Total current liabilities		223
LONG-TERM LIABILITIES:		
Note payable		157
Total long-term liabilities		157
Total liabilities		380
Commitments and contingencies		-
STOCKHOLDERS' EQUITY:		
Common stock, $0.01, 10,000 shares authorized, 2,000 issued and outstanding		-
Additional paid in capital		10
Retained earnings		133
Total stockholders' equity		143
Total liabilities and stockholders' equity	$	523

See accompanying notes to financial statements

ACTIVESERVE, INC.
STATEMENT OF OPERATIONS
(In thousands, except per share amounts)

	For the Year Ended July 31, 2020
OPERATING REVENUES:	
Cloud software and service revenue	$ 1,949
Total operating revenues	1,949
OPERATING EXPENSES:	
Cost of services (exclusive of depreciation and amortization)	557
Selling, general and administrative expense	1,110
Bad debt	12
Depreciation and amortization expense	1
Total operating expenses	1,680
OPERATING INCOME	269
OTHER INCOME (EXPENSE):	
Income tax benefit (expense)	1
Interest expense	(1)
Total other income (expense)	-
NET INCOME ATTRIBUTABLE TO COMMON SHAREHOLDERS	$ 269

See accompanying notes to financial statements

ACTIVESERVE, INC.
STATEMENT OF STOCKHOLDERS' EQUITY
YEAR ENDED JULY 31, 2020
(In thousands, except for share amounts)

	Common Shares	Par	Additional paid in capital	Retained earnings	Total stockholders' equity
BALANCE, July 31, 2019	**2,000**	**$ -**	**$ 10**	**$ 13**	**$ 23**
Cash dividends paid	-	-	-	(149)	(149)
Net income	-	-	-	269	269
BALANCE, July 31, 2020	**2,000**	**$ -**	**$ 10**	**$ 133**	**$ 143**

See accompanying notes to financial statements

ACTIVESERVE, INC.
STATEMENT OF CASH FLOWS
(In thousands)

		For the Year Ended July 31, 2020
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$	269
Adjustments to reconcile net loss to cash used in by operating activities:		
Depreciation and amortization		1
Bad debt expense		12
Changes in operating assets and liabilities:		
Accounts receivable		17
Prepaid expenses and other current assets		1
Accounts payable		(46)
Accrued expenses		65
Net cash provided by operating activities		319
CASH FLOWS FROM INVESTING ACTIVITIES:		
Cash paid in acquisition of equipment		(5)
Net cash used in investing activities		(5)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings from third party promissory notes, net		145
Payments for dividends		(149)
Principal payment on debt		(15)
Net cash used in financing activities		(19)
INCREASE IN CASH AND CASH EQUIVALENTS		295
CASH AND CASH EQUIVALENTS, beginning of period		129
CASH AND CASH EQUIVALENTS, end of period	$	424
SUPPLEMENTAL DISCLOSURES:		
Cash paid for interest	$	1
Income tax paid	$	-

See accompanying notes to financial statements

ACTIVESERVE, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JULY 31, 2020

NOTE 1 – DESCRIPTION OF BUSINESS

ActiveServe, Inc., (“we”, “our”, “Company” or “ActiveServe”) was incorporated in the state of Florida on September 18, 2002. We provide cloud services specializing in Unified Communications as a Service (“UCaaS”) solutions for the business market. Our product line includes a portfolio of Internet-based telephony products and services delivered through our cloud application platform and session-based communication network and network services including mobile broadband. Our services are designed to provide enterprise-class, carrier-grade services to the small-to-medium-sized business (“SMB”) at cost-effective monthly rates. Our UCaaS or cloud communication services include fully hosted IP/PBX, mobile applications, Voice over Internet Protocol (“VoIP”) transport, SIP trunking, hosting services and customized VoIP services.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

Basis of Presentation. These financial statements have been prepared by the Company in accordance with accounting principles generally accepted in the United States of America (“GAAP”) and include the accounts of the Company and its wholly owned subsidiaries which are directly or indirectly owned by the Company.

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.

Concentration of Credit Risk. Financial instruments that potentially subject ActiveServe to concentration of credit risk consist primarily of trade receivables. In the normal course of business, ActiveServe provides credit terms to its customers. Accordingly, ActiveServe performs ongoing credit evaluations of its customers. ActiveServe maintains cash in bank deposit accounts, which, at times, may exceed federally insured limits. ActiveServe has not experienced any losses in such accounts and ActiveServe does not believe it is exposed to any significant credit risk on cash and cash equivalents.

During the year ended July 31, 2020, the Company derived 11% of the total revenue from one customer. As of the year ended July 31, 2020, the company derived 26% of the total accounts receivable balance from one customer.

Capitalization of Fixed Assets. The Company capitalizes expenditures related to property and equipment, subject to a minimum rule, that have a useful life greater than one year for: (1) assets purchased; (2) existing assets that are replaced, improved or the useful lives have been extended, regardless of cost. Acquisitions of new assets, additions, replacements, and improvements costing less than the minimum rule in addition to maintenance and repair costs, including any planned major maintenance activities, are expensed as incurred.

Revenue Recognition. On August 1, 2018, we adopted Topic 606 using the modified retrospective method applied to those contracts which were not completed as of August 1, 2018. Results for reporting periods beginning after August 1, 2018, are presented under Topic 606. There was no impact to the opening balance of accumulated deficit or revenues for the year ended July 31, 2019, as a result of applying Topic 606.

Sources of revenue:

Cloud-based hosted Services. The Company recognizes cloud-based hosted services revenue, mainly from subscription services for its cloud telephony applications that includes hosted IP/PBX services, SIP trunking, call center applications, auto attendant, voice, and web conferencing, call recording, messaging, voicemail to email conversion, integrated mobility applications that are device and location agnostic, and other customized applications. Other services include enterprise-class data and connectivity solutions through multiple broadband technologies including cloud WAN or SD-WAN (Software-defined Wide Area Network), fiber, and Ethernet over copper. We also offer remote network monitoring, data backup and disaster recovery services. The Company applies a five-step approach in determining the amount and timing of revenue to be recognized: (1) identifying the contract with a customer, (2) identifying the performance obligations in the contract, (3) determining the transaction price, (4) allocating the transaction price to the performance obligations in the contract and (5) recognizing revenue when the performance obligation is satisfied. Substantially all of the Company’s revenue is recognized at the time control of the products transfers to the customer.

Service Revenue

Service revenue from subscriptions to the Company's cloud-based technology platform is recognized over time on a ratable basis over the contractual subscription term beginning on the date that the platform is made available to the customer. Payments received in advance of subscription services being rendered are recorded as a deferred revenue. Usage fees, either bundled or not bundled, are recognized when the Company has a right to invoice. Professional services for configuration, system integration, optimization, customer training and/or education are primarily billed on a fixed-fee basis and are performed by the Company directly. Alternatively, customers may choose to perform these services themselves or engage their own third-party service providers. Professional services revenue is recognized over time, generally as services are activated for the customer.

Product Revenue

The Company recognizes product revenue for telephony equipment at a point in time, when transfer of control has occurred, which is generally upon delivery. Sales returns are recorded as a reduction to revenue estimated based on historical experience.

Disaggregation of Cloud software and service revenue

Summary of disaggregated revenue is as follows (in thousands):

	For the Year Ended July 31, 2020
Cloud software and service revenue	$ 1,930
Product revenue	19
Total operating revenue	$ 1,949

Related parties. The Company accounts for related party transactions in accordance with ASC 850 ("Related Party Disclosures"). A party is considered to be related to the Company if the party directly or indirectly or through one or more intermediaries, controls, is controlled by, or is under common control with the Company. Related parties also include principal owners of the Company, its management, members of the immediate families of principal owners of the Company and its management and other parties with which the Company may deal if one party controls or can significantly influence the management or operating policies of the other to an extent that one of the transacting parties might be prevented from fully pursuing its own separate interests. A party which can significantly influence the management or operating policies of the transacting parties or if it has an ownership interest in one of the transacting parties and can significantly influence the other to an extent that one or more of the transacting parties might be prevented from fully pursuing its own separate interests is also a related party. There were no related party transactions as of July 31, 2020.

Dividends. During the year ended July 31, 2020, the Company paid cash dividends of $148,577 to its founding shareholders.

Recently issued accounting pronouncements. Recent accounting pronouncements, other than below, issued by the Financial Accounting Standards Board ("FASB") (including its Emerging Issues Task Force), the AICPA and the SEC did not, or are not, believed by management to have a material effect on the Company's present or future financial statements.

In February 2016, the FASB issued ASU No. 2016-02, "Leases." ASU 2016-02 requires a lessee to record a right of use asset and a corresponding lease liability on the balance sheet for all leases with terms longer than 12 months. ASU 2016-02 is effective for all interim and annual reporting periods beginning after December 15, 2018. Early adoption is permitted. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest period presented in the financial statements. The Company evaluated the impact that the application of the new standard has on its financial statements and related disclosure and determined that it has no material impact.

Other recent accounting pronouncements issued by the FASB, including its Emerging Issues Task Force, the American Institute of Certified Public Accountants, and the SEC did not or in management's opinion will not have a material impact on the Company's present or future financial statements.

NOTE 3 – PROPERTY AND EQUIPMENT

As of July 31, 2020, the Company's fixed assets consisted of the following (in thousands):

		July 31, 2020
Vehicles	$	27
Office Equipment		7
Network Equipment		29
Computers		4
Servers		178
Software Licenses		14
Total property and equipment	$	259
Less: Accumulated depreciation		(255)
Property and equipment, net	$	4

The depreciation expense incurred for the year ended July 31, 2020, was $562.

NOTE 4 – NOTES PAYABLE

On July 18, 2014, the Company entered into a financing agreement with Bank of America, N.A., for $50,000, under a line of credit for working capital, with a maturity date of September 1, 2015. Subsequentially, on July 31, 2015, the Company entered into a loan modification agreement, were by the maturity date was extended until August 18, 2020. The interest rate under the loan agreement is equal to the Bank's Prime Rate, plus 2.75%, per annum. The amended loan agreement is for 60 months, with the first payment due on September 18, 2015, and with a monthly principal payment of $833. The loan is secured by the Company's equipment, inventory, and accounts receivable. During the year ended July 31, 2020, the Company made a total principal payment of $10,000. The total outstanding balance as of July 31, 2020, was $834. Subsequentially on August 18, 2020, the obligation was paid in full.

On February 1, 2017, the Company entered into a financing agreement with Ford Credit, for a principal amount of $26,637 and financing charges of $2,451. The financing is for a Company vehicle, with a maturity date of January 18, 2023, and interest rate under the financing agreement at 2.90%, per annum. The financing agreement is for 72 months, with the first payment due on March 18, 2017, and with a monthly principal and interest payment of $404. The financing agreement is secured by the vehicle acquired. During the year ended July 31, 2020, the Company made a total principal payment of $4,427. The total outstanding balance as of July 31, 2020, was $12,042. Subsequentially on January 13, 2021, the obligation was paid in full.

On May 1, 2020, the Company, entered into an unsecured promissory note (the "Note") for $145,370 made to the Company under the Paycheck Protection Program (the "PPP"). The PPP was established under the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") and is administered by the U.S. Small Business Administration (the "SBA"). The Note to the Company was secured through Bank of America, National Association (the "Lender").

The Note provided for an interest rate of 1.00% per annum and matures two years after the issuance date. Beginning on the seventh month following the date of the Note, the Company was required to make 18 monthly principal payments in the amount of $8,076 and accrued interest. The Note was used for payroll costs, costs related to certain group health care benefits and insurance premiums. The Note contained events of default and other conditions customary for a Note of this type.

Under the terms of the CARES Act, PPP loan recipients can apply for and be granted forgiveness for all, or a portion of loan granted under the PPP, with such forgiveness to be determined, subject to limitations, based on the use of the loan proceeds for payment of payroll costs and any payments of mortgage interest, rent, and utilities. The terms of any forgiveness may also be subject to further requirements in any regulations and guidelines the SBA may adopt. The total outstanding balance as of July 31, 2020, was $145,370. Subsequently, on March 9, 2021, the SBA informed the Company that the total outstanding principal balance of $145,370 and accrued interest of $1,227 were forgiven. On March 9, 2021, the Company recognized a gain on settlement of debt of $145,370.

NOTE 5 – CAPITAL STOCK

As of July 31, 2020, the Company had 10,000 authorized common shares, of which 2,000 founder shares were issued, and outstanding, with a $0.01 par value per share.

NOTE 6 – SUBSEQUENT EVENTS

On November 17, 2020, T3 Communications, Inc., a Florida corporation ("T3 Florida"), a subsidiary of Digerati Technologies, Inc., executed and closed on an Asset Purchase Agreement (the "Purchase Agreement") with ActiveServe, Inc., a Florida corporation ("Seller"). Pursuant to the Purchase Agreement, T3 Florida acquired the customer base, certain equipment, certain intellectual property, inventory, contract rights, software and other licenses and miscellaneous assets used in connection with the operation of Seller's telecommunications business known as ActivePBX (collectively, the "Purchased Assets").

The aggregate purchase price for the Purchased Assets was $2,555,000 in cash, subject to adjustment as provided therein (the "Purchase Price"). $1,190,000 of the Purchase Price was payable at closing, with $50,000 of such amount being withheld by T3 Florida for a period of 12 months to cover part of potential future indemnification obligations of Seller to T3 Florida due to Seller's breaches, if any, of any representations and warranties made to T3 Florida by Seller under the Purchase Agreement, and $40,000 of such amount being credited to T3 Florida against a payment in that amount made by T3 Florida to Seller pursuant to the Second Amendment to Letter of Intent between Seller and T3 Florida dated as of October 15, 2020.

Part of the Purchase Price is payable in 8 equal quarterly payments of $136,250, subject to T3 Florida achieving quarterly post-purchase recurring revenues under monthly contracts or subscriptions from the acquired customer base, excluding charges for taxes, regulatory fees, additional set-up fees, equipment purchases or lease, and consulting fees. To the extent that a quarterly revenue threshold is not reached, the amount of the corresponding quarterly payment shall be reduced on a proportional basis. T3 Florida's $1,140,000 payment obligation is represented by a promissory note of T3 Florida in the form included as an exhibit to the Purchase Agreement. The note, in turn, is subject to the Subordination Agreement, included as an Exhibit to the Purchase Agreement, among Seller, the Company's parent, T3 Nevada, and Post Road Administrative, LLC, in its capacity as administrative agent for the Post Road lenders. $275,000 of the Purchase Price (the "Customer Renewal Value") represents an incentive earn-out to be paid with respect to Seller's customer accounts which are transferred to T3 Florida at closing, that are renewed, expanded and/or revised with T3 Florida for a minimum term of twelve months with an auto-renewal for 12 months. During the period ended April 30, 2021, the Company made one of the quarterly principal payments of $136,250, and a payment of $11,000 towards the Holdback amount, the total principal outstanding on the notes as of April 30, 2021, was $1,267,750.

In connection with the Purchase Agreement, the Company entered with the Note Holders into Consulting Agreements and a Non-Compete Agreement with each of Alex Gonzalez and Jose Gonzalez, the Chief Executive Officer and Chief Technology Officer of ActivePBX. Under the Consulting Agreements, the Company will pay on an annual basis $90,000 to each the consultants.

Exhibit 99.2

ACTIVESERVE, INC.
Unaudited Financial Statements
For the Three Months Ended October 31, 2020

ACTIVESERVE, INC.
BALANCE SHEETS
(Unaudited)
(In thousands)

	October 31, 2020	July 31, 2020
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 325	$ 424
Accounts receivable, net	26	57
Prepaid and other current assets	114	27
Total current assets	465	508
LONG-TERM ASSETS:		
Intangible assets, net	11	11
Property and equipment, net	4	4
Total assets	$ 480	$ 523
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 25	$ 3
Accrued liabilities	228	219
Note payable, current	-	1
Total current liabilities	253	223
LONG-TERM LIABILITIES:		
Note payable	156	157
Total long-term liabilities	156	157
Total liabilities	409	380
Commitments and contingencies	-	-
STOCKHOLDERS' EQUITY:		
Common stock, $0.01, 10,000 shares authorized, 2,000 issued and outstanding	-	-
Additional paid in capital	10	10
Retained earnings	61	133
Total stockholders' equity	71	143
Total liabilities and stockholders' equity	$ 480	$ 523

See accompanying notes to the unaudited financial statements

ACTIVESERVE, INC.
STATEMENTS OF OPERATIONS
(Unaudited)
(In thousands)

	Three Months Ended October 31, 2020	Three Months Ended October 31, 2019
OPERATING REVENUES:		
Cloud software and service revenue	$ 463	$ 522
Total operating revenues	463	522
OPERATING EXPENSES:		
Cost of services (exclusive of depreciation and amortization)	138	142
Selling, general and administrative expense	273	265
Total operating expenses	411	407
OPERATING INCOME	52	115
OTHER INCOME (EXPENSE):		
Income tax expense	(7)	(7)
Total other expense	(7)	(7)
NET INCOME ATTRIBUTABLE TO COMMON SHAREHOLDERS	$ 45	$ 108

See accompanying notes to the unaudited financial statements

ACTIVESERVE, INC.
STATEMENT OF STOCKHOLDERS' EQUITY
THREE MONTHS ENDED OCTOBER 31, 2020
(Unaudited)
(In thousands, except for share amounts)

	Common Shares	Par	Additional paid in capital	Retained earnings	Total stockholders' equity
BALANCE, July 31, 2020	**2,000**	**$ -**	**$ 10**	**$ 133**	**$ 143**
Cash dividends paid	-	-	-	(117)	(117)
Net income	-	-	-	45	45
BALANCE, October 31, 2020	**2,000**	**$ -**	**$ 10**	**$ 61**	**$ 71**

See accompanying notes to the unaudited financial statements

ACTIVESERVE, INC.
STATEMENTS OF CASH FLOWS
(Unaudited)
(In thousands)

	Three Months Ended October 31, 2020	Three Months Ended October 31, 2019
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 45	$ 108
Adjustments to reconcile net loss to cash used in by operating activities:		
Changes in operating assets and liabilities:		
Accounts receivable	31	10
Prepaid expenses and other current assets	(87)	(6)
Accounts payable	22	(22)
Accrued expenses	9	27
Net cash provided by operating activities	20	117
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments for dividends	(117)	(41)
Principal payment on debt	(2)	(4)
Net cash used in financing activities	(119)	(45)
INCREASE IN CASH AND CASH EQUIVALENTS	(99)	72
CASH AND CASH EQUIVALENTS, beginning of period	424	129
CASH AND CASH EQUIVALENTS, end of period	$ 325	$ 201
SUPPLEMENTAL DISCLOSURES:		
Cash paid for interest	$ -	$ -
Income tax paid	$ -	$ -

See accompanying notes to unaudited financial statements

ACTIVESERVE, INC.
NOTES TO UNAUDITED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED OCTOBER 31, 2020

NOTE 1. BASIS OF PRESENTATION

The accompanying unaudited financial statements have been prepared in connection with ActiveServe, Inc.'s, business combination with T3 Communications, Inc., a Florida corporation ("T3 Florida"), a subsidiary of Digerati Technologies, Inc.("Digerati"), and to comply with the rules and regulations of the Securities and Exchange Commission ("SEC") for inclusion by Digerati in its current report on Form 8-K/A.

The accompanying unaudited interim financial statements of ActiveServe, Inc. ("Company") have been prepared in accordance with accounting principles generally accepted in the United States of America and the rules of the Securities and Exchange Commission, and should be read in conjunction with the Company's audited financial statements and notes thereto for the year ended July 31, 2020, included elsewhere in this Form 8-K/A. In the opinion of management, all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of financial position and the results of operations for the interim periods presented have been reflected herein. The results of operations for the interim periods are not necessarily indicative of the results to be expected for the full year. Notes to the interim financial statements which would substantially duplicate the disclosures contained in the audited financial statements for the year ended July 31, 2020, included elsewhere in this Form 8-K/A have been omitted.

NOTE 2 – NOTES PAYABLE

On July 18, 2014, the Company entered into a financing agreement with Bank of America, N.A., for $50,000, under a line of credit for working capital, with a maturity date of September 1, 2015. Subsequentially, on July 31, 2015, the Company entered into a loan modification agreement, were by the maturity date was extended until August 18, 2020. The interest rate under the loan agreement is equal to the Bank's Prime Rate, plus 2.75%, per annum. The amended loan agreement is for 60 months, with the first payment due on September 18, 2015, and with a monthly principal payment of $833. The loan is secured by the Company's equipment, inventory, and accounts receivable. On August 18, 2020, the obligation was paid in full. During the three months ended October 31, 2020, the Company made a total principal payment of $834. The total outstanding balance as of October 31, 2020, and July 31, 2020, were $0 and $834, respectively.

On February 1, 2017, the Company entered into a financing agreement with Ford Credit, for a principal amount of $26,637 and financing charges of $2,451. The financing is for a Company vehicle, with a maturity date of January 18, 2023, and interest rate under the financing agreement at 2.90%, per annum. The financing agreement is for 72 months, with the first payment due on March 18, 2017, and with a monthly principal and interest payment of $404. The financing agreement is secured by the vehicle acquired. During the three months ended October 31, 2020, the Company made a total principal payment of $1,127. The total outstanding balance as of October 31, 2020, and July 31, 2020, were $10,915 and $12,042, respectively. Subsequentially on January 13, 2021, the obligation was paid in full.

On May 1, 2020, the Company, entered into an unsecured promissory note (the "Note") for $145,370 made to the Company under the Paycheck Protection Program (the "PPP"). The PPP was established under the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") and is administered by the U.S. Small Business Administration (the "SBA"). The Note to the Company was secured through Bank of America, National Association (the "Lender").

The Note provided for an interest rate of 1.00% per annum and matures two years after the issuance date. Beginning on the seventh month following the date of the Note, the Company was required to make 18 monthly principal payments in the amount of $8,076 and accrued interest. The Note was used for payroll costs, costs related to certain group health care benefits and insurance premiums. The Note contained events of default and other conditions customary for a Note of this type.

Under the terms of the CARES Act, PPP loan recipients can apply for and be granted forgiveness for all, or a portion of loan granted under the PPP, with such forgiveness to be determined, subject to limitations, based on the use of the loan proceeds for payment of payroll costs and any payments of mortgage interest, rent, and utilities. The terms of any forgiveness may also be subject to further requirements in any regulations and guidelines the SBA may adopt. The total outstanding balance as of October 31, 2020, and July 31, 2020, was $145,370. Subsequently, on March 9, 2021, the SBA informed the Company that the total outstanding principal balance of $145,370 and accrued interest of $1,227 were forgiven. On March 9, 2021, the Company recognized a gain on settlement of debt of $145,370.

NOTE 4 – CAPITAL STOCK

As of October 31, 2020, the Company had 10,000 authorized common shares, of which 2,000 founder shares were issued, and outstanding, with a $0.01 par value per share.

NOTE 5 – SUBSEQUENT EVENTS

On November 17, 2020, T3 Communications, Inc., a Florida corporation ("T3 Florida"), a subsidiary of Digerati Technologies, Inc., executed and closed on an Asset Purchase Agreement (the "Purchase Agreement") with ActiveServe, Inc., a Florida corporation ("Seller"). Pursuant to the Purchase Agreement, T3 Florida acquired the customer base, certain equipment, certain intellectual property, inventory, contract rights, software and other licenses and miscellaneous assets used in connection with the operation of Seller's telecommunications business known as ActivePBX (collectively, the "Purchased Assets").

The aggregate purchase price for the Purchased Assets was $2,555,000 in cash, subject to adjustment as provided therein (the "Purchase Price"). $1,190,000 of the Purchase Price was payable at closing, with $50,000 of such amount being withheld by T3 Florida for a period of 12 months to cover part of potential future indemnification obligations of Seller to T3 Florida due to Seller's breaches, if any, of any representations and warranties made to T3 Florida by Seller under the Purchase Agreement, and $40,000 of such amount being credited to T3 Florida against a payment in that amount made by T3 Florida to Seller pursuant to the Second Amendment to Letter of Intent between Seller and T3 Florida dated as of October 15, 2020.

Part of the Purchase Price is payable in 8 equal quarterly payments of $136,250, subject to T3 Florida achieving quarterly post-purchase recurring revenues under monthly contracts or subscriptions from the acquired customer base, excluding charges for taxes, regulatory fees, additional set-up fees, equipment purchases or lease, and consulting fees. To the extent that a quarterly revenue threshold is not reached, the amount of the corresponding quarterly payment shall be reduced on a proportional basis. T3 Florida's $1,140,000 payment obligation is represented by a promissory note of T3 Florida in the form included as an exhibit to the Purchase Agreement. The note, in turn, is subject to the Subordination Agreement, included as an Exhibit to the Purchase Agreement, among Seller, the Company's parent, T3 Nevada, and Post Road Administrative, LLC, in its capacity as administrative agent for the Post Road lenders. $275,000 of the Purchase Price (the "Customer Renewal Value") represents an incentive earn-out to be paid with respect to Seller's customer accounts which are transferred to T3 Florida at closing, that are renewed, expanded and/or revised with T3 Florida for a minimum term of twelve months with an auto-renewal for 12 months. During the period ended April 30, 2021, the Company made one of the quarterly principal payments of $136,250, and a payment of $11,000 towards the Holdback amount, the total principal outstanding on the notes as of April 30, 2021, was $1,267,750.

In connection with the Purchase Agreement, the Company entered with the Note Holders into Consulting Agreements and a Non-Compete Agreement with each of Alex Gonzalez and Jose Gonzalez, the Chief Executive Officer and Chief Technology Officer of ActivePBX. Under the Consulting Agreements, the Company will pay on an annual basis $90,000 to each the consultants.

DIGERATI TECHNOLOGIES, INC. AND ACTIVESERVE, INC.

Unaudited Pro Forma Consolidated Balance Sheet
and
Unaudited Pro Forma Consolidated Statements of Operations

On November 17, 2020, Digerati Technologies, Inc. (the "Company"), through its subsidiary, T3 Communications, Inc., a Florida corporation ("T3 Florida"), executed and closed on an Asset Purchase Agreement (the "Purchase Agreement") with ActiveServe, Inc., a Florida corporation ("Seller"). Pursuant to the Purchase Agreement, T3 Florida acquired the customer base, certain equipment, certain intellectual property, inventory, contract rights, software and other licenses and miscellaneous assets used in connection with the operation of Seller's telecommunications business known as ActivePBX (collectively, the "Purchased Assets").

The aggregate purchase price for the Purchased Assets was $2,555,000 in cash, subject to adjustment as provided therein (the "Purchase Price"). $1,190,000 of the Purchase Price was payable at closing, with $50,000 of such amount being withheld by T3 Florida for a period of 12 months to cover part of potential future indemnification obligations of Seller to T3 Florida due to Seller's breaches, if any, of any representations and warranties made to T3 Florida by Seller under the Purchase Agreement, and $40,000 of such amount being credited to T3 Florida against a payment in that amount made by T3 Florida to Seller pursuant to the Second Amendment to Letter of Intent between Seller and T3 Florida dated as of October 15, 2020.

Part of the Purchase Price is payable in 8 equal quarterly payments of $136,250, subject to T3 Florida achieving quarterly post-purchase recurring revenues under monthly contracts or subscriptions from the acquired customer base, excluding charges for taxes, regulatory fees, additional set-up fees, equipment purchases or lease, and consulting fees. To the extent that a quarterly revenue threshold is not reached, the amount of the corresponding quarterly payment shall be reduced on a proportional basis. T3 Florida's $1,140,000 payment obligation is represented by a promissory note of T3 Florida in the form included as an exhibit to the Purchase Agreement. The note, in turn, is subject to the Subordination Agreement, included as an Exhibit to the Purchase Agreement, among Seller, the Company's parent, T3 Nevada, and Post Road Administrative, LLC, in its capacity as administrative agent for the Post Road lenders. $275,000 of the Purchase Price (the "Customer Renewal Value") represents an incentive earn-out to be paid with respect to Seller's customer accounts which are transferred to T3 Florida at closing, that are renewed, expanded and/or revised with T3 Florida for a minimum term of twelve months with an auto-renewal for 12 months.

The unaudited pro forma condensed consolidated combined financial information presented below has been prepared on the basis set forth in the notes below and have been presented to illustrate the estimated effects of the ActiveServe Asset Acquisition. The ActiveServe Asset Acquisition is being accounted for as a business combination using the acquisition method with the Company as the accounting acquirer in accordance with Financial Accounting Standards Board Accounting Standards Codification ("ASC") Topic 805, Business Combinations.

The historical financial information of the Company has been derived from the unaudited consolidated financial statements of the Company as of October 31, 2020, as found in Form 10Q which was filed with the Securities and Exchange Commissions on December 14, 2020.

The historical financial information of ActiveServe has been derived from the unaudited financial statements of the Seller Parties as of and for the three months ended October 31, 2020, included in Exhibit 99.2 to the Company's Form 8-K/A filed with the SEC on July 16, 2021.

The historical financial information of the Company has been derived from the audited consolidated financial statements of the Company as of July 31, 2020, as found in Form 10K which was filed with the Securities and Exchange Commissions on October 29, 2020.

The historical financial information of ActiveServe has been derived from the audited financial statements of the Seller Parties for the year ended July 31, 2020, included in Exhibit 99.1 to the Company's Form 8-K/A filed with the SEC on July 16, 2021

The following unaudited pro forma consolidated balance sheet as of October 31, 2020, and the unaudited pro forma consolidated statement of operations for the three months ended October 31, 2020, and twelve months ended July 31, 2020 (collectively, the "Pro Forma Statements") have been prepared in compliance with the requirements of SEC Regulation S-X Article 11 using accounting policies in accordance with U.S. GAAP.

The pro forma adjustments presented below are based on preliminary estimates and currently available information and assumptions that management believes are reasonable and appropriate under the circumstances and are factually supported based on information currently available. The notes to the unaudited pro forma condensed consolidated combined financial information provide a discussion of how such adjustments were derived and presented in the Pro Forma Statements. Changes in facts and circumstances or discovery of new information may result in revised estimates. As a result, there may be material adjustments to the Pro Forma Statements. Certain historical financial statement caption amounts for ActiveServe have been reclassified or combined to conform to presentation and the disclosure requirements of the combined company.

DIGERATI TECHNOLOGIES, INC. AND ACTIVESERVE, INC.
Unaudited Pro Forma Consolidated Balance Sheet
As of October 31, 2020

	Historical (unaudited)		Pro Forma		Pro Forma
	Digerati	ActiveServe	Adjustments	Note 3	Consolidated
ASSETS					
CURRENT ASSETS:					
Cash and cash equivalents	$ 446	$ 325	$ (325)	(a)	$ 446
Accounts receivable, net	116	26	52	(e)	194
Prepaid and other current assets	732	114	(112)	(e)	734
Total current assets	1,294	465	(385)		1,374
LONG-TERM ASSETS:					
Intangible assets, net	1,357	11	1,959	(b)	3,327
Goodwill, net	810	-	585	(c)	1,395
Property and equipment, net	482	4	(4)	(d)	482
Other assets	43	-	-		43
Investment in Itellum	185	-	-		185
Right-of-use asset	139	-	-		139
Total assets	$ 4,310	$ 480	$ 2,155		$ 6,945
LIABILITIES AND STOCKHOLDERS' DEFICIT					
CURRENT LIABILITIES:					
Accounts payable	$ 1,821	$ 25	$ (25)	(e)	$ 1,821
Accrued liabilities	1,887	228	(148)	(e)	1,967
Equipment financing	62	-	-		62
Convertible note payable, current, net $296	647	-	-		647
Note payable, current, related party, net $0	138	-	870	(a)	1,008
Note payable, current, net $0	1,616	-	-		-
Deferred income	138	-	-		138
Derivative liability	223	-	-		223
Operating lease liability, current	74	-	-		74
Total current liabilities	6,606	253	697		7,556
LONG-TERM LIABILITIES:					
Notes payable, related party, net $0	-	-	545	(a)	545
Note payable, net $0	133	156	984	(f)	1,273
Equipment financing	20	-	-		20
Operating lease liability	64	-	-		64
Total long-term liabilities	217	156	1,529		1,902
Total liabilities	6,823	409	2,226		9,458
Commitments and contingencies					
STOCKHOLDERS' DEFICIT:					
Preferred stock, $0.001, 50,000,000 shares authorized					
Convertible Series A Preferred stock, $0.001, 1,500,000 shares designated, 225,000 issued and outstanding	-	-	-		-
Convertible Series B Preferred stock, $0.001, 1,000,000 shares designated, 407,477 issued and outstanding	-	-	-		-
Convertible Series C Preferred stock, $0.001, 1,000,000 shares designated, 0 issued and outstanding	-	-	-		-
Series F Super Voting Preferred stock, $0.001, 100 shares designated, 100 issued and outstanding	-	-	-		-
Common stock, $0.001, 150,000,000 shares authorized, 122,182,410 issued and outstanding (15,000,000 reserved in Treasury)	122	-	-		122
Additional paid in capital	87,199	10	(10)	(g)	87,199
(Accumulated deficit) Retained earnings	(89,418)	61	(61)	(g)	(89,418)
Other comprehensive income	1	-	-		1
Total Digerati's stockholders' deficit	(2,096)	71	(71)		(2,096)
Noncontrolling interest	(417)		-		(417)

Total stockholders' deficit	(2,513)	71	(71)	(2,513)
Total liabilities and stockholders' deficit	$ 4,310	$ 480	$ 2,155	$ 6,945

See accompanying notes to unaudited pro forma consolidated financial statements

DIGERATI TECHNOLOGIES, INC. AND ACTIVESERVE, INC.
Unaudited Pro Forma Consolidated Statement of Operations
(In thousands, except per share amounts)
For the Three Months Ended October 31, 2020

	Historical (unaudited)		Pro Forma		Pro Forma
	Digerati	ActiveServe	Adjustments	Note 3	Consolidated
OPERATING REVENUES:					
Cloud software and service revenue	$ 1,552	$ 463	$ -		$ 2,015
Total operating revenues	1,552	463	-		2,015
OPERATING EXPENSES:					
Cost of services (exclusive of depreciation and amortization)	748	138	-		886
Selling, general and administrative expense	1,011	273	-		1,284
Legal and professional fees	258	-	-		258
Depreciation and amortization expense	161	-	75	(h)	236
Total operating expenses	2,178	411	75		2,664
OPERATING LOSS	(626)	52	(75)		(649)
OTHER INCOME (EXPENSE):					
Gain on derivative instruments	178	-	-		178
Income tax expense	(8)	(7)	-		(15)
Interest expense	(300)	-	-		(300)
Total other expense	(130)	(7)	-		(137)
NET LOSS INCLUDING NONCONTROLLING INTEREST	(756)	45	(75)		(786)
Less: Net loss attributable to the noncontrolling interests	35	-	6	(i)	41
NET LOSS ATTRIBUTABLE TO DIGERATI'S SHAREHOLDERS	(721)	45	(69)		(745)
Deemed dividend on Series A Convertible preferred stock	(5)	-	-		(5)
NET LOSS ATTRIBUTABLE TO DIGERATI'S COMMON SHAREHOLDERS	$ (726)	$ 45	$ (69)		$ (750)
LOSS PER COMMON SHARE - BASIC	$ (0.01)				$ (0.01)
LOSS PER COMMON SHARE - DILUTED	$ (0.01)				$ (0.01)
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING - BASIC	119,914,246				119,914,246
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING - DILUTED	119,914,246				119,914,246

See accompanying notes to unaudited pro forma consolidated financial statements

DIGERATI TECHNOLOGIES, INC. AND ACTIVESERVE, INC.
Unaudited Pro Forma Consolidated Statement of Operations
(In thousands, except share amounts)
For the Year Ended July 31, 2020

	Historical		Pro forma		Pro Forma
	Digerati	ActiveServe	Adjustments	Note 3	Consolidated
OPERATING REVENUES:					
Cloud software and service revenue	$ 6,279	$ 1,949	$ -		$ 8,228
Total operating revenues	6,279	1,949	-		8,228
OPERATING EXPENSES:					
Cost of services (exclusive of depreciation and amortization)	3,035	557	-		3,592
Selling, general and administrative expense	4,106	1,110	-		5,216
Legal and professional fees	642	-	-		642
Bad debt	(5)	12	-		7
Depreciation and amortization expense	613	1	299	(h)	913
Total operating expenses	8,391	1,680	299		10,370
OPERATING LOSS	(2,112)	269	(299)		(2,142)
OTHER INCOME (EXPENSE):					
Gain on derivative instruments	263	-	-		263
Gain on settlement of debt	129	-	-		129
Income tax benefit	33	1	-		34
Other income	116	-	-		116
Interest expense	(1,853)	(1)	-		(1,854)
Total other expense	(1,312)	-	-		(1,312)
NET LOSS INCLUDING NONCONTROLLING INTEREST	(3,424)	269	(299)		(3,454)
Less: Net loss attributable to the noncontrolling interests	47	-	6	(i)	53
NET LOSS ATTRIBUTABLE TO DIGERATI'S SHAREHOLDERS	(3,377)	269	(293)		(3,401)
Deemed dividend on Series A Convertible preferred stock	(19)	-	-		(19)
NET LOSS ATTRIBUTABLE TO DIGERATI'S COMMON SHAREHOLDERS	$ (3,396)	$ 269	$ (293)		$ (3,420)
LOSS PER COMMON SHARE - BASIC	$ (0.06)				$ (0.06)
LOSS PER COMMON SHARE - DILUTED	$ (0.06)				$ (0.06)
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING - BASIC	53,883,966				53,883,966
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING - DILUTED	53,883,966				53,883,966

See accompanying notes to unaudited pro forma consolidated financial statements

Notes to the Unaudited Pro Forma Consolidated Financial Statements

Note 1 — Basis of Presentation and Description of Transactions

The unaudited pro forma consolidated financial statements were prepared in accordance with U.S. GAAP and pursuant to the rules and regulations of SEC Regulation S-X and presents the pro forma financial position and results of operations of the combined companies based upon the historical data of the Company and ActiveServe.

Description of Transaction

On November 17, 2020, Digerati Technologies, Inc. (the "Company"), through its subsidiary, T3 Communications, Inc., a Florida corporation ("T3 Florida"), executed and closed on an Asset Purchase Agreement (the "Purchase Agreement") with ActiveServe, Inc., a Florida corporation ("Seller"). Pursuant to the Purchase Agreement, T3 Florida acquired the customer base, certain equipment, certain intellectual property, inventory, contract rights, software and other licenses and miscellaneous assets used in connection with the operation of Seller's telecommunications business known as ActivePBX (collectively, the "Purchased Assets").

The aggregate purchase price for the Purchased Assets was $2,555,000 in cash, subject to adjustment as provided therein (the "Purchase Price"). $1,190,000 of the Purchase Price was payable at closing, with $50,000 of such amount being withheld by T3 Florida for a period of 12 months to cover part of potential future indemnification obligations of Seller to T3 Florida due to Seller's breaches, if any, of any representations and warranties made to T3 Florida by Seller under the Purchase Agreement.

Basis of Presentation

The historical financial information of the Company has been derived from the unaudited consolidated financial statements of the Company as of October 31, 2020, as found in Form 10Q which was filed with the Securities and Exchange Commissions on December 14, 2020.

The historical financial information of ActiveServe has been derived from the unaudited financial statements of the Seller Parties as of and for the three months ended October 31, 2020, included in Exhibit 99.2 to the Company's Form 8-K/A filed with the SEC on July 16, 2021.

The historical financial information of the Company has been derived from the audited consolidated financial statements of the Company as of July 31, 2020, as found in Form 10K which was filed with the Securities and Exchange Commissions on October 29, 2020.

The historical financial information of ActiveServe has been derived from the audited financial statements of the Seller Parties for the year ended July 31, 2020, included in Exhibit 99.1 to the Company's Form 8-K/A filed with the SEC on July 16, 2021.

The historical consolidated financial statements have been adjusted in the pro forma consolidated financial statements to give effect to pro forma events that are (1) directly attributable to the ActiveServe Asset Acquisition, (2) factually supportable and (3) with respect to the pro forma consolidated statement of operations, expected to have a continuing impact on the combined results of the Company following the ActiveServe Asset Acquisition.

The ActiveServe Asset Acquisition is being accounted for as a business combination using the acquisition method with the Company as the accounting acquirer in accordance with ASC Topic 805, Business Combinations. As the accounting acquirer, the Company has estimated the fair value of ActiveServe assets acquired and liabilities assumed and conformed the accounting policies of ActiveServe to its own accounting policies.

The pro forma consolidated financial statements do not necessarily reflect what the combined company's financial condition or results of operations would have been had the acquisition occurred on the dates indicated. They also may not be useful in predicting the future financial condition and results of operations of the combined company. The actual financial position and results of operations may differ significantly from the pro forma amounts reflected herein due to a variety of factors.

Note 2— Preliminary purchase price allocation

On November 17, 2020, Digerati Technologies, Inc. (the “Company”), through its subsidiary, T3 Communications, Inc., a Florida corporation (“T3 Florida”), executed and closed on an Asset Purchase Agreement (the “Purchase Agreement”) with ActiveServe, Inc., a Florida corporation (“Seller”). Pursuant to the Purchase Agreement, T3 Florida acquired the customer base, certain equipment, certain intellectual property, inventory, contract rights, software and other licenses and miscellaneous assets used in connection with the operation of Seller’s telecommunications business known as ActivePBX (collectively, the “Purchased Assets”).

The aggregate purchase price for the Purchased Assets was $2,555,000 in cash, subject to adjustment as provided therein (the “Purchase Price”). $1,190,000 of the Purchase Price was payable at closing, with $50,000 of such amount being withheld by T3 Florida for a period of 12 months to cover part of potential future indemnification obligations of Seller to T3 Florida due to Seller’s breaches, if any, of any representations and warranties made to T3 Florida by Seller under the Purchase Agreement.

The following table presents the preliminary allocation of the purchase price to the assets acquired and liabilities assumed for the ActiveServe Asset Acquisition:

	ActivePBX (In thousands)
Accounts receivables	$ 78
Intangible Assets and Goodwill	2,555
Other Assets	2
Total identifiable assets	$ 2,635
Less: liabilities assumed	80
Total Purchase price	$ 2,555

The following table summarizes the cost of intangible assets related to the acquisition:

	ActivePBX (In thousands)	Useful life (years)
Customer Relationships	$ 1,610	7
Trade Names & Trademarks	270	7
Non-compete Agreement	90	2-3
Goodwill	585	-
	$ 2,555	

Note 3— Pro forma adjustments

The pro forma adjustments are based on preliminary estimates and assumptions that are subject to change. The following adjustments have been reflected in the unaudited pro forma consolidated financial statements:

a) Adjustment to reflect the consideration transferred by the Company, which includes:

- Cash paid at the closing of the ActiveServe Asset Acquisition of $1.14 million and the cash retained by the seller of $424,000;
- Elimination of $325,000 for the net cash not retained by the Company;
- Deferred consideration of $1.09 million, of which $545,000 is due on the one-year anniversary of the ActiveServe Asset Acquisition and included in the Current Note payable, related party in the pro forma balance sheet, and $545,000 is due on the two-year anniversary of the ActiveServe Asset Acquisition and included in Long term Note Payable, related party, net of current portion in the pro forma balance sheet; and $50,000 indemnification holdback due on the one-year anniversary and $275,000 in earn-out associated with the Customer Renewal Value due on the one-year anniversary, both included in the Current Note Payable, related party in the pro forma balance sheet;

b) Represents the preliminary purchase price allocated to the intangible assets based on the estimated fair values as follows:

Customer relationships: The fair value of the customer relationships was determined using an income approach based upon management's assessment of prospective financial information and a discount rate based upon the Company's weighted average cost of capital.

Non-compete provisions: The fair value of the non-compete provisions, was determined using an income approach based upon management's assessment of prospective financial information, including an estimated impact of competition, and a discount rate based upon the Company's weighted average cost of capital.

Trade Names and Trademarks: The fair value of the Trade names and trademarks were determined using an income approach based upon management's assessment of prospective revenues, a royalty rate selected from a range of comparable licensing transactions and a discount rate based upon the Company's weighted average cost of capital.

c) Represents the preliminary purchase price allocated to goodwill in the ActiveServe Asset Acquisition. Goodwill represents the excess of the consideration transferred over the preliminary fair value of the net tangible and intangible assets acquired. Goodwill will not be amortized, but instead will be tested for impairment at least annually and whenever events or circumstances have occurred that may indicate a possible impairment. In the event management determines that the value of goodwill has become impaired, the combined company will incur an accounting charge for the amount of the impairment during the period in which the determination is made.

d) Adjustment to eliminate the Property and equipment, which was not acquired by the Company in the ActiveServe Asset Acquisition.

e) Adjustment to eliminate certain Accounts receivables, Prepaid and other current assets, Accounts payable, Accrued liabilities and Note payable, which were not transferred to the Company in the ActiveServe Asset Acquisition.

f) Represents cash secured by the Company $1.14 million for the initial cash payment made at closing for the ActiveServe Asset Acquisition and included in the Long Term Note payable in the pro forma balance sheet. The financing is part of the Credit Agreement and Notes secured from Post Road and previously disclosed. ***(filed as Exhibits 4.1 and 4.2 to Form 8-K filed with the SEC on November 23, 2020.)***

g) Adjustment to eliminate ActiveServe's historical additional paid-in capital and retained earnings.

h) Represents the future annual amortization of the intangible assets based upon their estimated useful lives. The estimated useful lives were determined based on a review of the time period over which the economic benefit of each intangible asset is estimated to be generated.

i) Adjustment to allocate T3 Communications, Inc., Digerati's operating subsidiary, net (loss) to redeemable noncontrolling interest holders, this is reflected in Digerati's consolidated financial statements. The net (loss) allocated to noncontrolling interest is computed by applying the 19.99% ownership interest in T3 Communications, Inc.