

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

Form 10-QSB

(Mark One)

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT  
OF 1934 FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2006

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT  
FOR THE TRANSITION PERIOD FROM \_\_\_\_\_ TO \_\_\_\_\_  
COMMISSION FILE NUMBER \_\_\_\_\_

DIGICORP

(Exact name of small business issuer in its charter)

UTAH

87-0398271

-----  
(State or other jurisdiction of  
incorporation or organization)

-----  
(I.R.S. Employer Identification No.)

4143 Glencoe Avenue, Marina Del Rey, CA 90292

-----  
(Address of principal executive offices)

Issuer's telephone Number: (310) 728-1450  
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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  No

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  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 August 14, 2006, the issuer had 37,239,002 outstanding shares of Common Stock, \$.001 par value.

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

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

DIGICORP  
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Condensed Consolidated Balance Sheets (Unaudited)

<TABLE> <CAPTION>	June 30, 2006	December 31, 2005
<S>	<C>	<C>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 22,956	\$ 54,518
Accounts receivable, net	73,630	64,408
Inventories	136,204	130,168
Other current assets	250,417	253,633
<b>TOTAL CURRENT ASSETS</b>	<b>483,207</b>	<b>502,727</b>
Other long term assets	--	48,922
Property and equipment, net	259,533	83,016
Intangible assets, net	922,799	796,256
<b>TOTAL ASSETS</b>	<b>\$ 1,665,539</b>	<b>\$ 1,430,921</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 381,424	\$ 189,095
Accrued liabilities	216,050	128,145
Revolving credit line - related party	50,000	--
Note payable - related party	73,000	73,000
Deferred revenue	80,211	80,211
<b>TOTAL CURRENT LIABILITIES</b>	<b>800,685</b>	<b>470,451</b>
<b>LONG TERM LIABILITIES</b>		
Convertible note payable - related party	556,307	556,307
Debt discount - beneficial conversion feature	(174,324)	(193,694)
<b>TOTAL LONG TERM LIABILITIES</b>	<b>381,983</b>	<b>362,613</b>
<b>TOTAL LIABILITIES</b>	<b>1,182,668</b>	<b>833,064</b>
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>STOCKHOLDERS' EQUITY</b>		
Common stock, \$0.001 par value: 50,000,000 shares authorized; 37,239,002 shares issued and outstanding as of June 30, 2006; 36,737,184 shares issued and outstanding at December 31, 2005	37,239	36,737
Paid-in capital	3,217,078	958,982
Accumulated deficit	(2,771,446)	(397,862)
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<b>482,871</b>	<b>597,857</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 1,665,539</b>	<b>\$ 1,430,921</b>

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

<TABLE>  
<CAPTION>

	Three Months Ended		Six Months Ended	
	June 30, 2006	June 30, 2005	June 30, 2006	June 30, 2005
<S>	<C>	<C>	<C>	<C>
<b>REVENUE</b>				
Sales	\$ 224,279	\$ 1,039	\$ 667,797	\$ 3,082
Licensing fees	--	41,946	--	80,986
<b>Total revenue</b>	<b>224,279</b>	<b>42,985</b>	<b>667,797</b>	<b>84,068</b>
<b>OPERATING EXPENSES</b>				
Cost of sales	157,844	7,559	419,132	12,032
Selling, general and administrative expenses	1,312,094	68,398	2,621,449	128,559
<b>Total operating expenses</b>	<b>1,469,938</b>	<b>75,957</b>	<b>3,040,581</b>	<b>140,591</b>
<b>LOSS BEFORE INCOME TAXES</b>	<b>(1,245,659)</b>	<b>(32,972)</b>	<b>(2,372,784)</b>	<b>(56,523)</b>
<b>PROVISION FOR INCOME TAXES</b>	<b>--</b>	<b>--</b>	<b>800</b>	<b>800</b>
<b>NET LOSS</b>	<b>\$ (1,245,659)</b>	<b>\$ (32,972)</b>	<b>\$ (2,373,584)</b>	<b>\$ (57,323)</b>
<b>BASIC AND DILUTED NET LOSS PER COMMON SHARE</b>	<b>\$ (0.03)</b>	<b>\$ (0.00)</b>	<b>\$ (0.06)</b>	<b>\$ (0.00)</b>
<b>WEIGHTED AVERAGE COMMON SHARES OUTSTANDING</b>	<b>37,193,637</b>	<b>15,530,104</b>	<b>37,056,978</b>	<b>15,530,104</b>

</TABLE>

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

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DIGICORP

Condensed Consolidated Statements of Cash Flows (Unaudited)

<TABLE>  
<CAPTION>

	Six Months Ended	
	June 30, 2006	June 30, 2005
<S>	<C>	<C>
<b>Cash flows from operating activities:</b>		
Net loss	\$ (2,373,584)	\$ (57,323)
<b>Adjustments to reconcile net loss to net cash used in operating activities:</b>		
Depreciation	3,101	577
Amortization of licenses	67,056	55,815
Amortization of debt discount	19,369	--
Stock-based compensation to employees and directors	1,669,077	--
Stock-based compensation to consultants	4,121	--
<b>Changes in operating assets and liabilities:</b>		
Accounts receivable	(9,222)	(2,455)
Inventories	(6,036)	(3,419)
Other current assets	33,216	(1,364)
Other long term assets	48,922	--
Accounts payable and accrued liabilities	280,234	(5,177)
Deferred revenue	--	(80,986)
<b>Net cash used in operating activities</b>	<b>(263,746)</b>	<b>(94,332)</b>
<b>Cash flows from investing activities:</b>		
Purchases of licenses and developed content	(128,599)	(302,500)
Proceeds from disposal of licenses	65,000	--
Purchases of property and equipment	(27,617)	(5,253)

Net cash used in investing activities	(91,216)	(307,753)
	-----	-----
Cash flows from financing activities:		
Proceeds from issuance of common stock	273,400	50
Proceeds from revolving credit line - related party	50,000	--
Proceeds from related party note	--	400,108
	-----	-----
Net cash provided by financing activities	323,400	400,158
	-----	-----
Net decrease in cash and cash equivalents	(31,562)	(1,927)
Cash and cash equivalents at beginning of period	54,518	7,856
	-----	-----
Cash and cash equivalents at end of period	\$ 22,956	\$ 5,929
	=====	=====
Supplemental disclosures of cash flow information:		
Income taxes	\$ 1,200	\$ --
Interest paid	\$ --	\$ --
Non-cash investing and financing activity:		
Acquisition of intangible assets for common stock	\$ 160,000	\$ --
Acquisition of fixed assets for common stock	\$ 152,000	\$ --

</TABLE>

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

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**DIGICORP**

Notes to Condensed Consolidated Financial Statements - Unaudited  
June 30, 2006

**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 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 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 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 licensed content and licensing agreements with third parties that distributed the Company's licensed content. The Company is expanding its sales force to focus on direct sales of its licensed content and intends to significantly reduce or eliminate future licensing agreements with third parties.

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 condensed 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 condensed 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 condensed consolidated balance sheet as of December 31, 2005, 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, 2006. The condensed interim consolidated financial statements should be read in connection with the Company's audited financial statements for the year ended December 31, 2005.

#### Principles of Consolidation

The accompanying condensed 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.

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#### DIGICORP

Notes to Condensed Consolidated Financial Statements - Unaudited (continued)  
June 30, 2006

#### 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, 2006, the Company has an accumulated deficit of approximately \$2.8 million and a working capital deficit of \$317,000, which includes a deferred revenue balance of \$80,000, as discussed below. During the six months ended June 30, 2006, the Company incurred a loss of approximately \$2.4 million. During the six months ended June 30, 2006, 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 currently seeking additional financing and believes, however no assurances can be made, that these avenues will continue to be available to the Company to fund its operations. The accompanying financial statements do not include any adjustments that might result from the outcome of this uncertainty.

#### Recent Accounting Pronouncements

In June 2006, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation Number 48 ("FIN 48"), Accounting for Uncertainty in Income Taxes--an interpretation of FASB Statement No. 109. The interpretation contains a two step approach to recognizing and measuring uncertain tax positions accounted for in accordance with SFAS No. 109. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount which is more than 50% likely of being realized upon ultimate settlement. Effective for the Company beginning January 1, 2007, FIN 48 is not expected to have any impact on the Company's financial position, results of operations or cash flows.

#### 3. ACCOUNTS RECEIVABLE

Accounts receivable are recorded at the invoice amount and do not bear interest. Accounts receivable at June 30, 2006 and December 31, 2005 are presented net of an allowance for doubtful accounts of \$25,000 and \$15,000, respectively.

#### 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.

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## DIGICORP

Notes to Condensed Consolidated Financial Statements - Unaudited (continued)  
June 30, 2006

## 5. OTHER CURRENT ASSETS

The Company has an agreement with Sichenzia Ross Friedman Ference LLP ("Sichenzia") for legal representation that extends through March 31, 2007. In consideration for Sichenzia's services, the Company agreed to a fixed fee of \$50,000 and to issue Sichenzia 500,000 shares of the Company's common stock. The common stock issued to Sichenzia was valued at \$325,000 and is being amortized over the term of the agreement. At June 30, 2006, the unamortized balance is \$147,000 and is included in other current assets. The remaining balance recorded in other current assets relates to an amount due the Company for reimbursable expenses from a related party of \$21,000, a receivable from the disposal of certain licenses of \$30,000, security deposits of \$31,000, and other items which amount to \$21,000.

## 6. 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 iCodemedia and Perreoradio suite of websites and internet properties and all related intellectual property (the "iCodemedia 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 iCodemedia suite of websites consists of the websites www.icodemedia.com, www.iplaylist.com, www.tunecast.com, www.tunebucks.com, www.podpresskit.com and www.tunespromo.com. The Company intends to use these websites to provide a suite of applications and services to enable content creators to publish and deliver content to existing and next generation devices. The iCodemedia Assets are presently under development. As consideration for the iCodemedia Assets, the Company issued 1,000,000 shares of its common stock valued at \$300,000.

The Perreoradio and iCodemedia 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.

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, 2006 and 2005, amortization expense related to the licensed content was \$67,000 and \$56,000, respectively.

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## DIGICORP

Notes to Condensed Consolidated Financial Statements - Unaudited (continued)  
June 30, 2006

Intangible assets and accumulated amortization at June 30, 2006 and December 31, 2005 are comprised of the following:

	June 30, 2006	December 31, 2005
iCodemedia Assets	\$ 300,000	\$ 300,000
Perreoradio Assets	160,000	--
Licensed and developed content	719,599	686,000
Less: accumulated amortization	(256,800)	(189,744)
	-----	-----
Intangible assets, net	\$ 922,799	\$ 796,256
	=====	=====

## 7. 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, 2006 to purchase 8,762,500 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 three and six months ended June 30, 2006, as their inclusion would have been antidilutive. At June 30, 2005 there were no outstanding options, warrants or convertible notes.

8. ACCRUED LIABILITIES

Accrued liabilities at June 30, 2006 and December 31, 2005 are comprised of the following:

	June 30, 2006	December 31, 2005
	-----	-----
Obligations on license agreements	\$ 86,100	\$ 58,500
Accrued salaries	112,500	37,500
Accrued professional fees	--	29,000
Accrued interest	15,105	--
Income taxes payable	--	800
Other	2,345	2,345
	-----	-----
	\$ 216,050	\$ 128,145
	=====	=====

DIGICORP

Notes to Condensed Consolidated Financial Statements - Unaudited (continued)  
June 30, 2006

9. 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 and six months ended June 30, 2006, interest expense of \$19,000 and \$10,000, respectively, has been recorded from the debt discount amortization, and as of June 30, 2006, the remaining debt discount balance attributable to the beneficial conversion feature was \$174,000.

10. REVOLVING LINE OF CREDIT AGREEMENT - RELATED PARTY

Revolving Line of Credit Agreement

Effective March 23, 2006 the Company entered into 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 allows the Company to request advances totaling an aggregate of up to \$150,000 from AGB Acquisition Fund. The initial term of the Revolving Line of Credit is for a period of six months and may be extended for one or more additional six-month periods upon mutual agreement of the parties. At June 30, 2006, the Company had borrowed \$50,000 against the Revolving Line of Credit and incurred interest

expense of \$600. The Company's Chief Financial Officer is also the Chief Financial Officer of AGB Acquisition Fund.

#### 11. 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.

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DIGICORP

Notes to Condensed Consolidated Financial Statements - Unaudited (continued)  
June 30, 2006

A summary of stock option activity for the six months ended June 30, 2006 is presented below:

<TABLE>  
<CAPTION>

	Outstanding Options			Weighted Average Remaining Contractual Life (years)
	Shares Available for Grant	Number of Shares	Weighted Average Exercise Price	
<S>	<C>	<C>	<C>	<C>
December 31, 2005	6,687,500	8,312,500	\$ 0.75	8.64
Grants	(450,000)	450,000	\$ 1.54	9.08
June 30, 2006	6,237,500	8,762,500	\$ 0.79	8.23
Options exercisable at:				
December 31, 2005		2,137,500	\$ 0.25	5.34
June 30, 2006		2,141,667	\$ 0.25	4.84

</TABLE>

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, 2006, the following assumptions were used: volatility 143% to 155%; expected life 5 years; risk-free interest rate 3.75%; dividend yield 0%.

During the three and six months ended June 30, 2006 stock-based compensation totaling \$778,000 and \$1,669,000, respectively, was recorded by the Company. As of June 30, 2006, total unrecognized compensation cost related to unvested stock options was \$3,606,000.

#### 12. EQUITY TRANSACTIONS

During February 2006, the Company entered into a Subscription Agreement with several accredited investors, relating to the issuance and sale by the Company of shares of its common stock (the "Shares"). The Company received gross proceeds of \$235,000 from the issuance of 213,636 Shares at a price of \$1.10 per share.

During April 2006, the Company entered into a Subscription Agreement with its Chief Financial Officer relating to the issuance and sale by the Company of shares of its common stock. The Company received gross proceeds of \$55,000 from the issuance of 50,000 Shares at a price of \$1.10 per share.

On April 24, 2006, the Company purchased a software application known as iTunesBucks and its associated assets therewith (the "Assets") from EAI Technologies, LLC, a Virginia corporation. As consideration for the Assets, the

Company issued EAI Technologies an aggregate of 138,182 shares of its common stock. The cost of the software application, which was valued at \$152,000, was recorded as capitalized software. Capitalized software is depreciated over its estimated useful life when development is complete.

13. WARRANTS

During 2005, the Company issued a total of 550,000 warrants 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, 2006.

DIGICORP

Notes to Condensed Consolidated Financial Statements - Unaudited (continued)  
June 30, 2006

The following table summarizes information about common stock warrants outstanding at June 30, 2006:

<TABLE>  
<CAPTION>

Outstanding				Exercisable	
Exercise Price	Number Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
<C> \$ 0.10 - 0.25	<C> 250,000	<C> 5.00	<C> \$ 0.145	<C> 250,000	<C> \$ 0.145
\$ 0.50 - 0.75	300,000	4.75	0.65	300,000	0.65
\$ 0.10 - 0.75	550,000	4.86	\$ 0.42	550,000	\$ 0.42

</TABLE>

14. RELATED PARTY TRANSACTIONS

At June 30, 2006 and December 31, 2005 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 52% of the outstanding shares of the Company's common stock at June 30, 2006. 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 has a term of approximately six months and bears 5.0% simple interest.

Other current assets at June 30, 2006 includes \$21,000 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 Chief Financial Officer is also the Chief Financial Officer of AGB & Company.

15. SUBSEQUENT EVENTS

On July 13, 2006, William Horne, the Company's Chief Financial Officer, loaned the Company \$5,000. As consideration for the loan, the Company issued Mr. Horne a demand promissory note at a rate equal to the prime rate published in The Wall Street Journal from time to time to the date of payment in full.

From July 14, 2006 through August 16, 2006, Jay Rifkin, the Company's Chairman and Chief Executive Officer, loaned the Company a total of \$135,000. As consideration for the loans, the Company issued Mr. Rifkin demand promissory notes at a rate equal to the prime rate published in The Wall Street Journal from time to time 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

On June 30, 1995, Digicorp, a Utah corporation, (referred to herein as the "Company," "we," "us," and "our") became a development stage enterprise when we sold our assets. Until September 19, 2005 we had no operations other than issuing shares of common stock for financing the preparation of financial statements and for preparing filings for the SEC.

On September 19, 2005, we entered into an asset purchase agreement with Philip Gatch, our Chief Technology Officer, and thereby completed the purchase of certain assets from Mr. Gatch consisting of the iCodemedia suite of websites and internet properties and all related intellectual property (the "iCodemedia Assets"). The iCodemedia suite of websites consists of the websites [www.icodemedia.com](http://www.icodemedia.com), [www.iplaylist.com](http://www.iplaylist.com), [www.tunecast.com](http://www.tunecast.com), [www.tunebucks.com](http://www.tunebucks.com), [www.podpresskit.com](http://www.podpresskit.com) and [www.tunespromo.com](http://www.tunespromo.com).

On December 29, 2005, we acquired all of the issued and outstanding capital stock of Rebel Crew Films in consideration for the issuance of 21,207,080 shares of common stock to the shareholders of Rebel Crew Films. 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 currently maintains approximately 300 Spanish language films and plans to serve the nation's largest wholesale, retail, catalog, and e-commerce accounts.

On February 7, 2006, we entered into an asset purchase agreement pursuant to which we purchased the following Internet domain names and all materials, intellectual property, goodwill and records in connection therewith (the "Perreoradio Assets"): [Perreoradio.com](http://Perreoradio.com), [Radioperreo.com](http://Radioperreo.com), [Perreomobile.com](http://Perreomobile.com), [Perreotv.com](http://Perreotv.com), [Puroperreo.com](http://Puroperreo.com), [Puroreggaeton.com](http://Puroreggaeton.com), [Purosandungueo.com](http://Purosandungueo.com), [Sandungueoradio.com](http://Sandungueoradio.com), [Machetemusic.net](http://Machetemusic.net), [Machetemusic.org](http://Machetemusic.org), [Machetemusica.com](http://Machetemusica.com) and [Musicamachete.com](http://Musicamachete.com).

We are primarily engaged in the business of developing, marketing and distributing programming content, multi-media technologies, and advertising via the internet. We expect that we will expand our advertising to video and music-on-demand ("VOD"), and other alternative music and video programming formats 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 the majority our revenue through direct sales of our film content. In the past we generated the majority of our revenue from licensing agreements which consisted of three to five-year contracts that carried a 15% - 50% royalty on gross sales of licensed product. We are currently expanding our sales force to focus on direct sales of our licensed content and expect to see a significant shift in revenues, which have historically been predominately from licensing agreements, to direct sales.

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 Perreoradio and iCodemedia Assets.

Our goal is to become a leading distributor of Latino home entertainment products. Our products are 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.

We currently maintain and distribute approximately 300 Spanish language films. 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 programming includes: new releases, classic Mexican cinema,

animation, cult, sports, martial arts, family entertainment, and more.

#### 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. Our most critical accounting policies relate to the determination of stock based compensation, revenue recognition and the assessment of impairment of our intangible assets.

##### Stock-Based Compensation

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) revises the disclosure provisions of SFAS 123 and supercedes APB Opinion No. 25. 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. This statement is effective for the Company as of the beginning of the first annual reporting period that begins after June 15, 2005. The Company adopted SFAS 123(R) as of January 1, 2005.

##### Revenue Recognition

The Company generates revenue through either the direct sales of licensed content or through licensing agreements whereby the Company receives advance payments as consideration for rights granted to third parties that distribute the Company's licensed content. Revenues from direct sales are recorded upon shipment. Advance payments received under licensing agreements are initially recorded as deferred revenue. The Company recognizes revenue under its licensing agreements as royalties are earned upon shipment of licensed content to customers by the sub-licensor. The Company may be entitled to receive additional royalty payments under the licensing agreements, but only to the extent that royalties calculated under the terms of the licensing agreements exceed the amount of the advance payments.

##### Intangible Assets

The Company accounts for intangible assets in accordance with SFAS No. 142, "Goodwill and Other Intangible Assets", which provides accounting and reporting standards for acquired intangible assets. Under SFAS No. 142, goodwill and other intangible assets with indefinite useful lives are no longer amortized but tested for impairment at least annually. The Company will perform an impairment test on all intangible assets, in accordance with the guidance provided by SFAS No. 144, "Accounting for the Impairment of Disposal of Long-Lived Assets", at least annually, unless events and circumstances indicate that such assets might be impaired.

#### LIQUIDITY AND CAPITAL RESOURCES

Our total assets were \$1,666,000 at June 30, 2006 versus \$1,431,000 at December 31, 2005. The change in total assets is primarily attributable to increases in property and equipment of \$177,000 and intangible assets of \$127,000.

The increase in property and equipment is primarily attributed to our April 24, 2006, purchase of a software application known as iTunesBucks and its associated assets therewith (the "Assets") from EAI Technologies, LLC, ("EAI") a Virginia corporation. As consideration for the Assets, we issued EAI an aggregate of 138,182 shares of our common stock valued at \$152,000. Such amount represented both the cost to develop iTunesBucks as well as the April 24, 2006 closing price of our common stock, \$1.10 per common share, as reported on OTC Bulletin Board.

The increase in intangible assets is due to both the acquisition of additional licensed content as well as our acquisition of the Perreoradio suite of websites. During the six months ended June 30, 2006, we acquired additional licensed content for \$110,000 and produced our first music video for \$18,000. These increases were offset by the amortization of our licensed content in the amount of \$67,000 and the disposal of certain licenses for an additional \$95,000. As consideration for assets acquired in the acquisition of the Perreoradio suite of websites, we issued an aggregate of 100,000 shares of our 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

We had a working capital deficit of \$317,000 at June 30, 2006 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. We believe that future revenues combined with either loans or direct equity investments into the Company will be sufficient to fund our operations for the 12 months subsequent to June 30, 2006. We expect to undertake additional debt and equity financings to better enable us to grow and meet our future operating and capital requirements, however, there is no assurance that we will be successful in obtaining the necessary level of funding. On April 26, 2006 we entered into a placement agent agreement with Ault Glazer Bodnar Securities LLC ("AGB Securities") to assist us in raising additional debt and equity financings. We engaged AGB Securities as our non-exclusive placement agent in connection with a proposed best efforts private placement of up to \$3 million of our common stock to prospective accredited investors. The placement agent agreement was to expire on September 30, 2006. On July 12, 2006, we were notified by AGB Securities that it had terminated its placement agent agreement with the Company. From July 13, 2006 through August 16, 2006, as a result of the absence of any funds being received through our placement agent agreement with AGB Securities, a series of loans totaling \$140,000 were made to us primarily from Jay Rifkin, our Chairman and Chief Executive Officer. As consideration for the loans, we have issued demand promissory notes at a rate equal to the prime rate published in The Wall Street Journal from time to time to the date of payment in full. We cannot guarantee that Mr. Rifkin would be willing to further invest in the Company and if we are unable to secure additional sources of financing our operations would be negatively materially impacted.

During the three months ended June 30, 2006, the only equity financing that we entered into was a Subscription Agreement with our Chief Financial Officer in April 2006 relating to the issuance and sale of our common stock. We received gross proceeds of \$55,000 from the issuance of 50,000 shares at a price of \$1.10 per share. During the three months ended March 31, 2006 we entered into subscription agreements with unrelated accredited investors, pursuant to which we sold a total of 213,636 shares of our common stock at a price of \$1.10 per share. We received gross proceeds of \$235,000 from the sale of the stock. Additionally, on March 23, 2006, we entered into 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 allows us to request advances totaling an aggregate of up to \$150,000 from AGB Acquisition Fund. The initial term of the Revolving Line of Credit is for a period of six months and may be extended for one or more additional six-month periods upon mutual agreement of the parties. At June 30, 2006, we had borrowed \$50,000 against the Revolving Line of Credit.

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Operating activities used \$264,000 of cash during the six months ended June 30, 2006, compared to using \$94,000 during the six months ended June 30, 2005.

Cash used in investing activities for the six months ended June 30, 2006 and 2005 of \$91,000, and \$308,000, respectively, resulted primarily from the purchases of licensed Spanish language film content that was capitalized. During the six months ended June 30, 2006, purchases of licensed Spanish language film content was partially offset by proceeds of \$65,000 from the disposal of certain licenses.

## RESULTS OF OPERATIONS

### REVENUES

We generated revenues of \$224,000 and \$668,000 for the three and six months ended June 30, 2006, respectively, as compared with revenues of \$43,000 and \$84,000 for the three and six months ended June 30, 2005, respectively. During the three and six months ended June 30, 2005 almost all of our revenues were 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. Deferred revenue balances of \$80,000 at June 30, 2006 and December 31, 2005 represent advance royalty payments that are expected to be earned over the subsequent twelve month periods.

During the three and six months ended June 30, 2006, we did not recognize any licensing revenue. All of our \$224,000 and \$668,000, respectively, in revenue represents revenue generated through the direct sales of our licensed content. We expect that direct sales, as a percentage of total revenue, will comprise the majority of revenues over the next year as we continue to focus our efforts on expanding our sales force. Further, 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.

#### EXPENSES

Operating expenses, which were \$3,041,000 during the six months ended June 30, 2006 as compared with \$141,000 during the six months ended June 30, 2005, reflected an increase of \$2,900,000. A significant component of the overall increase that occurred in operating expenses during the six months ended June 30, 2006, related to cost of sales of \$419,000, an increase in salaries and employee benefits of \$398,000 and stock based compensation expense from grants of nonqualified stock options to our employees and non-employee directors of \$1,669,000 and. All outstanding stock-based compensation awards were granted by us 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, 2006, the following assumptions were used: volatility 143% to 155%; expected life 5 years; risk-free interest rate 3.75%; dividend yield 0%. The costs associated with cost of sales, increases in salaries and employee benefits, and stock based compensation, which were insignificant or non-existent during the six months ended June 30, 2005, reflect a shift in our revenue mix from revenue generated primarily through licensing agreements which do not have any costs of sales to that of direct sales which not only have cost of sales but also the need of a sales force. The remaining operating expenses consisted of professional fees, rent expense, amortization expense and general and administrative expenses.

Professional fees were \$250,000 higher during the six months ended June 30, 2006 compared to the six months ended June 30, 2005 due to significant increases in amounts paid for legal, consulting and accounting fees. Legal fees comprised the majority of this increase, representing an increase of \$212,000. Of this increase, \$94,000 related to the amortization of prepaid legal fees to Sichenzia Ross Friedman Ference LLP ("Sichenzia") pursuant to the terms of the May 5, 2005 legal retainer agreement, as amended. We entered into this legal retainer agreement in anticipation of an increased level of legal work required by a public operating company. Under the terms of the amended agreement, Sichenzia agreed to represent us in connection with our continuing reporting requirements, as well as our general corporate matters. The term of the agreement is from May 1, 2005 through March 31, 2007. The remaining increase is attributed to work performed on content licensing agreements, an ongoing royalty audit, and acquisition related work, all of which were outside the scope of our agreement with Sichenzia.

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Amounts paid to consultants increased by \$13,000 related to an ongoing royalty audit that we initiated during the quarter ended March 31, 2006 combined with amounts paid to primarily two consultants. Amounts paid to the two consultants related to services in generating direct sales at a large retailer and operational services.

Rent expense increased by \$41,000 during the six months ended June 30, 2006 compared to the six months ended June 30, 2005 due in part to our relocation into commercial office space in August 2005, with base rent of \$6,000 per month combined with periods of low rates of rent during the six months ended June 30, 2005.

Amortization expense increased by \$11,000 during the six months ended June 30, 2006 compared to the six months ended June 30, 2005 due to an increased number of license agreements.

General and administrative expense increased by \$123,000 during the six months ended June 30, 2006 compared to the six months ended June 30, 2005 and is attributed to the overall expansion of the business during the year ended December 31, 2005 combined with the financial constraints placed on us as a result of limited amounts of available working capital during the six months ended June 30, 2005.

#### 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, 2006 and 2005, we generated revenues of \$668,000 and \$84,000, respectively, and incurred net losses of \$2,373,000 and \$57,000, respectively. At June 30, 2006, we had a working capital deficit of \$317,000 and an accumulated deficit of \$2,771,000. 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.

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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.

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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:

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

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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 COMMERCIALY 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, 2006 consisted only of \$23,000 in cash and total current assets of \$483,000, 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 executive officers. To date, we have entered into a written employment agreement

with Jay Rifkin, our Chief Executive Officer, and Philip Gatch, our Chief Technology Officer, and none of our other executive officers. 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 any of our executive management team could cause us to lose revenue.

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#### 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 subsequent interim quarterly periods, the market price for our common stock as quoted on the OTC Bulletin Board has ranged from \$0.06 to \$2.05. The closing sale price for our common stock on August 14, 2006 was \$0.55 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:

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

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

- o sets forth the basis on which the broker or dealer made the suitability determination; and
- o that the broker or dealer received a signed, written agreement from the investor prior to the transaction.

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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 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 our disclosure controls and procedures are effective to ensure that all 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 in 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.

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.

On April 3, 2006, the Company sold 50,000 shares of common stock to William B. Horne, the Company's Chief Financial officer and current director, at a price of \$1.10 per share, resulting in gross proceeds of \$55,000. These securities were sold pursuant to Rule 506 promulgated under the Securities Act of 1933, as amended. These securities were sold in reliance upon the exemption provided by Section 4(2) of the Securities Act and the safe harbor of Rule 506 under Regulation D promulgated under the Securities Act. No advertising or general solicitation was employed in offering the securities, the sales were made to a limited number of persons, all of whom represented to the Company that they are accredited investors, and transfer of the securities is restricted in accordance with the requirements of the Securities Act.

On April 24, 2006, we purchased a software application known as iTunesBucks and its associated assets therewith (the "Assets") from EAI Technologies, LLC, a Virginia corporation. As consideration for the Assets, we issued EAI Technologies an aggregate of 138,182 shares of common stock. These securities were issued pursuant to the exemption from registration requirements provided by Section 4(2) of the Securities Act of 1933, as amended.

Item 3. Defaults Upon Senior Securities.

Not applicable.

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

The following proposals were submitted to shareholders at our annual meeting of stockholders held July 14, 2006 and were approved by a majority of the shares present at the meeting.

1. The authorization and approval to change the Company's domicile from Utah to 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. This proposal was approved. Results of the voting were as follows:

	<C>	<C>	<C>	<C>
	No. of Shares			
	Shares For	Against	Abstain	Broker non-votes
Common Stock	26,435,446	6,400	200	0

2. To authorize and approve the Company's Stock Option and Restricted Stock Plan. This proposal was approved. Results of the voting were as follows:

<S>	<C>	<C>	<C>	<C>
	No. of Shares			
	Shares For	Against	Abstain	Broker non-votes
Common Stock	26,402,046	21,400	18,600	0

No other matters were submitted to a vote of security holders during the second quarter ended June 30, 2006.

Item 5. Other Information.

Not applicable.

Item 6. Exhibits.

Exhibit Number	Description
4.1*	Demand Promissory Note in the principal amount of \$5,000 issued July 13, 2006 to William Horne
4.2*	Demand Promissory Note in the principal amount of \$30,000 issued July 14, 2006 to Jay Rifkin
4.3*	Demand Promissory Note in the principal amount of \$30,000 issued July 20, 2006 to Jay Rifkin
4.4*	Demand Promissory Note in the principal amount of \$50,000 issued August 8, 2006 to Jay Rifkin
4.5*	Demand Promissory Note in the principal amount of \$25,000 issued August 16, 2006 to Jay Rifkin
10.1*	Asset Purchase Agreement dated April 24, 2006 by and between Digicorp and EAI Technologies in connection with the \$152,000 purchase of iTunesBucks and its associated assets
31.1	Certification by Chief Executive Officer, required by Rule 13a-14(a) or Rule 15d-14(a) of the Exchange Act
21	
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

\* Filed herewith.

22

#### 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

Date: August 21, 2006

By: /S/ Jay Rifkin

-----  
Jay Rifkin  
Chief Executive Officer

Date: August 21, 2006

By: /S/ William B. Horne

-----  
William B. Horne  
Chief Financial Officer

23

## DEMAND PROMISSORY NOTE

\$5,000

July 13, 2006

FOR VALUE RECEIVED, Digicorp, a corporation organized under the laws of Delaware with an address at 4143 Glencoe Avenue, Marina Del Rey, CA 90292 (Fax No.: (310) 651-9629) (the "Maker"), hereby promises to pay to William Horne with an address at 25946 SE 22nd Place, Sammamish, WA 98075, or assigns (the "Holder"), the principal sum of Five Thousand Dollars (\$5,000) in lawful money of the United States, plus interest thereon at the rate set forth below, ON DEMAND.

## 1. Payments.

Maker promises to pay interest on the principal amount of this Note outstanding at a rate equal to the "prime rate" published in The Wall Street Journal from time to time to the date of payment in full. Maker hereby agrees to repay the principal amount of this Note, and the interest which shall accrue on this Note, upon written demand therefor by the Holder. When any date on which principal and interest are due and payable falls on a Saturday, Sunday or legal holiday, then such payment shall be due and payable on the first business day immediately following.

Prepayment of all or any part of the principal due and owing on this Note may be made on any date without any additional premium or penalty. All payments made on this Note shall be applied first to amounts other than principal and interest which may then be due hereunder, then to interest accrued to the date of the payment and then to the outstanding principal amount of this Note.

In the event any payment due hereunder is not made within five (5) days after the due date, interest shall accrue on such unpaid amount at the rate of fifteen percent (15%) per annum from the due date.

## 2. Waivers.

No delay or failure on the part of the Holder in exercising any right, privilege or option hereunder shall operate as a waiver thereof or of any event of default, nor shall any single or partial exercise of any such right, privilege or option preclude any further exercise thereof, or the exercise of any other right, privilege or option.

Makers waive demand, presentment for payment, notice of dishonor, protest and notice of protest and any notice or demands of any kind are hereby expressly waived.

## 3. Miscellaneous.

(a) Makers shall be responsible for all costs and expenses, including court costs and reasonable attorneys' fees incurred in connection with collection of payments due under this Note.

1

(b) This Note shall be governed by and interpreted in accordance with the laws of the State of California applicable to agreements made and to be performed within such State. Makers (a) hereby irrevocably submit to the jurisdiction of the state courts of the State of California and the jurisdiction of the United States District Courts in the State of California for the purpose of any suit, action or other proceeding arising out of or based upon this Note, or the subject matter hereof brought by Holder and (b) hereby waive and agree not to assert, by way of motion, as a defense, or otherwise, in any such suit, action or proceeding, any claim that it is not subject personally to the jurisdiction of the above-named courts, that its property is exempt or immune from attachment or execution, that the suit, action or proceeding is brought in an inconvenient forum, that the venue of the suit, action or proceeding is improper or this Note or the subject matter hereof may not be enforced in or by such court, and (c) hereby waive in any such action, suit, or proceeding any offsets or counterclaims. Makers hereby consent to service of process by

certified mail at their address set forth herein and agree that this submission to jurisdiction and this consent to service of process by mail is made for the express benefit of Holder. Final judgment against Makers in any such action, suit or proceeding shall be conclusive, and may be enforced in other jurisdictions (i) by suit, action or proceeding on the conclusive evidence of the fact and of the amount of any indebtedness or liability of Makers therein described or (ii) in any other manner provided by or pursuant to the laws of such other jurisdiction; provided, however, that Holder may at its option bring suit, or institute other judicial proceedings, against Makers or any of their assets in any state or Federal court of the United States or of any country or place where Makers or their assets may be found.

(c) MAKERS HEREBY WAIVE THEIR RIGHTS TO A JURY TRIAL OF ANY CLAIM OR CAUSE OF ACTION BASED UPON OR ARISING OUT OF THIS NOTE. The scope of this waiver is intended to be all-encompassing of any and all disputes that may be filed in any court and that related to the subject matter of this Note, including without limitation, contract claims, tort claims, breach of duty claims, and all other common law and statutory claims. Makers hereby acknowledge that this waiver is a material inducement to enter into a business relationship, that Holder has already relied on the waiver in entering into this Note and that Holder will continue to rely on the waiver in related future dealings. This waiver shall apply to any subsequent amendments, renewals, supplements or modifications to this Note.

(d) All notices, consents and other communications provided for in this Note or otherwise required by law shall be in writing and may be given to or made upon the respective parties at the addresses specified in the first paragraph of this Note.

Notices shall be effective upon the date of receipt; provided, however, that a notice sent by certified or registered U.S. mail, with postage prepaid, shall be presumed received no later than three (3) business days following the date of mailing. Notices may also be given by facsimile transmission to the FAX number specified in the first paragraph of this Note and shall be deemed received on the date transmitted.

(e) Time is of the essence with respect to this Note.

2

IN WITNESS WHEREOF, this Note has been executed and delivered by Maker on the 13th day of July 2006.

DIGICORP

By /s/ Jay Rifkin

-----  
Name: Jay Rifkin

Title: Chief Executive Officer

3

## DEMAND PROMISSORY NOTE

\$30,000

July 14, 2006

FOR VALUE RECEIVED, Digicorp, a corporation organized under the laws of Delaware with an address at 4143 Glencoe Avenue, Marina Del Rey, CA 90292 (Fax No.: (310) 651-9629) (the "Maker"), hereby promises to pay to Jay Rifkin with an address at 1723 Cloverfield Blvd., Santa Monica, CA 90404, or assigns (the "Holder"), the principal sum of Thirty Thousand Dollars (\$30,000) in lawful money of the United States, plus interest thereon at the rate set forth below, ON DEMAND.

## 1. Payments.

Maker promises to pay interest on the principal amount of this Note outstanding at a rate equal to the "prime rate" published in The Wall Street Journal from time to time to the date of payment in full. Maker hereby agrees to repay the principal amount of this Note, and the interest which shall accrue on this Note, upon written demand therefor by the Holder. When any date on which principal and interest are due and payable falls on a Saturday, Sunday or legal holiday, then such payment shall be due and payable on the first business day immediately following.

Prepayment of all or any part of the principal due and owing on this Note may be made on any date without any additional premium or penalty. All payments made on this Note shall be applied first to amounts other than principal and interest which may then be due hereunder, then to interest accrued to the date of the payment and then to the outstanding principal amount of this Note.

In the event any payment due hereunder is not made within five (5) days after the due date, interest shall accrue on such unpaid amount at the rate of fifteen percent (15%) per annum from the due date.

## 2. Waivers.

No delay or failure on the part of the Holder in exercising any right, privilege or option hereunder shall operate as a waiver thereof or of any event of default, nor shall any single or partial exercise of any such right, privilege or option preclude any further exercise thereof, or the exercise of any other right, privilege or option.

Makers waive demand, presentment for payment, notice of dishonor, protest and notice of protest and any notice or demands of any kind are hereby expressly waived.

## 3. Miscellaneous.

(a) Makers shall be responsible for all costs and expenses, including court costs and reasonable attorneys' fees incurred in connection with collection of payments due under this Note.

1

(b) This Note shall be governed by and interpreted in accordance with the laws of the State of California applicable to agreements made and to be performed within such State. Makers (a) hereby irrevocably submit to the jurisdiction of the state courts of the State of California and the jurisdiction of the United States District Courts in the State of California for the purpose of any suit, action or other proceeding arising out of or based upon this Note, or the subject matter hereof brought by Holder and (b) hereby waive and agree not to assert, by way of motion, as a defense, or otherwise, in any such suit, action or proceeding, any claim that it is not subject personally to the jurisdiction of the above-named courts, that its property is exempt or immune from attachment or execution, that the suit, action or proceeding is brought in an inconvenient forum, that the venue of the suit, action or proceeding is improper or this Note or the subject matter hereof may not be enforced in or by such court, and (c) hereby waive in any such action, suit, or proceeding any

offsets or counterclaims. Makers hereby consent to service of process by certified mail at their address set forth herein and agree that this submission to jurisdiction and this consent to service of process by mail is made for the express benefit of Holder. Final judgment against Makers in any such action, suit or proceeding shall be conclusive, and may be enforced in other jurisdictions (i) by suit, action or proceeding on the conclusive evidence of the fact and of the amount of any indebtedness or liability of Makers therein described or (ii) in any other manner provided by or pursuant to the laws of such other jurisdiction; provided, however, that Holder may at its option bring suit, or institute other judicial proceedings, against Makers or any of their assets in any state or Federal court of the United States or of any country or place where Makers or their assets may be found.

(c) MAKERS HEREBY WAIVE THEIR RIGHTS TO A JURY TRIAL OF ANY CLAIM OR CAUSE OF ACTION BASED UPON OR ARISING OUT OF THIS NOTE. The scope of this waiver is intended to be all-encompassing of any and all disputes that may be filed in any court and that related to the subject matter of this Note, including without limitation, contract claims, tort claims, breach of duty claims, and all other common law and statutory claims. Makers hereby acknowledge that this waiver is a material inducement to enter into a business relationship, that Holder has already relied on the waiver in entering into this Note and that Holder will continue to rely on the waiver in related future dealings. This waiver shall apply to any subsequent amendments, renewals, supplements or modifications to this Note.

(d) All notices, consents and other communications provided for in this Note or otherwise required by law shall be in writing and may be given to or made upon the respective parties at the addresses specified in the first paragraph of this Note.

Notices shall be effective upon the date of receipt; provided, however, that a notice sent by certified or registered U.S. mail, with postage prepaid, shall be presumed received no later than three (3) business days following the date of mailing. Notices may also be given by facsimile transmission to the FAX number specified in the first paragraph of this Note and shall be deemed received on the date transmitted.

(e) Time is of the essence with respect to this Note.

2

IN WITNESS WHEREOF, this Note has been executed and delivered by Maker on the 14th day of July 2006.

DIGICORP

By /s/ William B. Horne

-----  
Name: William B. Horne  
Title: Chief Financial Officer

3

## DEMAND PROMISSORY NOTE

\$30,000

July 20, 2006

FOR VALUE RECEIVED, Digicorp, a corporation organized under the laws of Delaware with an address at 4143 Glencoe Avenue, Marina Del Rey, CA 90292 (Fax No.: (310) 651-9629) (the "Maker"), hereby promises to pay to Jay Rifkin with an address at 1723 Cloverfield Blvd., Santa Monica, CA 90404, or assigns (the "Holder"), the principal sum of Thirty Thousand Dollars (\$30,000) in lawful money of the United States, plus interest thereon at the rate set forth below, ON DEMAND.

## 1. Payments.

Maker promises to pay interest on the principal amount of this Note outstanding at a rate equal to the "prime rate" published in The Wall Street Journal from time to time to the date of payment in full. Maker hereby agrees to repay the principal amount of this Note, and the interest which shall accrue on this Note, upon written demand therefor by the Holder. When any date on which principal and interest are due and payable falls on a Saturday, Sunday or legal holiday, then such payment shall be due and payable on the first business day immediately following.

Prepayment of all or any part of the principal due and owing on this Note may be made on any date without any additional premium or penalty. All payments made on this Note shall be applied first to amounts other than principal and interest which may then be due hereunder, then to interest accrued to the date of the payment and then to the outstanding principal amount of this Note.

In the event any payment due hereunder is not made within five (5) days after the due date, interest shall accrue on such unpaid amount at the rate of fifteen percent (15%) per annum from the due date.

## 2. Waivers.

No delay or failure on the part of the Holder in exercising any right, privilege or option hereunder shall operate as a waiver thereof or of any event of default, nor shall any single or partial exercise of any such right, privilege or option preclude any further exercise thereof, or the exercise of any other right, privilege or option.

Makers waive demand, presentment for payment, notice of dishonor, protest and notice of protest and any notice or demands of any kind are hereby expressly waived.

## 3. Miscellaneous.

(a) Makers shall be responsible for all costs and expenses, including court costs and reasonable attorneys' fees incurred in connection with collection of payments due under this Note.

1

(b) This Note shall be governed by and interpreted in accordance with the laws of the State of California applicable to agreements made and to be performed within such State. Makers (a) hereby irrevocably submit to the jurisdiction of the state courts of the State of California and the jurisdiction of the United States District Courts in the State of California for the purpose of any suit, action or other proceeding arising out of or based upon this Note, or the subject matter hereof brought by Holder and (b) hereby waive and agree not to assert, by way of motion, as a defense, or otherwise, in any such suit, action or proceeding, any claim that it is not subject personally to the jurisdiction of the above-named courts, that its property is exempt or immune from attachment or execution, that the suit, action or proceeding is brought in an inconvenient forum, that the venue of the suit, action or proceeding is improper or this Note or the subject matter hereof may not be enforced in or by such court, and (c) hereby waive in any such action, suit, or proceeding any offsets or counterclaims. Makers hereby consent to service of process by

certified mail at their address set forth herein and agree that this submission to jurisdiction and this consent to service of process by mail is made for the express benefit of Holder. Final judgment against Makers in any such action, suit or proceeding shall be conclusive, and may be enforced in other jurisdictions (i) by suit, action or proceeding on the conclusive evidence of the fact and of the amount of any indebtedness or liability of Makers therein described or (ii) in any other manner provided by or pursuant to the laws of such other jurisdiction; provided, however, that Holder may at its option bring suit, or institute other judicial proceedings, against Makers or any of their assets in any state or Federal court of the United States or of any country or place where Makers or their assets may be found.

(c) MAKERS HEREBY WAIVE THEIR RIGHTS TO A JURY TRIAL OF ANY CLAIM OR CAUSE OF ACTION BASED UPON OR ARISING OUT OF THIS NOTE. The scope of this waiver is intended to be all-encompassing of any and all disputes that may be filed in any court and that related to the subject matter of this Note, including without limitation, contract claims, tort claims, breach of duty claims, and all other common law and statutory claims. Makers hereby acknowledge that this waiver is a material inducement to enter into a business relationship, that Holder has already relied on the waiver in entering into this Note and that Holder will continue to rely on the waiver in related future dealings. This waiver shall apply to any subsequent amendments, renewals, supplements or modifications to this Note.

(d) All notices, consents and other communications provided for in this Note or otherwise required by law shall be in writing and may be given to or made upon the respective parties at the addresses specified in the first paragraph of this Note.

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(e) Time is of the essence with respect to this Note.

2

IN WITNESS WHEREOF, this Note has been executed and delivered by Maker on the 20th day of July 2006.

DIGICORP

By /s/ William B. Horne

-----  
Name: William B. Horne  
Title: Chief Financial Officer

3

## DEMAND PROMISSORY NOTE

\$50,000

August 8, 2006

FOR VALUE RECEIVED, Digicorp, a corporation organized under the laws of Delaware with an address at 4143 Glencoe Avenue, Marina Del Rey, CA 90292 (Fax No.: (310) 651-9629) (the "Maker"), hereby promises to pay to Jay Rifkin with an address at 1723 Cloverfield Blvd., Santa Monica, CA 90404, or assigns (the "Holder"), the principal sum of Fifty Thousand Dollars (\$50,000) in lawful money of the United States, plus interest thereon at the rate set forth below, ON DEMAND.

## 1. Payments.

Maker promises to pay interest on the principal amount of this Note outstanding at a rate equal to the "prime rate" published in The Wall Street Journal from time to time to the date of payment in full. Maker hereby agrees to repay the principal amount of this Note, and the interest which shall accrue on this Note, upon written demand therefor by the Holder. When any date on which principal and interest are due and payable falls on a Saturday, Sunday or legal holiday, then such payment shall be due and payable on the first business day immediately following.

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In the event any payment due hereunder is not made within five (5) days after the due date, interest shall accrue on such unpaid amount at the rate of fifteen percent (15%) per annum from the due date.

## 2. Waivers.

No delay or failure on the part of the Holder in exercising any right, privilege or option hereunder shall operate as a waiver thereof or of any event of default, nor shall any single or partial exercise of any such right, privilege or option preclude any further exercise thereof, or the exercise of any other right, privilege or option.

Makers waive demand, presentment for payment, notice of dishonor, protest and notice of protest and any notice or demands of any kind are hereby expressly waived.

## 3. Miscellaneous.

(a) Makers shall be responsible for all costs and expenses, including court costs and reasonable attorneys' fees incurred in connection with collection of payments due under this Note.

1

(b) This Note shall be governed by and interpreted in accordance with the laws of the State of California applicable to agreements made and to be performed within such State. Makers (a) hereby irrevocably submit to the jurisdiction of the state courts of the State of California and the jurisdiction of the United States District Courts in the State of California for the purpose of any suit, action or other proceeding arising out of or based upon this Note, or the subject matter hereof brought by Holder and (b) hereby waive and agree not to assert, by way of motion, as a defense, or otherwise, in any such suit, action or proceeding, any claim that it is not subject personally to the jurisdiction of the above-named courts, that its property is exempt or immune from attachment or execution, that the suit, action or proceeding is brought in an inconvenient forum, that the venue of the suit, action or proceeding is improper or this Note or the subject matter hereof may not be enforced in or by such court, and (c) hereby waive in any such action, suit, or proceeding any

offsets or counterclaims. Makers hereby consent to service of process by certified mail at their address set forth herein and agree that this submission to jurisdiction and this consent to service of process by mail is made for the express benefit of Holder. Final judgment against Makers in any such action, suit or proceeding shall be conclusive, and may be enforced in other jurisdictions (i) by suit, action or proceeding on the conclusive evidence of the fact and of the amount of any indebtedness or liability of Makers therein described or (ii) in any other manner provided by or pursuant to the laws of such other jurisdiction; provided, however, that Holder may at its option bring suit, or institute other judicial proceedings, against Makers or any of their assets in any state or Federal court of the United States or of any country or place where Makers or their assets may be found.

(c) MAKERS HEREBY WAIVE THEIR RIGHTS TO A JURY TRIAL OF ANY CLAIM OR CAUSE OF ACTION BASED UPON OR ARISING OUT OF THIS NOTE. The scope of this waiver is intended to be all-encompassing of any and all disputes that may be filed in any court and that related to the subject matter of this Note, including without limitation, contract claims, tort claims, breach of duty claims, and all other common law and statutory claims. Makers hereby acknowledge that this waiver is a material inducement to enter into a business relationship, that Holder has already relied on the waiver in entering into this Note and that Holder will continue to rely on the waiver in related future dealings. This waiver shall apply to any subsequent amendments, renewals, supplements or modifications to this Note.

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Notices shall be effective upon the date of receipt; provided, however, that a notice sent by certified or registered U.S. mail, with postage prepaid, shall be presumed received no later than three (3) business days following the date of mailing. Notices may also be given by facsimile transmission to the FAX number specified in the first paragraph of this Note and shall be deemed received on the date transmitted.

(e) Time is of the essence with respect to this Note.

2

IN WITNESS WHEREOF, this Note has been executed and delivered by Maker on the 8th day of August 2006.

DIGICORP

By /s/ William B. Horne

-----  
Name: William B. Horne

Title: Chief Financial Officer

3

## DEMAND PROMISSORY NOTE

\$25,000

August 16, 2006

FOR VALUE RECEIVED, Digicorp, a corporation organized under the laws of Delaware with an address at 4143 Glencoe Avenue, Marina Del Rey, CA 90292 (Fax No.: (310) 651-9629) (the "Maker"), hereby promises to pay to Jay Rifkin with an address at 1723 Cloverfield Blvd., Santa Monica, CA 90404, or assigns (the "Holder"), the principal sum of Twenty Five Thousand Dollars (\$25,000) in lawful money of the United States, plus interest thereon at the rate set forth below, ON DEMAND.

## 1. Payments.

Maker promises to pay interest on the principal amount of this Note outstanding at a rate equal to the "prime rate" published in The Wall Street Journal from time to time to the date of payment in full. Maker hereby agrees to repay the principal amount of this Note, and the interest which shall accrue on this Note, upon written demand therefor by the Holder. When any date on which principal and interest are due and payable falls on a Saturday, Sunday or legal holiday, then such payment shall be due and payable on the first business day immediately following.

Prepayment of all or any part of the principal due and owing on this Note may be made on any date without any additional premium or penalty. All payments made on this Note shall be applied first to amounts other than principal and interest which may then be due hereunder, then to interest accrued to the date of the payment and then to the outstanding principal amount of this Note.

In the event any payment due hereunder is not made within five (5) days after the due date, interest shall accrue on such unpaid amount at the rate of fifteen percent (15%) per annum from the due date.

## 2. Waivers.

No delay or failure on the part of the Holder in exercising any right, privilege or option hereunder shall operate as a waiver thereof or of any event of default, nor shall any single or partial exercise of any such right, privilege or option preclude any further exercise thereof, or the exercise of any other right, privilege or option.

Makers waive demand, presentment for payment, notice of dishonor, protest and notice of protest and any notice or demands of any kind are hereby expressly waived.

## 3. Miscellaneous.

(a) Makers shall be responsible for all costs and expenses, including court costs and reasonable attorneys' fees incurred in connection with collection of payments due under this Note.

1

(b) This Note shall be governed by and interpreted in accordance with the laws of the State of California applicable to agreements made and to be performed within such State. Makers (a) hereby irrevocably submit to the jurisdiction of the state courts of the State of California and the jurisdiction of the United States District Courts in the State of California for the purpose of any suit, action or other proceeding arising out of or based upon this Note, or the subject matter hereof brought by Holder and (b) hereby waive and agree not to assert, by way of motion, as a defense, or otherwise, in any such suit, action or proceeding, any claim that it is not subject personally to the jurisdiction of the above-named courts, that its property is exempt or immune from attachment or execution, that the suit, action or proceeding is brought in an inconvenient forum, that the venue of the suit, action or proceeding is improper or this Note or the subject matter hereof may not be enforced in or by such court, and (c) hereby waive in any such action, suit, or proceeding any

offsets or counterclaims. Makers hereby consent to service of process by certified mail at their address set forth herein and agree that this submission to jurisdiction and this consent to service of process by mail is made for the express benefit of Holder. Final judgment against Makers in any such action, suit or proceeding shall be conclusive, and may be enforced in other jurisdictions (i) by suit, action or proceeding on the conclusive evidence of the fact and of the amount of any indebtedness or liability of Makers therein described or (ii) in any other manner provided by or pursuant to the laws of such other jurisdiction; provided, however, that Holder may at its option bring suit, or institute other judicial proceedings, against Makers or any of their assets in any state or Federal court of the United States or of any country or place where Makers or their assets may be found.

(c) MAKERS HEREBY WAIVE THEIR RIGHTS TO A JURY TRIAL OF ANY CLAIM OR CAUSE OF ACTION BASED UPON OR ARISING OUT OF THIS NOTE. The scope of this waiver is intended to be all-encompassing of any and all disputes that may be filed in any court and that related to the subject matter of this Note, including without limitation, contract claims, tort claims, breach of duty claims, and all other common law and statutory claims. Makers hereby acknowledge that this waiver is a material inducement to enter into a business relationship, that Holder has already relied on the waiver in entering into this Note and that Holder will continue to rely on the waiver in related future dealings. This waiver shall apply to any subsequent amendments, renewals, supplements or modifications to this Note.

(d) All notices, consents and other communications provided for in this Note or otherwise required by law shall be in writing and may be given to or made upon the respective parties at the addresses specified in the first paragraph of this Note.

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(e) Time is of the essence with respect to this Note.

2

IN WITNESS WHEREOF, this Note has been executed and delivered by Maker on the 16th day of August 2006.

DIGICORP

By /s/ William B. Horne

-----  
Name: William B. Horne

Title: Chief Financial Officer

3

ASSET PURCHASE AGREEMENT

THIS ASSET PURCHASE AGREEMENT (this "Agreement") is made as of April 24, 2006, by and between Digicorp, a Utah corporation ("Buyer"), and EAI Technologies, Inc., a Virginia corporation ("Seller").

W I T N E S S E T H:

WHEREAS, Seller has developed an application for Buyer known as ITunesBucks ("ITunesBucks"), which is a marketing application that allows customers to accumulate points that can be used to purchase merchandise;

WHEREAS, Buyer has outstanding invoices totaling \$152,000 (the "Invoices") which Buyer owes Seller as consideration for developing ITunesBucks; and

WHEREAS, Buyer desires to purchase and Seller desires to sell to Buyer ITunesBucks and its associated assets in exchange for (a) the issuance to Seller of 138,182 shares of Buyer's common stock, \$.001 par value per share ("Common Stock"), and (b) the waiver by Seller of the outstanding Invoices, pursuant to the terms set forth herein.

NOW, THEREFORE, in consideration of the mutual covenants and agreements herein contained, the parties hereto agree as follows:

SECTION 1. PURCHASE AND SALE OF ASSETS.

1.1 Sale of Assets. Seller agrees to sell, assign, transfer and deliver to Buyer, and Buyer agrees to purchase from Seller, all of Seller's right, title and interest in and to ITunesBucks and its associated assets and properties of every kind all as described in Exhibit A attached hereto as well as all Intellectual Property and all ideas of Seller of every kind and description related to ITunesBucks, tangible and intangible, real, personal or mixed, and wherever located, including, without limitation, the following:

(a) Intellectual Property. All of Seller's Intellectual Property relating to ITunesBucks;

(b) Goodwill. All of the goodwill of Seller in, and the going concern value of, ITunesBucks, and all of the ideas and Intellectual Property, proprietary information, marketing materials and trade secrets related to ITunesBucks; and

(c) Records. All of Seller's files and records, and other files and records relating to ITunesBucks and all files and records relating to all Intellectual Property and all ideas of Seller in connection with ITunesBucks.

The assets, properties, ideas, Intellectual Property, goodwill and records of Seller being sold to and purchased by Buyer under this Section 1.1 are referred to herein collectively as the "Assets."

1.2 Excluded Liabilities. It is expressly understood that Buyer shall not assume, pay or be liable for any liability or obligation of Seller of any kind or nature at any time existing or asserted, whether known, unknown, fixed, contingent or otherwise, not specifically assumed herein by Buyer, including, without limitation, any liability or obligation relating to, resulting from or arising out of any fact existing or event occurring prior to, or relating to the Assets prior to the date hereof.

1.3 Purchase Price; Payment. In consideration of the sale by Seller to Buyer of the Assets, and subject to satisfaction of the conditions contained herein, Buyer shall issue to Seller 138,182 shares of Common Stock of Buyer (the "Purchase Price").

1.4 Closing Date. Subject to satisfaction of the conditions contained herein, the closing of the sale and purchase of the Assets provided for in Section 1.1 hereof (the "Closing") shall take place at the offices of Sichenzia

Ross Friedman Ference LLP located at 1065 Avenue of the Americas, New York, New York 10018 (or at such other place as the parties may designate) on the date of this Agreement, or on such other date as Seller and Buyer may agree. The date on which the Closing shall be held is referred to in this Agreement as the "Closing Date."

1.5 Further Assurances. Seller shall, from time to time after the consummation of the transactions contemplated herein, at the request of Buyer and without further consideration, execute and deliver further instruments of transfer and assignment and take such other action as Buyer may reasonably require to more effectively transfer and assign to, and vest in, Buyer the Assets free and clear of all Liens (defined below).

1.6 Sales and Transfer Taxes. All sales, transfer, use, recordation, documentary, stamp, excise taxes, personal property taxes, fees and duties under applicable law incurred in connection with this Agreement or the transactions contemplated hereby will be borne and paid by Buyer.

1.7 Transfer of Subject Assets. Seller shall deliver or cause to be delivered to Buyer good and sufficient instruments of transfer transferring to Buyer title to all of the Assets, together with all required consents. Such instruments of transfer (a) shall contain appropriate warranties and covenants which are usual and customary for transferring the type of property involved under the laws of the jurisdictions applicable to such transfers, (b) shall be in form and substance reasonably satisfactory to Buyer and its counsel, (c) shall effectively vest in Buyer good and marketable title to all of the Assets free and clear of all Liens, and (d) where applicable, shall be accompanied by evidence of the discharge of all Liens against the Assets. Buyer agrees and acknowledges that the form of instrument of transfer attached hereto as Exhibit B is acceptable.

SECTION 2. REPRESENTATIONS AND WARRANTIES OF SELLER. In order to induce Buyer to enter into this Agreement, Seller hereby represents and warrants to Buyer as follows:

2.1 Required Action. All actions and proceedings necessary to be taken by or on the part of Seller in connection with the transactions contemplated by this Agreement have been duly and validly taken, and this Agreement and each other agreement, document and instrument to be executed and delivered by or on behalf of Seller pursuant to, or as contemplated by, this Agreement (collectively, the "Seller Documents") has been duly and validly authorized, executed and delivered by Seller and no other action on the part of Seller is required in connection therewith. Seller has full right, authority, power and capacity to execute and deliver this Agreement and each other Seller Document and to carry out the transactions contemplated hereby and thereby. This Agreement and each other Seller Document constitutes, or when executed and delivered will constitute, the legal, valid and binding obligation of Seller, enforceable in accordance with its respective terms.

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2.2 No Conflicts. The execution, delivery and performance by Seller of this Agreement and each other Seller Document does not and will not (a) constitute a violation of, or conflict with or result in any breach of, acceleration of any obligation under, right of termination under, or default under, any agreement or instrument to which Seller is a party or by which Seller or the Assets is bound, (b) violate any judgment, decree, order, statute, rule or regulation applicable to Seller or the Assets, or (c) require Seller to obtain any approval, consent or waiver of, or to make any filing with, any person or entity (governmental or otherwise) that has not been obtained or made.

2.3 Title. Seller has good and marketable title to all of the Assets free and clear of all mortgages, pledges, security interests, charges, liens, restrictions and encumbrances of any kind (collectively, "Liens") whatsoever. Upon the sale, assignment, transfer and delivery of the Assets to Buyer hereunder and under the Seller Documents, there will be vested in Buyer good, marketable and indefeasible title to the Assets, free and clear of all Liens. The Assets include all of the assets and properties (a) held for use by Seller in connection with Assets and (b) necessary for Buyer to use the Assets in the manner for which the Assets were developed. All of the tangible Assets are in good repair, have been well maintained and are in good operating condition, do

not require any material modifications or repairs, and comply in all material respects with applicable laws, ordinances and regulations, ordinary wear and tear excepted.

2.4 No Litigation. Seller is not now involved in nor, to the knowledge of Seller, is Seller threatened to be involved in any litigation or legal or other proceedings related to or affecting the Assets or which would prevent or hinder the consummation of the transactions contemplated by this Agreement.

2.5 Brokers. Seller has not retained any broker or finder or other person who would have any valid claim against any of the parties to this Agreement for a commission or brokerage fee in connection with this Agreement or the transactions contemplated hereby.

## 2.6 Intellectual Property

(a) For purposes hereof, the term "Intellectual Property" includes: (i) all drawings, marketing plans, potential business concepts or similar documents; (ii) all patents, patent applications, patent rights, and inventions and discoveries and invention disclosures related to the Assets (whether or not patented); (iii) Seller's rights to the name "ITunesBucks" and all trade names, trade dress, logos, packaging design, slogans, any and all Internet domain names used or useful in connection with the Assets or related to them, registered and unregistered trademarks and service marks and applications related to the Assets; (iv) all copyrights in both published and unpublished works related to the Assets, including, without limitation, all compilations, databases and computer programs, and all copyright registrations and applications, and all derivatives, translations, adaptations and combinations of the above; (v) all know-how, trade secrets, confidential or proprietary information, customer lists, research in progress, algorithms, data, designs, processes, formulae, drawings, schematics, blueprints, flow charts, models, prototypes, techniques, Beta testing procedures and Beta testing results related to the Assets; and (vi) all goodwill, franchises, licenses, permits, consents, approvals, technical information, telephone numbers, and claims of infringement against third parties related to the Assets, as well as any idea related to the Assets.

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(b) Seller has exclusive ownership of, and has good, valid and marketable title to, all of the Intellectual Property, free and clear of any Liens, and has the right to use all of the Intellectual Property without payment to any third party.

2.7 Accreditation. Seller is an "accredited investor" within the meaning of Rule 501(a) of Regulation D promulgated under the Securities Act of 1933, as amended (the "Securities Act"). Seller understands that the Purchase Price is being offered to him in reliance upon specific exemptions from the registration requirements of United States federal and state securities laws and that Buyer is relying upon the truth and accuracy of, and Seller's compliance with, the representations, warranties, agreements, acknowledgments and understandings of Seller set forth herein in order to determine the availability of such exemptions and the eligibility of Seller to receive the Purchase Price.

2.8 Investment Experience; Suitability. Seller is familiar with the type of risks inherent in the acquisition of securities such as the shares of Common Stock of Buyer and Seller's financial position is such that he can afford to retain the Purchase Price for an indefinite period of time without realizing any direct or indirect cash return on his investment.

2.9 Investment Purpose. Seller represents that the shares of Common Stock comprising the Purchase Price are being issued to it for its own account, for investment purposes only and not for distribution or resale to others in contravention of the registration requirements of the Securities Act. Seller agrees that it will not sell or otherwise transfer the shares of Common Stock comprising the Purchase Price unless such shares are registered under the Securities Act or unless an exemption from such registration is available.

2.10 Information. Seller and its advisors, if any, have been furnished with all materials relating to the business, finances and operations of Buyer and materials relating to the offer and sale of the shares of Common Stock

comprising the Purchase Price which have been requested by Seller or its advisors. Seller and its advisors, if any, have been afforded the opportunity to ask questions of the Buyer. Notwithstanding the foregoing, Buyer has not disclosed to Seller any material nonpublic information and will not disclose such information unless such information is disclosed to the public prior to or promptly following such disclosure to Seller. Neither such inquiries nor any other due diligence investigation conducted by Seller or any of its advisors or representatives shall modify, amend or affect Seller's right to rely on Buyer's representations and warranties contained in Section 3 below. Seller understands that its investment in the shares of Common Stock comprising the Purchase Price involves a significant degree of risk.

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2.11 Disclosure. The representations, warranties and statements contained in this Agreement and in the certificates, exhibits and schedules delivered by Seller to Buyer pursuant to this Agreement do not contain any untrue statement of a material fact, and, when taken together, do not omit to state a material fact required to be stated therein or necessary in order to make such representations, warranties or statements not misleading in light of the circumstances under which they were made. There are no facts known to Seller which presently or may in the future have a material adverse affect (financial or otherwise) on the Assets which have not been specifically disclosed herein or in a schedule furnished herewith, other than general economic conditions affecting the Assets generally.

SECTION 3. REPRESENTATIONS AND WARRANTIES OF BUYER. As a material inducement to Seller entering into this Agreement, Buyer hereby represents and warrants to Seller as follows:

3.1 Organization. Buyer is duly organized, validly existing and in good standing under the laws of the State of Utah, with full corporate power and authority to own or lease its properties and to conduct its business in the manner and in the places where such properties are owned or leased or such business is currently conducted or proposed to be conducted. Buyer is not in violation of any term of its articles of incorporation or bylaws.

3.2 Required Action. All actions and proceedings necessary to be taken by or on the part of Buyer in connection with the transactions contemplated by this Agreement have been duly and validly taken, and this Agreement and each other agreement, document and instrument to be executed and delivered by or on behalf of Buyer pursuant to, or as contemplated by, this Agreement (the "Buyer Documents") has been duly and validly authorized, executed and delivered by Buyer and no other action on the part of Buyer is required in connection therewith. Buyer has full right, authority, power and capacity to execute and deliver this Agreement and Buyer Document and to carry out the transactions contemplated hereby and thereby. This Agreement and each Buyer Document constitutes, or when executed and delivered will constitute, the legal, valid and binding obligation of Buyer, enforceable in accordance with its respective terms.

3.3 No Conflicts. The execution, delivery and performance by Buyer of this Agreement and each Buyer Document does not and will not (a) constitute a violation of, or conflict with or result in any breach of, acceleration of any obligation under, right of termination under, or default under, any agreement or instrument to which Buyer is a party or by which it is bound, (b) violate any judgment, decree, order, statute, rule or regulation applicable to Buyer, or (c) require Buyer to obtain any approval, consent or waiver of, or to make any filing with, any person or entity (governmental or otherwise) that has not been obtained or made.

3.4 Brokers. Buyer has not retained any broker or finder or other person who would have any valid claim against any of the parties to this Agreement for a commission or brokerage fee in connection with this Agreement or the transactions contemplated hereby.

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3.5 Disclosure. The representations, warranties and statements contained



or to such other address and/or facsimile number and/or to the attention of such other person as specified by written notice given to the other respective party five (5) days prior to the effectiveness of such change. Written confirmation of receipt (a) given by the recipient of such notice, consent, waiver or other communication, (b) mechanically or electronically generated by the sender's facsimile machine containing the time, date, recipient facsimile number and an image of the first page of such transmission, or (c) provided by an overnight courier service shall be rebuttable evidence of personal service, receipt by facsimile or receipt from an overnight courier service in accordance with clause (a), (b) or (c) above, respectively.

**SECTION 8. MISCELLANEOUS.**

**8.1 Assignability; Binding Effect.** This Agreement shall not be assignable by either party except with the written consent of other party to this Agreement. This Agreement shall be binding upon and shall inure to the benefit of, the parties hereto and their respective successors and assigns.

**8.2 Headings.** The subject headings used in this Agreement are included for purposes of convenience only and shall not affect the construction or interpretation of any of its provisions.

**8.3 Amendments; Waivers.** This Agreement may not be amended or modified, nor may compliance with any condition or covenant set forth herein be waived, except by a writing duly and validly executed by Buyer and Seller or, in the case of a waiver, the party waiving compliance. No delay on the part of any party in exercising any right, power or privilege hereunder shall operate as a waiver thereof, nor shall any waiver on the part of any party of any such right, power or privilege, or any single or partial exercise of any such right, power or privilege, preclude any further exercise thereof or the exercise of any other such right, power or privilege.

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**8.4 Bulk Sales Law.** Buyer hereby waives compliance by Seller of any applicable bulk sales law and Seller agrees to make full and timely payment when due of all amounts owed by such Seller to its creditors. Seller agrees to indemnify and hold Buyer harmless from, and reimburse Buyer for any loss, cost, expense, and liability or damage (including reasonable counsel fees and disbursements and expenses) which Buyer may suffer or incur by virtue of the non-compliance by Seller with such laws.

**8.5 Entire Agreement.** This Agreement, together with the exhibits hereto, constitutes the entire agreement between the parties with respect to the subject matter hereof and supersedes and cancels any and all prior or contemporaneous arrangements, understandings and agreements between them relating to the subject matter hereof.

**8.6 Severability.** In the event that any provision or any portion of any provision of this Agreement shall be held to be void or unenforceable, then the remaining provisions of this Agreement (and the remaining portion of any provision held to be void or unenforceable in part only) shall continue in full force and effect.

**8.7 Governing Law.** This Agreement and the transactions contemplated hereby shall be governed and construed by and enforced in accordance with the laws of the State of California without regard to conflict of laws principles.

**8.8 Counterparts.** This Agreement may be executed in two or more counterparts, each of which shall be deemed an original and all of which shall constitute the same instrument.

**8.9 Expenses.** Each party shall pay its own expenses incident to the negotiation, preparation and performance of this Agreement and the transactions contemplated hereby, including all fees and expenses of its counsel and accountants for all activities of such counsel and accountants undertaken pursuant to this Agreement, whether or not the transactions contemplated hereby are consummated.

8.10 Remedies. It is specifically understood and agreed that certain breaches of this Agreement will result in irreparable injury to the parties hereto, that the remedies available to the parties at law alone will be an inadequate remedy for such breach, and that, in addition to any other legal or equitable remedies which the parties may have, a party may enforce its rights by an action for specific performance and the parties expressly waive the defense that a remedy in damages will be adequate.

8.11 Dispute Resolution. Except as provided below, the parties agree to submit disputes between them relating to this Agreement and its formation, breach, performance, interpretation and application to arbitration as follows. Each party will provide written notice to the other party of any dispute within one year of the date when the dispute first arises or occurs. If a party fails to provide such notice, recovery on the dispute will be barred. Arbitration will be conducted in Los Angeles County, California pursuant to the Rules of the American Arbitration Association ("AAA"), as modified herein. The arbitration shall be conducted by one (1) arbitrator chosen in accordance with the rules of the AAA. Unless the arbitrator finds that exceptional circumstances require otherwise, the arbitrator will grant the prevailing party in arbitration its costs of arbitration and reasonable attorneys' fees as part of the arbitration award. Neither party will be required to arbitrate any dispute relating to actual or threatened violation of Intellectual Property rights. Either party will be entitled to receive in any court of competent jurisdiction injunctive, preliminary or other equitable relief, in addition to damages, including court costs and fees of attorneys and other professionals, to remedy any actual or threatened violation of its rights with respect to which arbitration is not required hereunder.

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8.12 Third Party Rights. Except as regards to the indemnification rights and obligations herein, this Agreement is for the benefit of the parties hereto and is not entered into for the benefit of, and shall not be construed to confer any benefit upon, any other party or entity.

[Remainder of page intentionally left blank]

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IN WITNESS WHEREOF, Seller and Buyer have caused this Asset Purchase Agreement to be executed as of the date first above written.

BUYER:

DIGICORP

By: /s/ Jay Rifkin

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Name: Jay Rifkin  
Title: Chief Executive Officer

SELLER:

EAI TECHNOLOGIES, INC.

By: /s/ Velan Thillairajah

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Name: Velan Thillairajah  
Title: Chief Executive Officer

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**EXHIBIT A**  
**ASSETS**

**DOCUMENTATION**

*ITunesBucks - portal application representation via:*

- *Screen Templates*
- *Use Cases*
- *Entry page mock ups*

**SYSTEM COMPONENTS**

*ITunesBucks portal application as covered by*

- *End user HTML/JSP pages and associated software components*
- *Mid tier processing (login, data collection, email routing)*
- *Backend database (all associated tables and fields)*
- *All associated source code from the CVS repository*

*The application has gone through several iterations. The above shall refer to the product in its current form without any further enhancements.*

CERTIFICATION

I, Jay Rifkin, Chief Executive Officer of Digicorp, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Digicorp for the quarter ended June 30, 2006;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the small business issuer as of, and for, the periods presented in this report;
4. The small business issuer's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the small business issuer and have:

(a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the small business issuer is made known to us by others, particularly during the period in which this report is being prepared;

(b) evaluated the effectiveness of the small business issuer's disclosure controls and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(c) disclosed in this report any change in the small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter (the small business issuer's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting; and

5. The small business issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of the small business issuer's board of directors (or persons performing the equivalent functions);

(a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the small business issuer's ability to record, process, summarize and report financial information; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the small business issuer's internal control over financial reporting.

August 21, 2006

/s/ Jay Rifkin

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Jay Rifkin  
Chief Executive Officer

CERTIFICATION

I, William B. Horne, Chief Financial Officer of Digicorp, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Digicorp for the quarter ended June 30, 2006;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the small business issuer as of, and for, the periods presented in this report;
4. The small business issuer's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the small business issuer and have:

(a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the small business issuer is made known to us by others, particularly during the period in which this report is being prepared;

(b) evaluated the effectiveness of the small business issuer's disclosure controls and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(c) disclosed in this report any change in the small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter (the small business issuer's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting; and

5. The small business issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of the small business issuer's board of directors (or persons performing the equivalent functions);

(a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the small business issuer's ability to record, process, summarize and report financial information; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the small business issuer's internal control over financial reporting.

August 21, 2006

/s/ William B. Horne

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William B. Horne  
Chief Financial Officer

CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report of Digicorp (the "Company") on Form 10-QSB for the fiscal quarter ended June 30, 2006 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Jay Rifkin, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities and Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

August 21, 2006

/s/ Jay Rifkin

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Jay Rifkin  
Chief Executive Officer

CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report of Digicorp (the "Company") on Form 10-QSB for the fiscal quarter ended June 30, 2006 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, William B. Horne, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities and Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

August 21, 2006

/s/ William B. Horne

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William B. Horne  
Chief Financial Officer