DIGICORP, INC.
Form 10-Q
May 19, 2008

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

Form 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED: **March 31, 2008**

COMMISSION FILE NUMBER **000-33067**

DIGICORP, INC.
(Exact name of registrant as specified in its charter)

DELAWARE	**87-0398271**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

4143 Glencoe Avenue, Unit B, Marina Del Rey, CA 90292
(Address of principal executive offices)

Registrant's telephone number, including area code: **(310) 728-1450**

Not applicable
(Former name, former address and former fiscal year, if changed since last report)

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 is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definition of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	[ ]	Accelerated filer	[ ]
	[ ]		[X]

Non-accelerated filer	Smaller reporting company

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

APPLICABLE ONLY TO CORPORATE ISSUERS

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: As of May 16, 2008, the issuer had 49,545,104 outstanding shares of Common Stock, $.001 par value.

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PART I

Item 1. Financial Statements.

DIGICORP, INC.

Consolidated Balance Sheet

	March 31, 2008 (Unaudited)	December 31, 2007 (Audited)
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 230,640	$ 5,600
Accounts receivable, net	301,043	304,841
Inventories	-	15,436
Other current assets	19,865	19,865
TOTAL CURRENT ASSETS	551,548	345,935
Property and equipment, net	18,918	170,767
Intangible assets, net	363,724	394,935
TOTAL ASSETS	$ 934,190	$ 911,444
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
CURRENT LIABILITIES		
Accounts payable	$ 330,149	$ 342,842
Accrued liabilities	660,860	575,601
Note payable - related party	1,150,000	1,068,000
Deferred revenue	69,672	69,672
TOTAL CURRENT LIABILITIES	2,210,681	2,056,115
LONG TERM LIABILITIES		
Convertible note payable - related party	556,307	556,307
Debt discount - beneficial conversion feature	(106,532)	(116,216)
TOTAL LONG TERM LIABILITIES	449,775	440,091
TOTAL LIABILITIES	2,660,456	2,496,206
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY (DEFICIT)		
Preferred stock, $0.001 par value: 1,000,000 shares authorized; zero shares issued and outstanding at March 31, 2008 and December 31, 2007	-	-
Common stock, $0.001 par value: 60,000,000 shares authorized; 49,545,104 shares issued and outstanding at March 31, 2008; 39,545,104 shares issued and outstanding at December 31, 2007	49,545	39,545
Paid-in capital	6,582,421	6,243,079
Accumulated deficit	(8,358,232)	(7,867,386)
TOTAL STOCKHOLDERS' EQUITY (DEFICIT)	(1,726,266)	(1,584,762)
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)	$ 934,190	$ 911,444

The accompanying notes are an integral part of these consolidated financial statements.

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DIGICORP, INC.

Consolidated Statements of Operations (Unaudited)

	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007
REVENUE		
Sales	$ 76,149	$ 125,339
Total revenue	76,149	125,339
OPERATING EXPENSES		
Cost of sales	16,209	40,863
Selling, general and administrative expenses	379,095	779,307
Total operating expenses	395,304	820,170
Operating loss	(319,155)	(694,831)
Loss on Abandonment	130,317	-
Interest expense	39,774	25,537
LOSS BEFORE INCOME TAXES	(489,246)	(720,368)
PROVISION FOR INCOME TAXES	1,600	1,600
NET LOSS	$ (490,846)	$ (720,368)
BASIC AND DILUTED NET LOSS PER COMMON SHARE	$ (0.01)	$ (0.02)
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING	39,767,440	37,239,002

The accompanying notes are an integral part of these consolidated financial statements.

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DIGICORP, INC.

Consolidated Statements of Cash Flows (Unaudited)

	Three Months Ended	
	March 31, 2008	March 31, 2007
Cash flows from operating activities:		
Net loss	$ (490,846)	$ (721,968)
Adjustments to reconcile net loss to net cash used in operating activities:		
Loss on Abandonment	130,317	-
Depreciation	21,533	21,395
Amortization of licenses	31,211	36,211
Amortization of debt discount	9,684	9,684
Stock-based compensation to employees and directors	49,342	425,315
Changes in operating assets and liabilities:		
Accounts receivable	3,798	(44,161)
Inventories	15,436	16,674
Accounts payable and accrued liabilities	72,566	57,828
Net cash used in operating activities	**(156,959)**	**(199,021)**
Cash flows from investing activities:		
Purchases of licenses and developed content	-	(12,000)
Net cash used in investing activities	**-**	**(12,000)**
Cash flows from financing activities:		
Proceeds from issuance of common stock	300,000	-
Proceeds from related party note	82,000	235,000
Net cash provided by financing activities	**382,000**	**235,000**
Net increase (decrease) in cash and cash equivalents	225,041	23,979
Cash and cash equivalents at beginning of period	5,600	3,350
Cash and cash equivalents at end of period	$ 230,641	$ 27,329
Supplemental disclosures of cash flow information:		
Income taxes	$ 1,600	$ -

The accompanying notes are an integral part of these consolidated financial statements.

DIGICORP, INC.
Notes to Consolidated Interim Financial Statements - Unaudited

March 31, 2008

1. DESCRIPTION OF BUSINESS

Digicorp ("***the Company***") was organized under the laws of the State of Utah on July 19, 1983. On July 1, 1995, the Company became a development stage enterprise as defined in Statements of Financial Accounting Standards ("***SFAS***") No. 7, *Accounting and Reporting by Development Stage Enterprises*, when it sold its assets and changed its business plan. On December 29, 2005, the Company ceased being a development stage enterprise when it acquired all of the issued and outstanding capital stock of Rebel Crew Films, Inc., a California corporation ("***Rebel Crew Films***"), pursuant to a reverse merger transaction (see note 3).

Pursuant to shareholder approval, which was obtained at our annual meeting of stockholders held July 14, 2006, on October 6, 2006, the Board of Directors of the Company approved and authorized the Company to enter into an Agreement and Plan of Merger by and between the Company and Digicorp, Inc., a Delaware corporation and newly formed wholly-owned subsidiary of the Company that was incorporated under the Delaware General Corporation Law for the purpose of effecting a change of domicile. Effective February 22, 2007, the Company changed its domicile from Utah to Delaware and the name of the surviving corporation is Digicorp, Inc.

Rebel Crew Films is a wholly-owned subsidiary of the Company. Rebel Crew Films was organized under the laws of the State of California on August 7, 2002 to distribute Latino home entertainment products. Rebel Crew Films distributes Spanish language films and serves wholesale, retail, catalog, and e-commerce accounts. Rebel Crew Film's titles can be found at major retail outlets and independent video outlets across the United States of America and Canada. In January 2008, the Company entered into a license and distribution agreement with Westlake Entertainment, Inc. This agreement effectively shifted all manufacturing and distribution of our home video library to Westlake Entertainment, Inc. The agreement with Westlake Entertainment allowed the Company to both, increase its national exposure through existing Westlake Entertainment sales channels while maintaining our existing sales to national retailers and to effectively transfer all day-to-day operations related to our home video library to Westlake Entertainment.

We are organized in a single operating segment with no long-lived assets outside of the United States of America. All of our revenues to date have been generated in the United States, but with the development of our China Internet media portal, we expect that a portion of our future revenues will be from other countries. Revenue sources could be from distribution of content, advertising and licensing.

2. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying consolidated financial statements do not include all the information and disclosures required by accounting principles generally accepted in the United States of America. The preparation of financial statements in conformity with accounting principles generally accepted in the U.S. requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The actual results may differ from management's estimates.

The interim consolidated financial information is unaudited, but reflects all normal adjustments that are, in the opinion of management, necessary to provide a fair statement of results for the interim periods presented. The consolidated balance sheet as of December 31, 2007, was derived from the Company's audited financial statements. Operating results for the interim periods presented are not necessarily indicative of the results to be expected for the fiscal year ending December 31, 2008. The interim consolidated financial statements should be read in connection with the Company's audited financial statements for the year ended December 31, 2007.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Rebel Crew Films. All significant intercompany accounts and transactions have been eliminated in consolidation.

Going Concern

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern which contemplates the realization of assets and satisfaction of liabilities in the normal course of business. At March 31, 2008 the Company had an accumulated deficit of $8.4 million and a working capital deficit of $1.7 million, which includes a deferred revenue balance of $70,000, as discussed below. During the three months ended March 31, 2008, the Company incurred a loss of $491,000. During the three months ended March 31, 2008, the Company primarily relied upon revenues generated from the direct sales of its Latino home entertainment content and on debt and equity investments to fund its operations. These conditions raise substantial doubt about the Company's ability to continue as a going concern. Management is actively seeking sources of additional financing in order to maintain and potentially expand the Company's operations and to fund its debt repayment obligations. There can be no assurance that the Company will be able to obtain such additional funding on terms acceptable to the Company, if at all. The accompanying financial statements do not include any adjustments that might result from the outcome of this uncertainty.

3. INCOME (LOSS) PER COMMON SHARE

Income (loss) per common share is based on the weighted average number of common shares outstanding. The Company complies with SFAS No. 128, *"Earnings Per Share,"* which requires dual presentation of basic and diluted earnings per share on the face of the statements of operations. Basic per share earnings or loss excludes dilution and is computed by dividing income (loss) available to common stockholders by the weighted-average common shares outstanding for the period. Diluted per share earnings or loss reflects the potential dilution that could occur if convertible preferred stock or debentures, options and warrants were to be exercised or converted or otherwise resulted in the issuance of common stock that then shared in the earnings of the entity.

Options and warrants issued pursuant to our Stock Option Plan and warrants that were issued outside our Stock Option Plan which were outstanding as of March 31, 2008 to purchase 7,143,333 and 550,000 shares of common stock, respectively, and 500,000 shares issuable upon conversion of an outstanding convertible note were not included in the computation of diluted net loss per common share for the three months ended March 31, 2008, as their inclusion would have been antidilutive.

4. ACCRUED LIABILITIES

Accrued liabilities at March 31, 2008 and December 31, 2007 are comprised of the following:

		March 31, 2008		**December 31, 2007**
Obligations on license agreements	$	47,595	$	47,595
Accrued salaries		393,750		353,182
Accrued interest		157,504		127,414
Other		62,011		47,410
Total Accrued Liabilities	$	660,860	$	575,601

5. CONVERTIBLE NOTE PAYABLE - RELATED PARTY

In connection with the acquisition of Rebel Crew Films on December 29, 2005, the Company entered into a Securities Purchase Agreement with one of the shareholders of Rebel Crew Films, Rebel Holdings, LLC, a California limited liability company (***"Rebel Holdings"***), pursuant to which the Company purchased a $556,000 principal amount loan receivable owed by Rebel Crew Films to Rebel Holdings, LLC in exchange for the issuance of a $556,000 principal amount secured convertible note to Rebel Holdings, LLC. The secured convertible note accrues simple interest at the rate of 4.5%, matures on December 29, 2010 and is secured by all of the Company's assets now owned or hereafter acquired. The secured convertible note is convertible into 500,000 shares of the Company's common stock at the rate of $1.112614 per share. Jay Rifkin, the Company's Chief Executive Officer and a director, is the sole managing member of Rebel Holdings, LLC.

As the effective conversion price of the note on the date of issuance was below the fair market value of the underlying common stock, the Company recorded debt discount in the amount of $194,000 based on the intrinsic value of the beneficial conversion feature of the note. The debt discount recorded as a result of the beneficial conversion feature will be amortized as non-cash interest expense over the term of the debt. During the three months ended March 31, 2008 and 2007, interest expense of $9,700 has been recorded from the debt discount amortization, and as of March 31, 2008, the remaining debt discount balance attributable to the beneficial conversion feature was $107,000.

6. STOCK BASED COMPENSATION

Effective July 20, 2005, the Board of Directors of the Company approved the 2005 Stock Option and Restricted Stock Plan (the ***"2005 Plan"***). The Plan reserves 15,000,000 shares of common stock for grants of incentive stock options, nonqualified stock options, warrants and restricted stock awards to employees, non-employee directors and consultants performing services for the Company. Options and warrants granted under the Plan have an exercise price equal to or greater than the fair market value of the underlying common stock at the date of grant and become exercisable based on a vesting schedule determined at the date of grant. The options expire 10 years from the date of grant whereas warrants generally expire 5 years from the date of grant. Restricted stock awards granted under the Plan are subject to a vesting period determined at the date of grant.

The Company accounts for stock-based compensation awards in accordance with the provisions of SFAS No. 123(R), *Share-Based Payment*, which addresses the accounting for employee stock options. SFAS 123(R) requires that the cost of all employee stock options, as well as other equity-based compensation arrangements, be reflected in the financial statements over the vesting period based on the estimated fair value of the awards. The Company adopted SFAS 123(R) as of January 1, 2005. Prior to the adoption date, there were no stock options or other equity-based compensation awards outstanding.

A summary of stock option activity for the three months ended March 31, 2008 is presented below:

		Outstanding Options			
	Shares Available for Grant	**Number of Shares**	**Weighted Average Exercise Price**	**Weighted Average Remaining Contractual Life (years)**	**Aggregate Intrinsic Value**
December 31, 2007	**7,856,667**	**7,143,333**	**$ 0.73**	**7.95**	
Grants					
Cancellations					
March 31, 2007	**7,856,667**	**7,143,333**	**$ 0.73**	**7.95**	**$**
Options exercisable at:					
December 31, 2007		3,941,667	$ 0.78	8.10	**$**
March 31, 2008		3,941,667	$ 0.78	7.83	**$**

The aggregate intrinsic value in the table above represents the total pretax intrinsic value (i.e., the difference between our closing stock price on March 31, 2008 and the exercise price, times the number of shares) that would have been received by the option holders had all option holders exercised their options on March 31, 2008. There have not been any options exercised during the three months ended March 31, 2008 or year ended December 31, 2007.

All outstanding stock-based compensation awards were granted by the Company at the per share fair market value on the grant date. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model. For options granted during the three months ended March 31, 2008, the following assumptions were used: volatility 146%; expected life 5 years; risk-free interest rate 4.50%; dividend yield 0%.

During the three months ended March 31, 2008 and 2007 stock-based compensation totaling $49,000 and $425,000, respectively, was recorded by the Company.

DIGICORP, INC.
Notes to Consolidated Interim Financial Statements - Unaudited
March 31, 2008

7. EQUITY TRANSACTIONS

On March 26, 2008, the Company entered into a subscription agreement with an accredited investor in a private placement exempt from the registration requirements of the Securities Act of 1933, as amended (the ***"Securities Act"***). The Company issued and sold to the accredited investor an aggregate of 10,000,000 shares of its common stock. These issuances resulted in aggregate gross proceeds to the Company of $300,000.

8. WARRANTS

During 2005, the Company issued a total of 550,000 warrants, outside of its 2005 Plan, to purchase shares of common stock at prices ranging from $0.145 to $0.65 per share to consultants. No warrants, other than warrants that were issued pursuant to the 2005 Plan, were issued by the Company during the three months ended March 31, 2008.

The following table summarizes information about common stock warrants outstanding at March 31, 2008:

	Outstanding				Exercisable	
Exercise Price	Number Outstanding	Weighted Average Remaining Contractual Life (Years)		Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$ 0.10 - 0.25	250,000	2.75	$	0.145	250,000	$ 0.145
$ 0.50 - 0.75	300,000	2.50		0.65	300,000	0.65
$ 0.10 - 0.75	550,000	2.61	$	0.42	550,000	$ 0.42

9. RELATED PARTY TRANSACTIONS

From January 10, 2007 through December 31, 2007 and from July 14, 2006 through December 31, 2006, Jay Rifkin, the Company's Chairman and Chief Executive Officer, loaned the Company a total of $595,000 and $395,000, respectively. As consideration for the loans, the Company issued Mr. Rifkin demand promissory notes at interest rates that ranged from the prime rate to the prime rate plus one percent.

From January 1, 2008 through March 15, 2008, Mr. Rifkin loaned the Company an additional $82,000. As consideration for the loans, the Company issued Mr. Rifkin demand promissory notes at a rate equal to the prime rate plus one percent. At March 31, 2008, the total amount loaned to the Company by Mr. Rifkin totaled $1,150,000.

10. LOSS ON ABANDONMENT

In September 2005, the Company entered into an asset purchase agreement to acquire the iCodemedia suite of websites and all related intellectual property (the "*iCodemedia Assets*"). The Company intended to develop these websites into a suite of applications and services to enable content creators to publish and deliver content to existing and next generation devices. During the quarter ending March 31, 2008, management determined that the Company would no longer develop the iCodemedia Assets and, accordingly, $41,650 was charged to operations in the current period as a non-recurring loss on abandonment.

In April 2006, the Company entered into an asset purchase agreement to acquire the software application known as ITunesBucks and its associated assets (the "*ITunesBucks Assets*"). The Company intended to develop the ITunesBucks Assets into a customer affinity program that enabled users to generate credits that would then be used to purchase merchandise. During the quarter ending March 31, 2008, management determined that the Company would no longer develop the ITunesBucks Assets and, accordingly, $88,667 was charged to operations in the current period as a non-recurring loss on abandonment.

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our financial statements and the related notes thereto contained elsewhere in this Form 10-Q. This discussion contains forward-looking statements that involve risks and uncertainties. All statements regarding future events, our future financial performance and operating results, our business strategy and our financing plans are forward-looking statements. In many cases, you can identify forward-looking statements by terminology, such as "may," "should," "expects," "intends," "plans," "anticipates," "believes," "estimates," "predicts," "potential," or "continue" or the negative of such terms and other comparable terminology. These statements are only predictions. Known and unknown risks, uncertainties and other factors could cause our actual results to differ materially from those projected in any forward-looking statements. In evaluating these statements, you should specifically consider various factors, including, but not limited to, those set forth under "Risk Factors" previously disclosed in Item 1 included in our Annual Report on Form 10-KSB for the fiscal year ended December 31, 2007, which was filed with the SEC on April 16, 2008.

The following "Overview" section is a brief summary of the significant issues addressed in this MD&A. Investors should read the relevant sections of the MD&A for a complete discussion of the issues summarized below. The entire MD&A should be read in conjunction with Item 1. Financial Statements.

Overview

We are engaged in the business of developing, marketing and distributing programming content, multi-media technologies, and advertising via the Internet. We expect that within the next 12 months, our business will shift significantly to aggregation and distribution of international content for Internet consumption in China. We will focus a significant amount of our available resources to building and launching a large scale, advertising supported Internet media portal in China. We believe that significant opportunities exist in the China Internet advertising space, and we will actively pursue this potential source of revenue during the year ending December 31, 2008.

We currently generate revenue through a distribution and license agreement of our home video library with Westlake Entertainment, Inc. This agreement calls for a 25% - 50% distribution fee to Westlake on gross sales of licensed products.

We are organized in a single operating segment with no long-lived assets outside of the United States of America. All of our revenues to date have been generated in the United States, but with the development of our China Internet media portal, we expect that a portion of our future revenues will be from other countries. Revenue sources could be from distribution of content, advertising and licensing.

Organizational History

Digicorp, Inc. (referred to herein as the *"Company," "we," "us,"* and *"our"*) was incorporated on July 19, 1983 under the laws of the State of Utah under the name of Digicorp for the purpose of developing and marketing computer software programs. From 1983 to 1995, our sales and investments were attributable to the sale of computer software and investments related to oil, gas and mining.

On February 22, 2007, we changed the Company's domicile from the State of Utah to the State of Delaware effected by the merger of the Company, a Utah corporation, with and into, Digicorp, Inc., a newly formed wholly owned subsidiary of the Company that was incorporated under the Delaware General Corporation Law for the purpose of effecting the change of domicile.

China Youth League Network (CYLN)

On November 23, 2007, we executed a letter of intent (LOI) with the Chinese government body China Youth Net (CYN) and China based Internet company WKC to build, launch and operate a large scale, advertising supported Internet media portal in China, pursuant to which we will contribute the exclusive China rights to our ViraCast technology (see below). The LOI provides for the new venture to retain the exclusive rights to serve international content via a peer-to-peer portal to China's student population of more than 70 million young people, ranging from eighth grade through university. Under the auspices of CYN, the new portal will comply with recent regulations instituted by the Chinese government that restrict online video sites. Under this new policy, websites that provide video programming or allow users to upload video must obtain government permits, and applicants must be either state-owned or state-controlled companies. The letter of intent contemplates the raising of certain financing for the new venture. At this stage, no funding has been committed and there can be no assurances that funding will be secured. In addition, should the parties fail to execute a definitive agreement within one year, the letter of intent will terminate unless extended by the parties.

ViraCast

We are developing a suite of patent pending applications and services that allow for the enterprise workflow management, processing, distribution and control of content for next generation devices and emerging content delivery platforms. Our proprietary ViraCast technology provides content producers, advertisers, and marketers new revenue models built around these emerging platforms with enhanced user data, reporting, and accountability.

Our strategy for ViraCast is to pinpoint unexploited and unrealized market opportunities that emerge from the evolving media and advertising landscapes and build solutions around them. In particular, the company is focusing on new markets that arise from the following sources:

- *Peer-to-peer Distribution* - the distribution of audio or video files over the Internet for listening or viewing on mobile devices and personal computers;

- *Online Advertising*;

- *Viral Marketing* - marketing and advertising techniques that use pre-existing social networks to produce increases in brand awareness through self-replicating viral processes.

We will work with content developers, entertainment companies, advertising agencies, music talent, labels, representatives, distributors, as well as software and engineering companies to address the needs and requirements of the next generation of ad supported and paid content delivery technologies.

The Company has successfully utilized its ViraCast technology to enhance and distribute online radio shows from PerreoRadio.com. We intend to employ this technology to distribute assets from our library of Spanish language films, while also marketing and offering the technology to a variety of third-party content owners and distributors seeking a digital delivery solution.

PerreoRadio.com

PerreoRadio.com is a website targeted to the young, urban Latino demographic in both the United States and internationally offering online radio shows, podcasts, music, and music videos from some of the top DJ's from the United States, Latin America, and the Caribbean. On February 7, 2006, we entered into an asset purchase agreement with Matthew B. Stuart pursuant to which we purchased the following Internet domain names and all materials, intellectual property, goodwill and records in connection therewith (the "Assets"): PerreoRadio.com, Radioperreo.com, Perreomobile.com, Perreotv.com, Puroperreo.com, Puroreggaeton.com, Purosandungueo.com, Sandungueoradio.com, Machetemusic.net, Machetemusic.org, Machetemusica.com and Musicamachete.com.

In accordance with the purchase of the Assets, we entered a three-year employment agreement with Mr. Stuart. As consideration for the Assets, we issued Mr. Stuart and his nominees an aggregate of 100,000 shares of common stock. All such shares of common stock are subject to lock up agreements as follows: 25,000 shares are subject to a lock up agreement for one year; 25,000 shares are subject to a lock up agreement for two years; and 50,000 shares are subject to a lock up agreement for three years.

PerreoRadio.com is a Latino based community website that offers online radio shows from some of the top DJ's in the Reggaeton genre. Our intent is to become a recognized leader in the Spanish-language and Hispanic-targeted markets by capturing the top DJ's in this area and expanding into 12 - 15 markets to syndicate the shows. Currently, we operate in five markets: San Francisco, Los Angeles, Chicago, Boston and New York City.

Rebel Crew Films, Inc.

Rebel Crew Films is a wholly-owned subsidiary of the Company. Rebel Crew Films was organized under the laws of the State of California on August 7, 2002 to distribute Latino home entertainment products. Rebel Crew Films distributes Spanish language films and serves wholesale, retail, catalog, and e-commerce accounts. Rebel Crew Film's titles can be found at major retail outlets and independent video outlets across the United States of America and Canada.

In January 2008, the Company entered into a license and distribution agreement with Westlake Entertainment, Inc. This agreement effectively shifted all manufacturing and distribution of our home video library to Westlake Entertainment, Inc. The agreement with Westlake Entertainment allowed the Company to increase its national exposure through existing Westlake Entertainment sales channels while maintaining our existing sales to national retailers, and to effectively transfer all day-to-day operations related to our home video library to Westlake Entertainment. Pursuant to the agreement, Westlake has taken over sales, production and all physical distribution of our 157 title library, while we will continue to manage digital distribution and advertising rights. Westlake will distribute existing inventory for a fee and will distribute new product on a revenue share basis. The licensing transaction was part of an initiative to focus the Company's efforts on commercialization of our patent pending ViraCast advertising technology and associated business opportunities in the United States and internationally.

Seasonality

Our performance may be affected by seasonal revenue fluctuations and variation in demand between local and national advertisers. The Company's revenues may vary throughout the year. As is typical in the distribution of content, the first calendar quarter generally produces the lowest revenues.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operation are based upon the accompanying financial statements. The financial statements have been prepared in accordance with the generally accepted accounting principles in the United States of America. The preparation of the financial statements requires that we make estimates and assumptions that affect the amounts reported in assets, liabilities, revenues and expenses. Management evaluates on an on-going basis our estimates with respect to the valuation allowances for accounts receivable, income taxes, accrued expenses and equity instrument valuation, for example. We base these estimates on various assumptions and experience that we believe to be reasonable. The following critical accounting policies are those that are important to the presentation of our financial condition and results of operations and require management's most difficult, complex, or subjective judgments, often as a result of the need to make estimates of matters that are inherently uncertain.

The following critical accounting policies affect our more significant estimates used in the preparation of our financial statements and, in particular, our most critical accounting policy relates to the valuation of our intangible assets and stock based compensation.

Allowance for Doubtful Account - Our allowance for doubtful accounts relates to accounts receivable. The allowance for doubtful accounts is an estimate prepared by management that identifies a certain portion of receivables that may go uncollected. In determining adequacy of the allowance for doubtful account, we consider customer balances in receivables, historical bad debts, customer concentrations, current economic trends and changes in customer payment patterns. Changes in the financial condition of our customer may change, which would require additional allowances. The allowance for doubtful account is reviewed quarterly, and adjustments are made as deemed necessary.

Goodwill and Other Intangible Assets - Goodwill and Intangible Assets correspond to the excess cost over fair value of certain assets during acquisition. In accordance with the provisions of FASB Statement No. 142, *Goodwill and Other Intangible Assets*, goodwill and intangible assets acquired that are determined to have an indefinite useful life are not subject to amortization, but instead are tested for impairment at periodic intervals. Intangible assets with a useful life that can be estimated are amortized over their respective estimated useful lives to their estimated residual values and are reviewed periodically for impairment in accordance with FASB Statement No. 144, *Accounting for Impairment or Disposal of Long-Lived Assets*. Certain events or changes in circumstances may occur that indicate that goodwill or assets are impaired and consequently require testing on a periodic basis. Determining the fair value of goodwill or assets is subjective in nature and involves using estimates and assumptions. We base our fair value estimates on assumptions we believe to be reasonable but that are inherently uncertain. To date we have not recognized impairments on any of our goodwill and other intangible assets.

Stock-Based Compensation - We have adopted the provisions of SFAS No. 123(R), *Share-Based Payment*, which requires that share-based payments be reflected as an expense based upon the grant-date fair value of those grants. Accordingly, the fair value of each option grant, non-vested stock award and shares issued under our employee stock purchase plan, were estimated on the date of grant. We estimate the fair value of these grants using the Black-Scholes model which requires us to make certain estimates in the assumptions used in this model, including the expected term the award will be held, the volatility of the underlying common stock, the discount rate, dividends and the forfeiture rate. The expected term represents the period of time that grants and awards are expected to be outstanding. Expected volatilities were based on historical volatility of our stock. The risk-free interest rate approximates the U.S. treasury rate corresponding to the expected term of the option. Dividends were assumed to be zero. Forfeiture estimates are based on historical data. These inputs are based on our assumptions, which we believe to be reasonable but that include complex and subjective variables. Other reasonable assumptions could result in different fair values for our stock-based awards. Stock-based compensation expense, as determined using the Black-Scholes option pricing model, is recognized on a straight line basis over the service period, net of estimated forfeitures. To the extent that actual results or revised estimates differ from the estimates used, those amounts will be recorded as a cumulative adjustment in the period that estimates are revised.

Recent Accounting Pronouncements

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities - Including an amendment to FASB Statement No. 115* (**"SFAS 159"**). This statement permits companies to choose to measure many financial instruments and other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. This statement is expected to expand the use of fair value measurement of accounting for financial instruments. The fair value option established by this statement permits all entities to measure eligible items at fair value at specified election dates. This statement is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. We are currently assessing the impact adoption of SFAS No. 159 will have on our consolidated financial statements.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141(R), *Business Combinations* (**"SFAS 141(R)"**). This statement requires the acquiring entity in a business combination to record all assets acquired and liabilities assumed at their respective acquisition-date fair values, changes the recognition of assets acquired and liabilities assumed arising from contingencies, changes the recognition and measurement of contingent consideration, and requires the expensing of acquisition-related costs as incurred. SFAS 141(R) also requires additional disclosure of information surrounding a business combination, such that users of the entity's financial statements can fully understand the nature and financial impact of the business combination. We will implement SFAS No. 141(R) on January 1, 2009 and will apply prospectively to business combinations completed on or after that date.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 160, *Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB 51* (**"SFAS 160"**). SFAS 160 establishes accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent, the amount of consolidated net income attributable to the parent and to the noncontrolling interest, changes in a parent's ownership interest and the valuation of retained noncontrolling equity investments when a subsidiary is deconsolidated. SFAS 160 also established reporting requirements that provide sufficient disclosures that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owner. We will implement SFAS No. 160 on January 1, 2009. We do not expect the adoption of this standard to have a material impact on our income statement, financial position or cash flows.

Results of Operations

Comparison of the Three Months Ended March 31, 2008 to the Three Months Ended March 31, 2007

Quarter Revenues

Quarterly Sales - For the three months ended March 31, 2008 we generated revenues of $76,000 as compared to the three months ended March 31, 2007 in which we generated revenues of $125,000. During the three months ended March 31, 2008 revenue generated was almost exclusively from the direct sales of our home video content. The decrease in sales revenue during the three months ended March 31, 2008 is principally attributed to the change in the Company strategy as well as the license and distribution agreement with Westlake Entertainment, Inc. This agreement effectively shifted all manufacturing and distribution of our home video library to Westlake Entertainment along with all day-to-day operations related to our home video library. This agreement calls for a 25% - 50% distribution fee to Westlake on gross sales of licensed products.

Quarterly Operating Expenses

Operating expenses were $395,000 and $820,000 during the three months ended March 31, 2008 and 2007, respectively. The significant component in the decrease in operating expenses during the three months ended March 31, 2008 comprised of a decrease in stock based compensation expense from grants of nonqualified stock options to our employees and non-employee directors and a decrease in the cost of sales as a result of the license and distribution agreement with Westlake Entertainment, Inc.

Stock based compensation expense from grants of nonqualified stock options to our employees and non-employee directors decreased from $425,000 during the three months ended March 31, 2007 to $49,000 during three months ended March 31, 2008. The decrease in stock based compensation expense from grants of nonqualified stock options during this period resulted primarily from cancellations of nonqualified stock options to employees no longer with the Company.

Salaries and employee benefits, excluding stock based compensation expense, reflected a decrease from $148,000 during the three months ended March 31, 2007 to $125,000 during the three months ended March 31, 2008. These reductions in costs reflect a shift in our revenue mix from revenue generated primarily through licensing agreements and the direct sales of license film content, which requires a large sales force, to a strategy of manufacturing and distributing product from our own library of licensed film content to nation-wide retailers. Furthermore, the license and distribution agreement with Westlake Entertainment, Inc. which effectively transferred all day-to-day operations related to our home video library to Westlake Entertainment, Inc., aided the Company to further reduce its sales force and the associated costs.

The remaining operating expenses consisted of professional fees, rent expense, amortization expense and general and administrative expenses. Professional fees were approximately $11,000 less during the three months ended March 31, 2008 compared to the three months ended March 31, 2007. The decrease in professional fees are in part due to a significant decrease in amounts paid accounting fees that were offset by increase fees paid for consulting services.

Accounting Fees comprised the majority of this decrease from the previous quarter. For the three months ended March 31, 2007 accounting fees were $46,000. For the three months ended March 31, 2008, accounting fees were $23,000.

Legal expense decreased by approximately $4,000 during the three months ended March 31, 2008 as compared to the three months ended March 1, 2007. For the three months ended March 31, 2008 and 2007 legal fees were $800 and $5,000, respectively.

Consulting fees increased by $17,000 during the three months ended March 31, 2008 as compared to the three months ended March 31, 2007. For the three months ended March 31, 2008 consulting fees were under $27,000 of which the majority of the expense was related to sales.

General and administrative expense decreased slightly by approximately $17,000 during the three months ended March 31, 2008 compared to the three months ended March 31, 2007 and is attributed to the change in strategy of the Company into manufacturing and distributing product from our own library of licensed film content and with license and distribution agreement with Westlake Entertainment, Inc. which has allowed the Company to decrease day-to-day overhead costs.

Net Loss

For the three months ended March 31, 2008 and 2007 the Company had a net loss of approximately $491,000 and 722,000, respectively. The Company reduced its operating expenses by a significant amount during the three months ended March 31, 2008 as compared to the three months ended March 31, 2007. During 2007, the Company implemented strategies to reduce its cash used in operating activities which included a targeted reduction of the employee workforce, increasing the efficiency of the Company's developmental efforts, reducing discretionary expenditures and negotiating favorable payment arrangements with service providers.

Interest Income and Other, Net

Given the financials constraints of the Company and its reliance on financing activities, interest expense related to the financing of capital increased from $26,000 during the three months ended March 31, 2007 to $40,000 during the months ended March 31, 2008.

Liquidity and Capital Resources

Our principal sources of liquidity are cash generated from current operations and cash from financing activities. As of March 31, 2008, our cash and cash equivalents were $231,000. We had a working capital deficit of approximately $1.7 million at March 31, 2008 and we continue to have recurring losses. In the past we have primarily relied upon loans from related parties to fund our operations and, to a lesser extent, revenues generated from licensing our film content, on a non-exclusive basis, to other distributors of Latino home entertainment content. These conditions raise substantial doubt about our ability to continue as a going concern. We are actively seeking sources of additional financing in order to maintain and potentially expand our operations and to fund our debt repayment obligations. Even if we are able to obtain funding, there can be no assurance that a sufficient level of sales will be attained to fund such operations or that unbudgeted costs will not be incurred. Future events, including the problems, delays, expenses and difficulties frequently encountered by similarly situated companies, as well as changes in economic, regulatory or competitive conditions, may lead to cost increases that could make the net proceeds of any new funding and cash flow from operations insufficient to fund our capital requirements. There can be no assurances that we will be able to obtain such additional funding from management or other investors on terms acceptable to us, if at all.

Total assets were $934,000 at March 31, 2008 versus $929,000 at March 31, 2007. The change in total assets is primarily attributable to revenues generated by the Company through equity transaction activities during the three months ended March 31, 2008 and an increase in Accounts Receivable that were offset by decreases in Property and Equipment and in Intangible Assets.

Accounts receivable increased by $198,000 during the three months ended March 31, 2008 as compared to the three months ended March 31, 2007. The increase in accounts receivable resulted primarily from the change in Company sales strategy from small local retailers to large national retailers during the fiscal year 2007. The sales transaction settlement terms associated with small retailers typically is Cash On Delivery while the settlement terms of national retailers is thirty to sixty days. In conjunction with the change in sales strategy away from smaller retailers to larger nationwide retailers was an associated shift in settlement terms from COD to thirty to sixty days that subsequently led to an increased accounts receivable.

DVD sales decreased from $125,000 during the three months ended March 31, 2007 to $76,000 during the three months ended March 31, 2008. The changes in DVD sales reflect the shift in Company strategy to manufacturing and distributing product from our own library of licensed films and expanding sales to nation-wide retailers. This general strategy aided in dramatically reducing overhead costs and in part enabling the Company to increase sales during the third and fourth quarters 2007 without significantly raising overhead costs. Furthering our strategy to reduce overhead costs and streamlining our operations to focus on digital content distribution, in January 2008, the Company entered into a license and distribution agreement with Westlake Entertainment, Inc. This agreement effectively shifted all manufacturing and distribution of our home video library to Westlake Entertainment, Inc. The agreement with Westlake Entertainment allowed the Company to increase its national exposure through existing Westlake Entertainment sales channels while maintaining our existing sales to national retailers and further reduce our overhead costs by effectively transferring all day to day operations related to our home video library to Westlake Entertainment. This agreement has thus better positioned the Company to focus on our Digital Content Distribution. This agreement calls for a 25% - 50% distribution fee to Westlake on gross sales of licensed products.

Intangible assets decreased from $504,000 during the three months ended March 31, 2007 to $364,000 during the three months ended March 31, 2008. The decrease in intangible assets was due to the amortization of our licensed content.

Property and Equipment decreased primarily from the non-recurring expense related to a loss on abandonment of our iCodeMedia and ITunesBucks assets. During the quarter ending March 31, 2008, management determined that the Company would no longer develop the iCodemedia Assets and, accordingly, $41,650 was charged to operations in the current period as a non-recurring loss on abandonment. During the quarter ending March 31, 2008, management determined that the Company would no longer develop the ITunesBucks Assets and, accordingly, $88,667 was charged to operations in the current period as a non-recurring loss on abandonment.

Off-Balance Sheet Arrangements

We do not have any off balance sheet arrangements that are reasonably likely to have a current or future effect on our financial condition, revenues, results of operations, liquidity, or capital expenditures.

Risk Factors

There have been no material changes from risk factors previously disclosed in Item 1 included in our Annual Report on Form 10-KSB for the fiscal year ended December 31, 2007, which was filed with the SEC on April 16, 2008.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

We are a smaller reporting company as defined by Rule 12b-2 of the Securities Exchange Act of 1934 and are not required to provide the information under this item.

Item 4T. Controls and Procedures.

As of the end of the period covered by this report, we conducted an evaluation, under the supervision and with the participation of our chief executive officer and chief financial officer of our disclosure controls and procedures (as defined in Rule 13a-15(e) and Rule 15d-15(e) of the Exchange Act). Based upon this evaluation, our chief executive officer and chief financial officer concluded that, as of March 31, 2008, our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is: (1) accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure; and (2) recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms. There was no change to our internal controls or in other factors that could affect these controls during our last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II

Item 1. Legal Proceedings.

We are not a party to any pending legal proceeding, nor is our property the subject of a pending legal proceeding, that is not in the ordinary course of business or otherwise material to the financial condition of our business. None of our directors, officers or affiliates is involved in a proceeding adverse to our business or has a material interest adverse to our business.

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

During the three months ended March 31, 2008 , we sold a total of 10,000,000 shares of our common stock at $0.03 per share to an investor for an aggregate purchase price of $300,000 in cash. The purchaser is an "accredited investor" as such term in defined in Rule 501 of Regulation D. The purchaser represented that it acquired the shares for investment purposes. Restrictive legends were placed on the certificate issued to the purchaser. The securities were issued in reliance upon the exemption from registration pursuant to Section 4(2) of the Securities Act of 1933, as amended, and/or Rule 506 thereunder.

Item 3. Defaults Upon Senior Securities.

Not applicable.

Item 4. Submission of Matters to a Vote of Security Holders.

Not applicable.

Item 5. Other Information.

See Part II, Item 2 for information on the sale during the first quarter of 2008 of a total of 10,000,000 shares of our common stock to an investor for an aggregate purchase price of $300,000.

Item 6. Exhibits.

Exhibit Number	**Description**
31.1	

	Certification by Chief Executive Officer, required by Rule 13a-14(a) or Rule 15d-14(a) of the Exchange Act
31.2	Certification by Chief Financial Officer, required by Rule 13a-14(a) or Rule 15d-14(a) of the Exchange Act
32.1	Certification by Chief Executive Officer, required by Rule 13a-14(b) or Rule 15d-14(b) of the Exchange Act and Section 1350 of Chapter 63 of Title 18 of the United States Code
32.2	Certification by Chief Financial Officer, required by Rule 13a-14(b) or Rule 15d-14(b) of the Exchange Act and Section 1350 of Chapter 63 of Title 18 of the United States Code

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.

DIGICORP, INC.

Date: May 19, 2008	By: /s/ Jay Rifkin Jay Rifkin Chief Executive Officer
Date: May 19, 2008	By: /s/ Jay Rifkin Jay Rifkin Principal Financial Officer