DIGICORP
Form 10QSB
August 17, 2007

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

Form 10-QSB

(Mark One)

x QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED **June 30, 2007**

o TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT

FOR THE TRANSITION PERIOD FROM __________ TO __________

COMMISSION FILE NUMBER **000-33067**

DIGICORP, INC.
(Exact name of small business issuer 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)

Issuer's telephone Number: **(310) 728-1450**

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

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

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 August 1, 2007, the issuer had 39,389,002 outstanding shares of Common Stock, $.001 par value.

Transitional Small Business Disclosure Format (check one): Yes o No x

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

DIGICORP, INC.

Consolidated Balance Sheets (Unaudited)

	June 30, 2007	December 31, 2006
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 15,859	$ 3,350
Accounts receivable, net	111,096	58,539
Inventories	46,746	50,705
Other current assets	31,009	29,159
TOTAL CURRENT ASSETS	204,710	141,753
Property and equipment, net	211,066	253,855
Intangible assets, net	467,357	527,780
TOTAL ASSETS	$ 883,133	$ 923,388
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
CURRENT LIABILITIES		
Accounts payable	$ 355,263	$ 360,481
Accrued liabilities	412,434	295,400
Revolving credit line - related party	50,000	50,000
Note payable - related party	776,000	473,000
Deferred revenue	69,672	69,672
TOTAL CURRENT LIABILITIES	1,663,369	1,248,553
LONG TERM LIABILITIES		
Convertible note payable - related party	556,307	556,307
Debt discount - beneficial conversion feature	(135,586)	(154,955)
TOTAL LONG TERM LIABILITIES	420,721	401,352
TOTAL LIABILITIES	2,084,090	1,649,905
COMMITMENTS AND CONTINGENCIES		

STOCKHOLDERS' EQUITY (DEFICIT)				
Preferred stock, $0.001 par value: 1,000,000 shares authorized; zero shares issued and outstanding at June 30, 2007 and December 31, 2006				
Common stock, $0.001 par value: 60,000,000 shares authorized; 39,389,002 shares issued and outstanding at June 30, 2007; 37,239,002 shares issued and outstanding at December 31, 2006		39,389		37,239
Paid-in capital		5,797,651		4,714,900
Accumulated deficit		(7,037,997)		(5,478,656)
TOTAL STOCKHOLDERS' EQUITY (DEFICIT)		(1, 200,957)		(726,517)
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)	$	883,133	$	923,388

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

DIGICORP, INC.

Consolidated Statements of Operations (Unaudited)

	Three Months Ended		Six Months Ended	
	June 30, 2007	**June 30, 2006**	**June 30, 2007**	**June 30, 2006**
REVENUE				
Sales	$ 77,276	$ 224,279	$ 202,615	$ 667,797
Total revenue	77,276	224,279	202,615	667,797
OPERATING EXPENSES				
Cost of sales	32,317	157,844	73,180	419,132
Selling, general and administrative expenses	799,271	1,287,305	1,578,577	2,586,976
Total operating expenses	831,588	1,445,149	1,651,757	3,006,108
Operating Loss	(754,312)	(1,220,870)	(1,449,142)	(2,338,311)
Interest Expense	83,062	24,789	108,599	34,473
LOSS BEFORE INCOME TAXES	(837,374)	(1,245,659)	(1,557,741)	(2,372,784)
PROVISION FOR INCOME TAXES	—	—	1,600	800
NET LOSS	$ (837,374)	$ (1,245,659)	$ (1,559,341)	$ (2,373,584)
BASIC AND DILUTED NET LOSS PER COMMON SHARE	$ (0.02)	$ (0.03)	$ (0.04)	$ (0.06)
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING	38,197,244	37,193,637	37,720,770	37,056,978

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

DIGICORP, INC.

Consolidated Statements of Cash Flows (Unaudited)

	Six Months Ended June 30, 2007	June 30, 2006
Cash flows from operating activities:		
Net loss	**$ (1,559,341)**	**$ (2,373,584)**
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	42,789	3,101
Amortization of licenses	72,422	67,056
Amortization of debt discount	69,369	19,369
Stock-based compensation to employees and directors	819,901	1,669,077
Stock-based compensation to consultants	-	4,121
Changes in operating assets and liabilities:		
Accounts receivable	(52,557)	(9,222)
Inventories	3,959	(6,036)
Other current assets	(1,850)	33,216
Other long term assets	-	48,922
Accounts payable and accrued liabilities	111,816	280,234
Net cash used in operating activities	**(493,492)**	**(263,746)**
Cash flows from investing activities:		
Purchases of licenses and developed content	(11,999)	(128,599)
Proceeds from disposal of licenses	-	65,000
Purchases of property and equipment	-	(27,617)
Net cash used in investing activities	**(11,999)**	**(91,216)**
Cash flows from financing activities:		
Proceeds from issuance of common stock	215,000	273,400
Proceeds from revolving credit line - related party	-	50,000
Proceeds from related party note	303,000	-
Net cash provided by financing activities	**518,000**	**323,400**
Net increase (decrease) in cash and cash equivalents	12,509	(31,562)
Cash and cash equivalents at beginning of period	**3,350**	**54,518**
Cash and cash equivalents at end of period	**$ 15,859**	**$ 22,956**
Supplemental disclosures of cash flow information:		
Income taxes	$ 1,600	$ 1,200
Non-cash investing and financing activity:		

Beneficial conversion feature	$	50,000		
Acquisition of intangible assets for common stock	$	-	$	(160,000)
Acquisition of fixed assets for common stock	$	-	$	(152,000)

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

DIGICORP, INC.
Notes to Consolidated Interim Financial Statements - Unaudited
June 30, 2007

1. DESCRIPTION OF BUSINESS

Digicorp, Inc. ("the Company") a Delaware corporation was originally 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 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 recapitalization transaction (see note 4).

Rebel Crew Films operates as a wholly-owned operating 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 are sold via the internet and can be found at major retail outlets and independent video outlets across the United States of America and Canada.

The Company, including its operating subsidiary, generated revenue through the direct sales of its licensed content. The Company's sales force focuses on direct sales of what we expect to be the more profitable large wholesalers and retailers which require a much smaller infrastructure to support. The Company is organized in a single operating segment. All of the Company's revenues are generated in the United States, and the Company has no long-lived assets outside the United States.

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, 2006, 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, 2007. The interim consolidated financial statements should be read in connection with the Company's audited financial statements for the year ended December 31, 2006.

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.

DIGICORP, INC.
Notes to Consolidated Interim Financial Statements - Unaudited (continued)
June 30, 2007

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 June 30, 2007 the Company has an accumulated deficit of $7 million and a working capital deficit of $1.46 million, which includes a deferred revenue balance of $70,000, as discussed below. During the six months ended June 30, 2007, the Company incurred a loss of $1.6 million. During the six months ended June 30, 2007, 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. ACCOUNTS RECEIVABLE

Accounts receivable are recorded at the invoice amount and do not bear interest. Accounts receivable at June 30, 2007 and December 31, 2006 are presented net of an allowance for doubtful accounts of $5,000.

4. RECAPITALIZATION

On December 29, 2005, the Company completed the acquisition of Rebel Crew Films. Pursuant to the stock purchase agreement, the Company acquired all of the outstanding equity stock of Rebel Crew Films from the Rebel Crew Films Shareholders. As consideration for the acquisition the Company agreed to issue 21,207,080 shares of the Company's common stock (the "Purchase Price") to the shareholders of Rebel Crew Films.

Following completion of the acquisition the Company's previous shareholders owned 15,530,104 common shares and Rebel Crew Films shareholders owned 21,207,080, or approximately 57.7% of the outstanding shares of the Company's common stock. For accounting purposes the transaction is considered to be a recapitalization where Digicorp is the surviving legal entity, and Rebel Crew Films is considered to be the accounting acquirer. Accordingly, the historical financial statements prior to December 29, 2005 are those of Rebel Crew Films. Following the acquisition, Digicorp changed its fiscal year end from June 30 to December 31.

5. INTANGIBLE ASSETS

Intangible assets consist of capitalized license fees for licensed content the Company acquired from owners including producers, studios and distributors as well as the Company's Perreoradio suite of websites and internet properties and all related intellectual property (the "Perreoradio Assets").

The Perreoradio suite of websites consists of the following Internet domain names and all materials, intellectual property, goodwill and records in connection therewith: 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. As consideration for the Perreoradio Assets, the Company issued an aggregate of 100,000 shares of its common stock valued at $160,000.

The Perreoradio Assets were determined to have an indefinite useful life based primarily on the renewability of the proprietary domain names. Intangible assets with an indefinite life are not subject to amortization, but will be subject to periodic evaluation for impairment

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DIGICORP, INC.
Notes to Consolidated Interim Financial Statements - Unaudited (continued)
June 30, 2007

Licensed content acquired is capitalized at the time of purchase. The term of the licensed content agreements usually vary between one to five years (the ***"Title Term"***). At the end of the Title Term, the Company generally has the option of discontinuing distribution of the title or extending the Title Term.

The Company amortizes the capitalized license fees, on a straight line basis over the Title Term. During the six months ended June 30, 2007 and 2006, amortization expense related to the licensed content was $72,000 and $67,000, respectively.

Intangible assets and accumulated amortization at June 30, 2007 and December 31, 2006 are comprised of the following:

		June 30, 2007		**December 31, 2006**
Perreoradio Assets	$	160,000	$	160,000
Licensed and developed content		677,599		665,599
Less: accumulated amortization		(370,242)		(297,819)
Intangible assets, net	$	467,357	$	527,780

6. 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 June 30, 2007 to purchase 9,358,333 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 six months ended June 30, 2007, as their inclusion would have been antidilutive.

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 June 30, 2006 to purchase 8,712,500 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 six months ended June 30, 2006, as their inclusion would have been antidilutive.

DIGICORP, INC.
Notes to Consolidated Interim Financial Statements - Unaudited (continued)
June 30, 2007

7. ACCRUED LIABILITIES

Accrued liabilities at June 30, 2007 and December 31, 2006 are comprised of the following:

	June 30, 2007	December 31, 2006
Obligations on license agreements	$ 47,595	$ 55,095
Accrued salaries	272,755	189,736
Accrued interest	81,143	41,913
Other	10,941	8,656
Total Accrued Liabilities	$ 412,434	$ 295,400

8. 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 six months ended June 30, 2007 and 2006, interest expense of $19,000 has been recorded from the debt discount amortization, and as of June 30, 2007, the remaining debt discount balance attributable to the beneficial conversion feature was $135,585.

9. REVOLVING LINE OF CREDIT AGREEMENT - RELATED PARTY

Revolving Line of Credit Agreement

During the period March 23, 2006 through September 28, 2006, the Company was a party to a Revolving Line of Credit Agreement (the ***"Revolving Line of Credit"***) with Ault Glazer Bodnar Acquisition Fund, LLC (***"AGB Acquisition Fund"***). The Revolving Line of Credit allowed the Company to request advances totaling an aggregate of up to $150,000 from AGB Acquisition Fund. At June 30, 2007, the Company had borrowed $50,000 against the Revolving Line of Credit and incurred interest expense of $2,000 for the six months then ended. Amounts borrowed against the Revolving Line of Credit are evidenced by Convertible Secured Promissory Notes (the ***"Convertible Notes"***) which allow for the conversion of all or any part of the outstanding principal balance of the Convertible Notes including any accrued interest thereon, to shares of the Company's common stock at a price equal to the lesser of the closing price of the Company's common stock on March 23, 2006 or the share price of the Company's common stock offered in the Company's next round of financing in a private placement offering completed while the principal

balance of the Convertible Notes are outstanding. The Company's former Chief Financial Officer was also the Chief Financial Officer of AGB Acquisition Fund.

The ***Revolving Line of Credit*** contained a beneficial conversion feature which resulted in additional debt discount of $50,000. The beneficial conversion amount was measured using the excess of the aggregate fair value of the common stock into which the debt is convertible over the proceeds allocated to the security. The Company amortized accreted the beneficial conversion feature to interest expense. For the six months ended June 30, 2007, the Company recorded the $50,000 as interest expense.

DIGICORP, INC.
Notes to Consolidated Interim Financial Statements - Unaudited (continued)
June 30, 2007

10. 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 six months ended June 30, 2007 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, 2006	**5,279,167**	**9,720,833**	**$ 0.73**	**7.92**	
Grants	(1,000,000)	1,000,000	**$ 0.11**	**9.90**	
Cancellations	1,362,500	(1,362,500)	$ **0.37**	**1.74**	
June 30, 2007	**5,641,667**	**9,358,333**	**$ 0.72**	**7.52**	**$ —**
Options exercisable at:					
December 31, 2006		4,204,167	$ 0.58	6.51	**$ —**
June 30, 2007		3,125,000	$ 0.72	8.12	**$ —**

The aggregate intrinsic value in the table above represents the total pretax intrinsic value (i.e., the difference between our closing stock price on June 30, 2007 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 June 30, 2007. There have not been any options exercised during the six months ended June 30, 2007 or year ended December 31, 2006.

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 six months ended June 30, 2007, the following assumptions were used: volatility 146%; expected life 5 years; risk-free interest rate 4.50%; dividend yield 0%.

DIGICORP, INC.
Notes to Consolidated Interim Financial Statements - Unaudited (continued)
June 30, 2007

During the six months ended June 30, 2007 and 2006 stock-based compensation totaling $820,000 and $1,670,000, respectively, was recorded by the Company.

11. EQUITY TRANSACTIONS

Between April 24, 2007 and June 8, 2007, the Company entered into a subscription agreement with several accredited investors 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 these accredited investors an aggregate of 2,150,000 shares of its common stock. These issuances resulted in aggregate gross proceeds to the Company of $215,000.

12. 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 six months ended June 30, 2007.

The following table summarizes information about common stock warrants outstanding at June 30, 2007:

	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	3.50	$	0.145	250,000	$	0.145
$ 0.50 - 0.75	300,000	3.25		0.65	300,000		0.65
$ 0.10 - 0.75	550,000	3.36	$	0.42	550,000	$	0.42

13. RELATED PARTY TRANSACTIONS

At June 30, 2007, the Company has a liability of $73,000 due to the sole member of Rebel Holdings, LLC, a California limited liability company (***"Rebel Holdings"***), an entity whose sole managing member is the Company's Chief Executive Officer that owned approximately 54% of the outstanding shares of the Company's common stock at June 30, 2007. In connection with the borrowings, the Company issued a promissory note in the amount of $73,000 to the member (the ***"Note")*** on December 29, 2005. The monies loaned by the member to the Company were utilized to pay for certain capitalized license agreements and operating expenses of the Company. The Note was due on June 30, 2006 with 5.0% simple interest.

From January 10, 2007 through June 30, 2007, Jay Rifkin, the Company's Chairman and Chief Executive Officer, and other related parties to him, loaned the Company a total of $303,000. Such loans are due on demand and bear interest at a rate equal to the prime rate, as published in *The Wall Street Journal* from time to time, plus one percentage point to the date of payment in full. Mr. Rifkin and the other related parties have loaned the Company $771,000 as of June 30, 2007.

DIGICORP, INC.
Notes to Consolidated Interim Financial Statements - Unaudited (continued)
June 30, 2007

Other current assets at June 30, 2007 includes $11,000 owed to the Company by Ault Glazer Bodnar & Company, Inc. (***"AGB & Company"***) based on an agreement to reimburse the Company for salaries paid in connection with the recapitalization of the Company. The Company's former Chief Financial Officer was also the Chief Financial Officer of AGB & Company.

14. SUBSEQUENT EVENTS

During July 2007, Mr. Rifkin loaned the Company an additional $25,000. As consideration for the loans, the Company issued Mr. Rifkin demand promissory notes at a rate equal to the prime rate, as published in *The Wall Street Journal* from time to time, plus one percentage point to the date of payment in full.

Item 2. Management's Discussion and Analysis or Plan of Operation.

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-QSB. 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" appearing at the end of this Management's Discussion and Analysis (***"MD&A"*** *).*

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 an aggregator and distributor of programming content and a developer of multi-media technologies with operations concentrated primarily in the internet and home video business segments.

Together with our subsidiary, we are primarily engaged in the business of developing and distributing programming content, multi-media technologies, and advertising via the internet. We expect that within the next 12 months we will expand our advertising areas further into online as well as other alternative music and video programming formats, including video-on-demand ("VOD") in the United States and internationally. We will focus a significant amount of our available resources to obtain the exclusive distribution rights for additional content through development, acquisition or licensing arrangements.

We currently generate revenue through either sub-licensing agreements with third parties that distribute our licensed content or through direct sales. Our typical licensing agreement consists of a three to five-year contract that carries a 15% - 50% royalty on gross sales of licensed product. We are currently focusing on the manufacture and distribution of our own licensed content and have seen a significant shift in revenues from sub-licensing agreements to direct sales.

We believe that opportunities exist in the VOD space to reach a larger customer base for the distribution of our content and to generate advertising revenue. We will actively pursue this potential source of revenue during the year ending December 31, 2007.

Our primary operations are conducted through our wholly owned subsidiary: Rebel Crew Films, Inc. In addition, we have focused and will continue to focus development efforts in our internally created ViraCast software. 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 ViraCast and PerreoRadio.com (described below), 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.

REBEL CREW FILMS, INC.

Rebel Crew Films, Inc. was founded in 2001 and our goal is to become a leading distributor of Latino home entertainment products. Developed to target Spanish speaking consumers who increasingly demand new Latino content and classic Spanish language movies, we offer producers and content-providers a flexible option to the larger Hollywood studio distributors and have emerged as a company that attracts premiere home entertainment products.

Our specialty orientation provides our content partners with focused attention not accessible from major Hollywood studios or rental product distributors. We currently maintain and distribute approximately 200 Spanish language films, of which we control the exclusive distribution rights to approximately 52. The films in which we control the exclusive distribution rights are expected to provide us with greater profit margins as we expand our direct sales. Our content library currently consists of approximately 130 titles for which we exclusively control the distribution rights. As we expand our direct sales and increase the number of customers that purchase exclusive content directly from us, we believe that sales of our exclusive content will begin to represent a larger percentage of the total numbers of films that we distribute.

Our titles can be found at Wal-Mart, Best Buy, Blockbuster, K-Mart, and hundreds of independent video outlets across the United States of America and Canada. Our diverse Spanish language programming includes: new releases, classic Mexican cinema, animation, cult, sports, martial arts, family entertainment, and more.

PERREORADIO.COM

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.

ICODEMEDIA

On September 19, 2005, upon entering into an asset purchase agreement with Philip Gatch, we completed the initial transaction to transform the company from that of a development stage enterprise to a digital media and content delivery company. The assets purchased consisted of the iCodemedia url's and all related intellectual property (the ***"iCodemedia Assets"***). The iCodemedia url's consist of: www.icodemedia.com, www.iplaylist.com, www.tunecast.com, www.tunebucks.com, www.podpresskit.com and www.tunespromo.com.

Ultimately, we intend to develop our iCodemedia Assets as a software publishing solution for iTunes and the Apple iPod. , Sony Playstation and multimedia enabled mobile phones.

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:

- ***Podcasting*** (the distribution of audio or video files over the Internet for listening or viewing on mobile devices and personal computers);
- ***Online Advertising*** ; and
- ***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.

INTELLECTUAL PROPERTY AND TECHNOLOGY DEVELOPMENT

We have numerous United States and international patents pending that are directed to important and innovative aspects of our technology. As the technology evolves we intend to continue seeking patent protection where appropriate. We will seek to enhance our ViraCast product suite and content library through internal development and acquisition opportunities.

Our development and production teams are located in Marina Del Rey, CA. We intend that our facilities in Marina Del Rey will house our content library, programming, sales and administrative personnel.

CUSTOMERS

For direct home video DVD sales, our sales associates focus on the largest retail chains in the country, including Wal-Mart and Blockbuster, via Anderson Merchandisers and other such sub-distributors. Currently, the sales force manages more than 100 active retail store customers. Besides our direct selling effort through telemarketing, we market our products by placing print ads in a variety of Latino trade magazines as well as through our website. We have a dedicated 1-800 toll free number for sales inquiries. For licensing activities, there are two companies: BCI Eclipse LLC, which has licensed approximately 20 titles: and VAS Entertainment/Rise Above Entertainment (***"VAS/RA"***), which has licensed approximately 20 titles from us. They function as manufacturers for our DVD inventory for those titles, as well as distributors. The agreements with these companies consist of a term of three to five years granting the companies the right to manufacture, promote, and distribute the licensed movies for a 15% - 50% royalty on gross sales, depending on title. The company intends to expand its licensing activities into the broadcast, satellite and cable markets.

The target customers for our media software are:

· ***Premium Advertisers and Content Owners***, including advertising agencies like WPP, Omnicom and Interpublic; content owners with their own advertising, such as NBC, CBS, ABC and The New York Times; and infomercial creators, like QVC and Williams Group;

· ***Independent*** producers, artists, designers and filmmakers who own untapped content; and

· ***Advertising Networks***, including Advertising.com, ValueClick, ClickBooth, CJ.com and Zedo.

SUPPLIERS

We have three categories of suppliers - movie licensors, DVD manufacturers, and finished goods suppliers. Movie licensors consist of Spanish-language movie license holders primarily from Mexico who enter licensing agreements with us to manufacture and distribute their movies. We are currently in contract with eight different licensors of content. From these agreements, we have manufactured approximately 52 titles. Agreements with these companies consist of either a fixed license fee or a 40-60% royalty on net revenues for the right to manufacture, promote and distribute the films for four to five years, depending on title.

For the manufacture of DVDs, we use various suppliers depending price and delivery. We do not have a written agreement with these suppliers. There is no dependency on these suppliers as the supply of DVD manufacturing companies is broad and there are many potential firms that can be employed to supply our products.

MARKETING

We market our products and services through a broad array of programs and media formats, including video, internet, advertising campaigns, telemarketing, print advertisements, retail distribution, and web advertising. Other marketing strategies include online and offline cross-promotion and co-branding.

COMPETITION

We operate in the market for media products, services and content development and delivery, which is a highly competitive market characterized by rapid change, converging technologies, and increasing competition from companies offering communication, video, music, on-demand information and entertainment services integrated into other products and media properties. Globally, our most significant competition in the Spanish language sector is from Univision Communications, Inc. and Navarre Corp.

The principal competitive factors relating to attracting and retaining users include the quality and relevance of our advertising; the effectiveness and efficiency of our marketing services; the accessibility, integration and personalization of the online services that we offer on our website; and the creativity of the marketing solutions that we offer.

We also face competition from companies focused on markets where expertise in a particular segment of the market (e.g., radio, internet, television) may provide them a competitive advantage.

Although accurate numbers are difficult to obtain due to the hesitation of privately owned distribution companies to divulge sales figures, an independent study by Estrenos magazine (a Latin Entertainment Trade Journal) estimates that the Latino home video distribution market for the first six months of 2005 sold more than three million units in the United States. According to Estrenos magazine, of that number three distributors accounted for approximately 80% of those sales - Laguna Films (43%), Ventura/Studio Latino (26%), and Xenon/Televisa (13%) (data provided by each distributor or source). Other participants in the Latino home video distribution market include Image Entertainment (7%), Latin Vision (5%), Brentwood Home Video (3%), Pro-Active Entertainment (2%), and Vanguard Latino (1%) (Source: Estros magazine, September/October 2005). Based on these sales performance figures, our monthly sales average currently represents approximately 1.25% of the monthly average of DVD sales volume in the Latino video entertainment industry

Additionally, major U.S. movie studios have ventured into servicing the Latino home video market as well, selling approximately 1.5 million units in the first half of 2005. Of that amount, approximately 60% of sales were dominated by three studios - MGM Home Entertainment (26%), Columbia Tri-Star (18%) and Lions Gate Films (16%). Other such competitors include UMVD/Visual Entertainment (12%), BVHE/Disney (8%), Warner Home Video (8%), and Fox Home Entertainment (3%) (Source: Estros magazine, September/October 2005).

We also compete with retail music and video stores, including online stores, dominated by large companies such as Netflix, Blockbuster, Trans World Entertainment, and Movie Gallery Inc.

We may also face competition from businesses that have announced plans to deliver entertainment and media content through cell phones and other wireless devices. Sprint Nextel, Comcast, Time Warner Cable, Cox Communications and Advance/Newhouse Communications recently announced they are forming a joint venture to work toward accelerating the convergence of video entertainment, wireline and wireless data and communications products and services to provide customers throughout the United States access to advanced integrated entertainment, including streaming television programming, music, video clips, games and pre-recorded DVR programs, communications and wireless products.

We believe that we can effectively compete in the Latino home video markets primarily by offering competitive prices on a wide variety of quality titles through direct selling efforts targeted at retail stores across the entire United States.

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

The below discussion and analysis of our financial condition and results of operations is based upon the accompanying financial statements. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements. Critical accounting policies are those that are both 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. Our most critical accounting policy relates to the valuation of our intangible assets and stock based compensation.

Valuation of Intangible Assets

We assess the impairment of intangible assets when events or changes in circumstances indicate that the carrying value of the assets or the asset grouping may not be recoverable. Factors that we consider in deciding when to perform an impairment review include significant under-performance of a product line in relation to expectations, significant negative industry or economic trends, and significant changes or planned changes in our use of the assets. Recoverability of intangible assets that will continue to be used in our operations is measured by comparing the carrying amount of the asset grouping to our estimate of the related total future net cash flows. If an asset grouping’s carrying value is not recoverable through the related cash flows, the asset grouping is considered to be impaired. The impairment is measured by the difference between the asset grouping’s carrying amount and its fair value, based on the best information available, including market prices or discounted cash flow analysis. Impairments of intangible assets are determined for groups of assets related to the lowest level of identifiable independent cash flows. Due to our limited operating history and the early stage of development of some of our intangible assets, we must make

subjective judgments in determining the independent cash flows that can be related to specific asset groupings. To date we have not recognized impairments on any of our intangible assets.

Stock-Based Compensation

We have adopted the provisions of SFAS No. 123(R), *Share-Based Payment*, effective January 1, 2005. Since we had no outstanding options as of December 31, 2004, SFAS 123(R) would have had no impact on our financial statements had we elected to adopt the provisions of SFAS 123(R) in an earlier period. The fair value of each option grant, nonvested stock award and shares issued under the employee stock purchase plan were estimated on the date of grant using the Black-Scholes option pricing model and various inputs to the model. Expected volatilities were based on historical volatility of our stock. The expected term represents the period of time that grants and awards are expected to be outstanding. The risk-free interest rate approximates the U.S. treasury rate corresponding to the expected term of the option, and dividends were assumed to be zero. These inputs are based on our assumptions, which 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. Forfeiture estimates are based on historical data. To the extent actual results or revised estimates differ from the estimates used, such amounts will be recorded as a cumulative adjustment in the period that estimates are revised.

NEW ACCOUNTING PRONOUNCEMENTS

In June 2006, the FASB issued FASB Interpretation No. (FIN) 48, *Accounting for Uncertainty in Income Taxes — An Interpretation of FASB Statement No. 109* , which prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in an income tax return. FIN 48 was effective for us beginning January 1, 2007. The adoption of FIN 48 did not have a material impact on our financial position, results of operations or cash flows.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*, which establishes a framework for measuring fair value and requires expanded disclosure about the information used to measure fair value. This statement is effective for us in the first quarter of fiscal 2008. The statement applies whenever other statements require, or permit, assets or liabilities to be measured at fair value, but does not expand the use of fair value in any new circumstances. We do not expect the adoption of this statement to have a material impact on our financial condition or results of operations.

LIQUIDITY AND CAPITAL RESOURCES

Our total assets were $883,000 at June 30, 2007 versus $923,000 at December 31, 2006. The change in total assets is primarily attributable to depreciation and amortization expense of $115,000 that was partially offset by an increase in accounts receivable of $53,000. The depreciation expense consisted of $43,000 in property and equipment whereas amortization expense consisted of $72,000 in intangible assets.

The increase in accounts receivable resulted from growth in sales of $76,000 during the six months ended June 30, 2007 over the preceding two quarters ending December 31, 2006. Sales during the six months ended June 30, 2007 and December 31, 2006 were $203,000 and $118,000, respectively. During the six months ended June 30, 2007, Beat9.com generated $6,000 in sales revenue. During the three months ended March 31 and June 30, 2007 accounts receivable were $108,000 and $116,000, respectively.

The decrease in intangible assets was due to the acquisition of additional licensed content and its related amortization. During the six months ended June 30, 2007, we acquired $12,000 in additional licensed content which was offset by the amortization of our licensed content in the amount of $72,000. The decrease in property and equipment resulted

from the depreciation expense of $43,000 of our web services software applications.

We had a working capital deficit of approximately $1.46 Million at June 30, 2007 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.

Operating activities used $493,000 of cash during the six months ended June 30, 2007, compared to using $264,000 during the six months ended June 30, 2006.

Cash used in investing activities for the six months ended June 30, 2007 and 2006 of $12,000, and $91,000, respectively, resulted almost exclusively from the purchase of licensed Spanish language film content that was capitalized. Between April 24, 2007 and June 8, 2007, the Company entered into a subscription agreement with several accredited investors 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 these accredited investors an aggregate of 2,150,000 shares of its common stock. These issuances resulted in aggregate gross proceeds to the Company of $215,000.

RESULTS OF OPERATIONS

REVENUES

We generated revenues of $203,000 and $668,000 for the six months ended June 30, 2007 and 2006, respectively. During the six months ended June 30, 2006 almost all of our revenues were generated through sales. In the past, our revenue was in large part generated through licensing agreements. The licensing agreements provide for us to receive advance payments as consideration for rights granted to third parties that distribute our licensed content. The advance payments are initially recorded as deferred revenue and subsequently recognized in income as royalties are earned upon shipment of licensed content to customers by the sub-licensor. The deferred revenue balance of $70,000 at June 30, 2007 represents advance royalty payments that are expected to be earned over the subsequent twelve month period.

During the three months ended June 30, 2007, total sales decreased by $58,000 or 43% from to $125,000 during the three months ended March 31, 2007 to $77,000. This decrease was primarily due to decreased sales to our existing national retail customers. One customer accounted almost exclusively of our net sales during the three months ended June 30, 2007.

During the six months ended June 30, 2007, we did not recognize any licensing revenue. All of our $203,000 in revenue represents revenue generated through the direct sales of our licensed content and web services portal. We expect that direct sales, as a percentage of total revenue, will comprise the majority of revenues over the next year. Further, we will continue to focus on the general company strategy to manufacture and distribute product from our own library of licensed films as we continue our efforts of expanding sales to nation-wide retailers. Consequently, we anticipate that licensing revenues will significantly be reduced or eliminated in future years as we shift our focus away from licensing agreements with third parties and increase our national exposure through nation-wide retailers. This general strategy has positioned the company to reduce overhead costs and significantly increase our gross margin.

EXPENSES

Operating expenses were $1,652,000 and $3,006,000 during the six months ended June 30, 2007 and 2006, respectively. A significant component of the decrease in operating expenses during the six months ended June 30, 2007, related to the decrease in cost of sales from $419,000 during the six months ended June 30, 2006 to a cost of sales of $73,000 during the six months ended June 30, 2007. For the three months ended March 31, and June 30, 2007 cost of sales were $41,000 and $32,000, respectively. The three month ended from March 31 to June 30, 2007 decrease in cost of sales is due in part to decrease sales in the second quarter.

Stock based compensation expense from grants of nonqualified stock options to our employees and non-employee directors decreased from $1,669,000 during the six months ended June 30, 2006 to $820,000 during the six months

ended June 30, 2007. For the three months ended March 31 and June 30, 2007, stock based compensation expense was $425,300 and $394, 600, respectively. The decrease in stock based compensation expense from grants of nonqualified stock options in the second quarter resulted from cancellations of nonqualified stock options to employees no longer with the Company.

Salaries and employee benefits, excluding stock based compensation expense, reflected a significant decrease from $399,000 during the six months ended June 30, 2006 to $281,000 during the six months ended June 30, 2007. 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.

The remaining operating expenses consisted of professional fees, rent expense, amortization expense and general and administrative expenses. Professional fees were approximately $126,000 less during the six months ended June 30, 2007 compared to the six months ended June 30, 2006 due to significant decreases in amounts paid for legal and consulting fees which were offset by an increase in accounting fees.

Legal expense comprised the majority of this decrease from the previous year. Legal fees decrease by $203,000 during the six months ended June 30, 2007. At June 30, 2006 and 2007 legal fees were $20,000 and $223,000, respectively. During the six months ended June 30, 2006 the majority of legal fees were related to the development of contracts and review of major company transactions. In addition, legal fees during this period were composed of fees paid for S.E.C. filing related matters, private placement agreements and in preparation for financing activities. During the six months ended June 30, 2007, legal fees were almost exclusively related to patent and trademark filing along with S.E.C. filing related expenses.

Consulting fees decrease by $17,000 during the six months ended June 30, 2007. At June 30, 2006 and 2007 consulting fees were $30,000 and $13,000, respectively. During the six months ended June 30, 2006, the majority of consulting expense was related to the development of internal systems, such as work-flow production processes and computer and network systems. During this same period consulting expense also comprised of some sales contracting work. During the six months ended June 30, 2007, consulting expense resulted from continued sales contracting work. In addition, consulting expense during this period included work done to further develop the Company's accounting department and strengthen the Company's accounting policies and control procedures.

During the three months ended June 30, 2007, operating expenses increased by $11,500 from March 31, 2007. The increased spending in the second quarter 2007 was primarily due to increased costs associated with legal fees from patent & trademark work along with accounting and audit fees.

Accounting fees increased significantly during the six months ended July 30, 2007 by $85,000 directly relating to costs associated with audit and filing fees. At June 30, 2006 and 2007 accounting fees were $17,000 and $103,000, respectively.

Rent expense increased by approximately $89,000 during the six months ended June 30, 2007 compared to the six months ended June 30, 2006 due in part to the company's lease of additional commercial office space in September 2006, with base rent of $12,000 per month combined with the base rent of $7,000 per month for the current corporate office space. The commercial office space was leased in anticipation of growth in the company's web services software development.

General and administrative expense increased by approximately $17,000 during the six months ended June 30, 2007 compared to the six months ended June 30, 2006 and is attributed to the strategic overall expansion of the business into manufacturing and distributing product from our own library of licensed film content. Moreover, given the financials constraints the company incurred a significant increase in interest expense related to the financing of capital.

NET LOSS

For the six months ended, June 30, 2006 and 2007 the Company had a net loss of approximately $2.4 million and $1.6 million, respectively. The Company reduced its operating expenses by a significant amount 2007 as compared to 2006. During 2007 and 2006, 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.

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

Our business involves a high degree of risk. Potential investors should carefully consider the risks and uncertainties described below and the other information in this report before deciding whether to invest in shares of our common stock. Each of the following risks may materially and adversely affect our business, results of operations and financial condition. These risks may cause the market price of our common stock to decline, which may cause you to lose all or a part of the money you paid to buy our common stock.

RISKS RELATED TO OUR BUSINESS

WE HAVE A HISTORY OF LOSSES WHICH MAY CONTINUE AND WHICH MAY NEGATIVELY IMPACT OUR ABILITY TO ACHIEVE OUR BUSINESS OBJECTIVES AND OUR FINANCIAL RESULTS.

For the six-month periods ended June 30, 2007 and 2006, we generated revenues of $203,000 and $668,000, respectively, and incurred net losses of $1,559,000 and $2,374,000, respectively. At June 30, 2007, we had a working capital deficit of $1,459,000 and an accumulated deficit of $7,038,000. Our failure to increase our revenues significantly or improve our gross margins will harm our business. Even if we do achieve profitability, we may not be able to sustain or increase profitability on a quarterly or annual basis in the future. If our revenues grow more slowly than we anticipate, our gross margins fail to improve, or our operating expenses exceed our expectations, our operating results will suffer. If we are unable to sell or license our products at acceptable prices relative to our costs, or if we fail to develop and introduce on a timely basis new products from which we can derive additional revenues, our financial results will suffer.

CONCENTRATION IN A SIGNIFICANT CUSTOMER

The Company sells almost exclusively to one of its customers. The customer owed the Company approximately $92,700 as of June 30, 2007, which is included in accounts receivable.

OUR LICENSE REVENUES ARE DEPENDENT UPON THE REVENUES OF OUR CUSTOMERS. IF THE CONTENT WHICH WE LICENSE TO CUSTOMERS IS NOT USED IN VIDEOS WHICH BECOME POPULAR AMONG THE VIEWING PUBLIC, OUR REVENUES MAY DECLINE.

We generate revenue through either licensing agreements with third parties that distribute our licensed content or through direct sales. Our typical licensing agreement consists of a three to five-year contract that carries a 15% - 50% royalty on gross sales of licensed product. If the content which we license to customers is not used in videos which become popular among the viewing public, our revenues may decline.

VARIOUS CONDITIONS RAISE SUBSTANTIAL ABOUT OUR ABILITY TO CONTINUE AS A GOING CONCERN; NEED FOR ADDITIONAL FINANCING.

At June 30, 2007, we had an accumulated deficit of approximately $7 million and a working capital deficit of $1.46 million, which includes a deferred revenue balance of $70,000. During the six months ended June 30, 2007, we incurred a loss of $1.56 million. During the six months ended June 30, 2007, we primarily relied upon revenues generated from the direct sales of our Latino home entertainment content and on debt investments to fund our operations. 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. Additional financings, or the possible conversion of any of our debt obligations into equity, will result in dilution for then current stockholders.

OUR OPERATING SUBSIDIARY REBEL CREW FILMS HAS A LIMITED OPERATING HISTORY AND THEREFORE WE CANNOT ENSURE THE LONG-TERM SUCCESSFUL OPERATION OF OUR BUSINESS OR THE EXECUTION OF OUR BUSINESS PLAN.

Our operating subsidiary Rebel Crew Films was organized under the laws of the State of California on August 7, 2002. Because Rebel Crew Films has a limited operating history, our prospects must be considered in light of the risks, expenses and difficulties frequently encountered by growing companies in evolving markets, such as the Latino home video distribution market in which we operate. While to date we have not experienced these problems, we must meet many challenges including:

- Establishing and maintaining broad market acceptance of our products and converting that acceptance into direct and indirect sources of revenue;
- Establishing and maintaining our brand name;
- Timely and successfully developing new content and films;
- Developing content that results in high popularity among the viewing public;
- Developing and maintaining strategic relationships to enhance the distribution and features of our video content.

Our business strategy may be unsuccessful and we may be unable to address the risks we face in a cost-effective manner, if at all. If we are unable to successfully address these risks our business will be harmed and we may experience a decrease in revenues.

IF WE ARE UNABLE TO LICENSE OR ACQUIRE COMPELLING CONTENT AT REASONABLE COSTS OR IF WE DO NOT DEVELOP COMPELLING CONTENT, THE NUMBER OF USERS OF OUR SERVICES MAY NOT GROW AS ANTICIPATED, OR MAY DECLINE, WHICH COULD HARM OUR OPERATING RESULTS.

Our future success depends in part upon our ability to aggregate compelling content and deliver that content through our online and other multi-media properties and programming and delivery technologies. We distribute some of the content that we license on our online properties, such as audio and video content from third parties. We have been providing increasing amounts of audio and video content to our users as reflected in the increase in direct sales of our content and we believe that users will increasingly demand high-quality audio and video content, such as music, film, and other special events. Such content may require us to make substantial payments to third parties from whom we license or acquire such content. For example, our entertainment properties rely on film producers and distributors, and other organizations for a large portion of the content available on our properties. Our ability to maintain and build relationships with third-party content providers will be critical to our success. In addition, as new methods for accessing and delivering content through media formats becomes available, including through alternative devices, we may need to enter into amended content agreements with existing third-party content providers to cover the new devices. We may be unable to enter into new, or preserve existing, relationships with the third parties whose content we seek to obtain. In addition, as competition for compelling content increases both domestically and internationally, our content providers may increase the prices at which they offer their content to us, and potential content providers may not offer their content on terms agreeable to us. An increase in the prices charged to us by third-party content providers could harm our operating results and financial condition. Further, some of our content licenses with third parties may be non-exclusive. Accordingly, content providers and other media sources such as radio or television may be able to offer similar or identical content and technologies. This increases the importance of our ability to deliver compelling content and media technologies in order to differentiate from other businesses. If we are unable to license or acquire compelling content at reasonable prices, if other companies acquire develop and/or distribute content that is similar to or the same as that provided by us, or if we do not develop compelling content or media technologies, the number of users of our services may not grow as anticipated, or may decline, which could harm our operating results.

WE MAY INCUR SUBSTANTIAL COSTS ENFORCING OUR INTELLECTUAL PROPERTY RIGHTS AND ANY DIFFICULTY WITH ENFORCING SUCH RIGHTS MAY CAUSE OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITION TO SUFFER.

The decreasing cost of electronic and computer equipment and related technology has made it easier to create unauthorized versions of audio and audiovisual products such as compact discs, videotapes and DVDs. Similarly, advances in Internet technology have increasingly made it possible for computer users to share audio and audiovisual information without the permission of the copyright owners and without paying royalties to holders of applicable intellectual property or other rights. Unauthorized copies and piracy of these products compete against legitimate sales of these products. Our revenues are derived from our licensed video content that is potentially subject to unauthorized copying and widespread, uncompensated dissemination on the Internet. If our proprietary video content is copied and distributed without authorization we may incur substantial costs enforcing our intellectual property rights. If we fail to obtain appropriate relief or enforcement through the judicial process, or if we fail to develop effective means of protecting our intellectual property, our results of operations and financial condition may suffer.

OUR CONTENT ASSETS MAY NOT BE COMMERCIALLY SUCCESSFUL WHICH WOULD CAUSE OUR REVENUES TO DECLINE.

Our revenue comes from the production and distribution of video content for use in Latino home video. The success of content offerings depends primarily upon their acceptance by the public, which is difficult to predict. The market for these products is highly competitive and competing products are often released into the marketplace at the same time. The commercial success of a video production depends on several variable factors, including the quality and acceptance of competing offerings released into the marketplace at or near the same time and the availability of alternative forms of entertainment and leisure time activities. Our business is particularly dependent on the success of a limited number of releases, and the commercial failure of just a few of these releases can have a significant adverse impact on results. Our failure to obtain broad consumer appeal in the Latino community could materially harm our business, financial condition and prospects for growth.

FAILURE TO PROPERLY MANAGE OUR POTENTIAL GROWTH POTENTIAL WOULD BE DETRIMENTAL TO HOLDERS OF OUR SECURITIES.

Since we have limited operating history and our total assets at June 30, 2007 consisted of $16,000 in cash and total current assets of $205,000, any significant growth will place considerable strain on our financial resources and increase demands on our management and on our operational and administrative systems, controls and other resources. There can be no assurance that our existing personnel, systems, procedures or controls will be adequate to support our operations in the future or that we will be able to successfully implement appropriate measures consistent with our growth strategy. As part of this growth, we may have to implement new operational and financial systems, procedures and controls to expand, train and manage our employees and maintain close coordination among our technical, accounting, finance, marketing, sales and editorial staff. We cannot guarantee that we will be able to do so, or that if we are able to do so, we will be able to effectively integrate them into our existing staff and systems. We may fail to adequately manage our anticipated future growth. We will also need to continue to attract, retain and integrate personnel in all aspects of our operations. Failure to manage our growth effectively could hurt our business.

IF WE DO NOT MAINTAIN THE CONTINUED SERVICE OF OUR EXECUTIVE OFFICERS, WE MAY NEVER DEVELOP BUSINESS OPERATIONS.

Our success is dependent upon the continued service of our current chief executive officer. To date, we have entered into a written employment agreement with Jay Rifkin, our Chief Executive Officer. We do not have key man life insurance on any of our executive officers. While none of our executive officers currently has any definitive plans to

retire or leave our company in the near future, any of such persons could decide to leave us at any time to pursue other opportunities. The loss of services of Mr. Rifkin or any of our other executive management team could cause us to lose revenue.

RISKS RELATED TO OUR COMMON STOCK

OUR HISTORIC STOCK PRICE HAS BEEN VOLATILE AND THE FUTURE MARKET PRICE FOR OUR COMMON STOCK IS LIKELY TO CONTINUE TO BE VOLATILE. FURTHER, THE LIMITED MARKET FOR OUR SHARES WILL MAKE OUR PRICE MORE VOLATILE. THIS MAY MAKE IT DIFFICULT FOR YOU TO SELL OUR COMMON STOCK FOR A POSITIVE RETURN ON YOUR INVESTMENT.

The public market for our common stock has historically been very volatile. Over the past two fiscal years, the market price for our common stock as quoted on the OTC Bulletin Board has ranged from $0.08 to $2.05. The closing sale price for our common stock on June 8, 2007 was $0.11 per share. Any future market price for our shares is likely to continue to be very volatile. This price volatility may make it more difficult for you to sell shares when you want at prices you find attractive. We do not know of any one particular factor that has caused volatility in our stock price. However, the stock market in general has experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of companies. Broad market factors and the investing public's negative perception of our business may reduce our stock price, regardless of our operating performance. Further, the market for our common stock is limited and we cannot assure you that a larger market will ever be developed or maintained. The average daily trading volume of our common stock has historically been insignificant. Market fluctuations and volatility, as well as general economic, market and political conditions, could reduce our market price. As a result, this may make it difficult or impossible for you to sell our common stock or to sell our common stock for a positive return on your investment.

OUR COMMON STOCK IS SUBJECT TO THE "PENNY STOCK" RULES OF THE SEC AND THE TRADING MARKET IN OUR SECURITIES IS LIMITED, WHICH MAKES TRANSACTIONS IN OUR STOCK CUMBERSOME AND MAY REDUCE THE VALUE OF AN INVESTMENT IN OUR STOCK.

The SEC has adopted Rule 3a51-1 which establishes the definition of a "penny stock," for the purposes relevant to us, as any equity security that has a market price of less than $5.00 per share or with an exercise price of less than $5.00 per share, subject to certain exceptions. For any transaction involving a penny stock, unless exempt, Rule 15g-9 requires:

- that a broker or dealer approve a person's account for transactions in penny stocks; and

- the broker or dealer receive from the investor a written agreement to the transaction, setting forth the identity and quantity of the penny stock to be purchased.

In order to approve a person's account for transactions in penny stocks, the broker or dealer must:

- obtain financial information and investment experience objectives of the person; and

- make a reasonable determination that the transactions in penny stocks are suitable for that person and the person has sufficient knowledge and experience in financial matters to be capable of evaluating the risks of transactions in penny stocks.

The broker or dealer must also deliver, prior to any transaction in a penny stock, a disclosure schedule prescribed by the SEC relating to the penny stock market, which, in highlight form:

- sets forth the basis on which the broker or dealer made the suitability determination; and

- that the broker or dealer received a signed, written agreement from the investor prior to the transaction.

Disclosure also has to be made about the risks of investing in penny stocks in both public offerings and in secondary trading and about the commissions payable to both the broker-dealer and the registered representative, current quotations for the securities and the rights and remedies available to an investor in cases of fraud in penny stock transactions. Finally, monthly statements have to be sent disclosing recent price information for the penny stock held in the account and information on the limited market in penny stocks.

Generally, brokers may be less willing to execute transactions in securities subject to the "penny stock" rules. This may make it more difficult for investors to dispose of our common stock and cause a decline in the market value of our stock.

Item 3. 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 principal 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 principal financial officer concluded that 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 principal 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.

On April 20, 2007, William B. Horne submitted his resignation as Chief Financial Officer. Mr. Horne will remain a director of the Company. In addition, Mr. Horne has been appointed to the Company’s Audit Committee. Mr. Horne’s decision to resign is not the result of any disagreement on any matter relating to the Company’s operations, policies or practices, nor regarding the general direction of the Company. This was filed with the Commission on April 26, 2007 Form 8-K Item 5.02.

On May 1, 2007, the Company hired a full time employee with the specific tasks to formalize the accounting department policies and procedures and to implement strict financial controls related to the review and approval of transactions, accounting entries, journal entries, timely reconciliation of general ledger account activity and balances, and of all Company financial related matters.

These changes resulted primarily from the Company’s commitment to ensure that the proper financial procedures, policies and controls are in place to better position the Company for growth. Furthermore, these changes also resulted in part from a letter to the Company dated May 8, 2007 from our prior independent accountant, Squar Milner.

In that letter Squar Milner advised the Company that during its audit of the financial statements of the Company as of December 31, 2006, they noted the following significant deficiencies involving internal control and its operation that it considers in aggregate to be material weaknesses: Inadequate staffing and oversight of accounting department; Absence of appropriate policies, procedures and effective controls related to the review and approval of transactions, and timely reconciliation of general ledger account activity and balances; Absence of policies, procedures and effective controls related to the financial close process and preparation of financial statement and disclosures; and inadequate documentation and support for certain transactions. Squar Milner also noted in same letter that the above noted weaknesses did not result in any adjustments during the audit of the December 31, 2006 financial statements. The Company has made addressing such deficiencies or material weaknesses a high priority. The Company’s Audit Committee has discussed the foregoing matters with Squar Milner. The Company fully intends to improve our internal control over financial reporting through the hiring of full time accounting staff, increased independence of the accounting department, continued training of our accounting staff, working closely with independent accountants, and with the continued commitment of management to constantly strive for the improvement of our accounting policies, procedures and financial controls. Our management will work with our auditors and other outside advisors to ensure that our controls and procedures are adequate and effective. We are confident that this effort will be sufficient to fully remedy these deficiencies or material weaknesses and better position the Company for growth.

Effective as of May 8, 2007, the Company engaged Tarvaran, Askelson & Company, LLP as its principal independent accountants to audit the financial statements of the Company. The change in the Company’s independent accountants was approved by the Company’s Audit Committee and filed with the Commission on May 21, 2007 on Form 8-K Item 4.01.

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 second quarter of 2007, we sold a total of 2,150,000 shares of our common stock at $0.10 per share to ten investors for an aggregate purchase price of $215,000 in cash. Each of the purchasers is an “accredited investor” as such term in defined in Rule 501 of Regulation D. Each of the purchasers represented that it acquired the shares for investment purposes. Restrictive legends were placed on the certificates issued to the purchasers. 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 second quarter of 2007 of a total of 2,150,000 shares of our common stock to ten investors for an aggregate purchase price of $215,000.

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

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

	DIGICORP, INC.	
Date: August 17, 2007	By:	/s/ Jay Rifkin
		Jay Rifkin Chief Executive Officer
Date: August 17, 2007	By:	/s/ Jay Rifkin
		Jay Rifkin Principal Financial Officer