

Edgar Filing: YP NET INC - Form 10QSB/A

YP NET INC
Form 10QSB/A
July 08, 2003

=====

U.S. Securities and Exchange Commission
Washington, D.C. 20549

AMENDMENT NO. 1
TO
FORM 10-QSB

(Mark One)

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

For the quarterly period ended March 31, 2003

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

For the transition period from _____ to _____

Commission File Number 0-24217

YP.NET, INC.
(Exact name of small business issuer as specified in its charter)

Nevada
(State or other jurisdiction of
incorporation or organization)

85-0206668
(IRS Employer Identification No.)

4840 East Jasmine St. Suite 105
Mesa, Arizona 85205
(Address of principal executive offices)

(480) 654-9646
(Issuer's telephone number)

Check whether the issuer (1) filed all reports required to be filed by
Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such
shorter period that the registrant was required to file such reports), and (2)
has been subject to such filing requirements for the past 90 days.

Yes X No
----- -----

The number of shares of the issuer's common equity outstanding as of May 6,
2003 was 42,680,722 shares of common stock, par value \$.001.

Transitional Small Business Disclosure Format (check one):

Yes No X
----- -----

Edgar Filing: YP NET INC - Form 10QSB/A

2

YP.NET, INC.
INDEX TO FORM 10-QSB FILING
FOR THE QUARTER ENDED MARCH 31, 2003

TABLE OF CONTENTS

PART I		PAGE
FINANCIAL INFORMATION		
Item 1. Financial Statements		
Consolidated Balance Sheet		
as of March 31, 2003		4
Consolidated Statements of Operations		
for the Three and Six Month Periods		
Ended March 31, 2003 and March 31, 2002		5
Consolidated Statements of Cash Flows		
for the Six Month Periods Ended March 31, 2003 and		
March 31, 2002		6
Notes to the Consolidated Financial Statements		8-14
Item 2. Management's Discussion and Analysis of Financial Condition and		
Results of Operations		15-22
Item 3. Controls and Procedures		23

PART II
OTHER INFORMATION

Item 1. Legal Proceedings	23
Item 2. Changes in Securities	23
Item 6. Exhibits and Reports on Form 8-K	24

SIGNATURES

CERTIFICATIONS

3

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

UNAUDITED CONSOLIDATED BALANCE SHEET
AS OF MARCH 31, 2003

ASSETS:

CURRENT ASSETS

Cash and equivalents	\$ 839,062
Accounts receivable, net of allowance for doubtful accounts of \$2,531,937	5,663,712
Prepaid expenses and other current assets	267,544

Total current assets	6,770,318

Edgar Filing: YP NET INC - Form 10QSB/A

ACCOUNTS RECEIVABLE, long term portion, net of allowance for doubtful accounts of \$259,423	605,307
CUSTOMER ACQUISITION COSTS, net of accumulated amortization of \$1,124,052	2,636,887
PROPERTY AND EQUIPMENT, net	632,207
DEPOSITS AND OTHER ASSETS	98,631
INTELLECTUAL PROPERTY- URL, net of accumulated amortization of \$1,667,586	3,398,864
ADVANCES TO AFFILIATES	743,194
TOTAL ASSETS	<u>\$14,885,408</u>
LIABILITIES AND STOCKHOLDERS' EQUITY:	
CURRENT LIABILITIES:	
Accounts payable	\$ 344,080
Accrued liabilities	78,184
Due to Affiliates	14,017
Deferred income taxes	238,932
Income taxes payable	2,059,516
Total current liabilities	<u>2,734,729</u>
NOTES PAYABLE - long term portion	115,868
DEFERRED INCOME TAXES	9,383
Total liabilities	<u>2,859,980</u>
STOCKHOLDERS' EQUITY:	
Series E convertible preferred stock, \$.001 par value, 200,000 shares authorized, 131,840 issued and outstanding, liquidation preference \$39,552	132
Common stock, \$.001 par value, 50,000,000 shares authorized, 48,999,340 issued	48,999
Paid in capital	4,745,981
Treasury stock at cost	(331,818)
Retained earnings	7,562,134
Total stockholders' equity	<u>12,025,428</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$14,885,408</u>

See the accompanying notes to these unaudited financial statements

Edgar Filing: YP NET INC - Form 10QSB/A

	Three Months Ended March 31, 2003	Six Months Ended March 31, 2003	Three Mon Ended Marc 2002
NET REVENUES	\$ 6,849,044	\$ 12,590,499	\$ 2,8
OPERATING EXPENSES:			
Cost of services	1,848,966	3,671,116	7
General and administrative expenses	1,666,108	3,042,186	1,0
Sales and marketing expenses	862,939	1,495,374	
Depreciation and amortization	159,306	298,238	1
Total operating expenses	4,537,319	8,506,914	2,0
OPERATING INCOME	2,311,725	4,083,585	8
OTHER (INCOME) AND EXPENSES			
Interest (income) expense	(12,069)	(12,789)	
Other (income) expense	(180,980)	(229,886)	
Total other (income) expense	(193,049)	(242,675)	
INCOME BEFORE INCOME TAXES	2,504,774	4,326,260	8
INCOME TAX PROVISION (BENEFIT)	999,853	1,728,447	2
NET INCOME	\$ 1,504,921	\$ 2,597,813	\$ 6
NET INCOME PER SHARE:			
Basic	\$ 0.03	\$ 0.06	\$
Diluted	\$ 0.03	\$ 0.06	\$
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:			
Basic	43,271,333	42,011,711	43,8
Diluted	43,271,333	42,011,711	43,8

See the accompanying notes to these unaudited financial statements

Edgar Filing: YP NET INC - Form 10QSB/A

FOR THE SIX MONTH PERIODS ENDED MARCH 31, 2003 AND MARCH 31, 2002

	SIX MONTHS ENDED MARCH 31, 2003	SIX MONTHS ENDED MARCH 31, 2002
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 2,597,813	\$ 927,344
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	298,239	300,099
Income recognized on forgiveness of debt	(45,362)	-
Deferred income taxes	155,175	(226,573)
Officers & consultants paid common stock	453,750	-
Common stock surrendered	(160,979)	-
Changes in assets and liabilities:		
Trade and other accounts receivable	(2,283,431)	(346,037)
Customer acquisition costs	(1,218,660)	(646,428)
Prepaid and other current assets	(113,628)	(153,272)
Other assets	52,096	-
Receivable from affiliate	(110,121)	-
Accounts payable	148,684	242,277
Accrued liabilities	(105,603)	(36,454)
Due to affiliates	14,017	-
Income taxes payable	1,573,273	854,860
Deferred revenue	-	-
Net cash provided by operating activities	1,255,263	915,816
CASH FLOWS FROM INVESTING ACTIVITIES:		
Advances made to affiliates and related parties	(400,000)	(62,857)
Acquisition Costs WPI	-	(60,492)
Purchases of intellectual property	(6,761)	(14,078)
Purchases of equipment	(469,548)	(69,459)
Net cash (used in) investing activities	(876,309)	(206,886)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from debt	147,000	-
Principal repayments on notes payable	(454,000)	(1,051,743)
Net cash (used)/provided by financing activities	(307,000)	(1,051,743)
INCREASE IN CASH	71,954	(342,813)
CASH, BEGINNING OF PERIOD	767,108	683,847
CASH, END OF PERIOD	\$ 839,062	\$ 341,034

See the accompanying notes to these unaudited financial statements

Edgar Filing: YP NET INC - Form 10QSB/A

	Six month period ended March 31, 2003 -----	Six month period ended March 31, 2002 -----
Interest Paid \$	9,545 \$	61,414

7

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE AND SIX MONTH PERIODS ENDED MARCH 31, 2003 AND MARCH 31, 2002

1. Basis of Presentation

The accompanying unaudited financial statements represent the consolidated financial position of YP.Net, Inc. ("the Company") for the three and six month periods ended March 31, 2003, and March 31, 2002, which includes results of operations of the Company and Telco Billing, Inc. ("Telco"), its wholly owned subsidiary, and statement of cash flows for the six month periods ended March 31, 2003 and March 31, 2002. These statements have been prepared in accordance with generally accepted accounting principles ("GAAP") for interim financial information. Accordingly, they do not include all the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments to these unaudited financial statements necessary for a fair presentation of the results for the interim period presented have been made.

2. Company Organization and Operations

YP.Net, Inc., a Nevada corporation (the "Company," "we," "us," or "our"), is in the business of providing Internet-based yellow page advertising space on or through www.Yellow-Page.Net and www.YP.Net.

The Company's "yellow page" database lists approximately 18 million businesses throughout the United States. Our website enables internet users to search through these "yellow page" listings and is used by businesses and consumers attempting to locate a business and/or service provider in response to a user's specific search criteria.

As our primary source of revenue, we offer "preferred" listings to businesses for a monthly fee (generally \$17.95). The "preferred" listing provides a business with a priority placement listing over non-paying listings and is displayed in a bigger and bolder font at the beginning of, or in the first section of the user's search results - thus featuring our paying customers more prominently to user's of our website. In addition, our paying customers get a Mini-Webpage(TM) which includes a 40-word description of their business, their hours of operation and other useful information, a direct link to the paying customers website, (if they have one and it is provided by the advertiser), map, driving directions to the paying customers location and more. We market for advertisers of our "preferred" listing service, under the name "Yellow-Page.Net, exclusively to businesses through a direct mail solicitation program. The solicitation includes a promotional incentive (ie. generally a \$3.50 check) which, if cashed by the business, automatically signs the business up for the Preferred Listing service for an initial twelve month period with automatic renewals thereafter. This easy subscription process provides a written confirmation (ie. the check) of the subscription by the newly subscribing business, which is verified by an independent third party (i.e the paying customers depositing bank). To additionally insure the intention of

Edgar Filing: YP NET INC - Form 10QSB/A

sign-up, the Company then mails a written confirmation card to the newly subscribing business generally within 30 days from activation. The Company also provides a 120-day cancellation period whereby the subscribing business may cancel and receive a full refund of any amounts paid to the Company.

Each paying customer is billed monthly for that month's service, the vast

8

majority of such monthly billings appear on the subscribing business's local phone bill. Management believes this ability to bill the paying customer through the paying customers phone bill is a significant competitive advantage for the Company as few independent (not owned by a telephone company) yellow page companies are authorized to bill directly on the phone bill for services rendered.

The Company uses Simple.Net, Inc. ("SN"), an internet service provider beneficially owned by a Director (Deval Johnson) of the Company, to provide internet dial-up and other services to its customers (See Footnote 9 to the financial statements). SN charges the Company's customers \$2.50 per month for such internet access.

We were originally incorporated as a New Mexico company in 1969 and the Company was re-incorporated in Nevada in 1996 as Renaissance Center, Inc. Our Articles of Incorporation were restated in July 1997 and our name was changed to Renaissance International Group, Ltd. Effective July 1998, we changed our name to RIGL Corporation. In June 1999, we acquired Telco Billing, Inc. ("Telco") and commenced our current operations through this entity which is a wholly-owned subsidiary. In October 1999, we amended our Articles of Incorporation to change our corporate name to YP.Net, Inc. to better identify our company with our business focus.

From August through March 1999, we abandoned all subsidiaries previously involved in the multi-media software and medical billing and practice management areas. With the acquisition of Telco, our business focus shifted to the Internet yellow page services business and this business is currently our main source of revenue. Telco is operated as our wholly owned subsidiary.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash and Cash Equivalents: This includes all short-term highly liquid

investments that are readily convertible to known amounts of cash and have original maturities of three months or less. At times cash deposits may exceed government insured limits. At March 31, 2003, cash deposits exceeded those insured limits by \$ 634,000

Principles of Consolidation: The consolidated financial statements include

the accounts of the Company and its wholly owned subsidiary, Telco Billing, Inc. All significant intercompany accounts and transactions are eliminated.

Customer Acquisition Costs: These costs represent the direct response

marketing costs that are incurred as the primary method by which customers subscribe to the Company's services. The Company purchases mailing lists and sends advertising materials to prospective subscribers from those lists. Customers subscribe to the services by positively responding to those advertising materials which serve as the contract for the

Edgar Filing: YP NET INC - Form 10QSB/A

subscription. The Company capitalizes and amortizes the costs of direct-response advertising on a straight-line basis over eighteen months, the estimated average period of retention for new customers. The Company capitalized costs of \$1,358,902 and \$2,342,712 during the three and six months ended March 31, 2003 respectively. The Company amortized \$640,996 and \$1,124,049, respectively, of total capitalized costs during the three and six months ended March 31, 2003.

The Company also incurs advertising costs that are not considered direct-response advertising. These other advertising costs are expensed when incurred. These advertising expenses were \$221,941 and \$377,322 for the three and six months ended March 31, 2003, respectively.

9

Revenue Recognition: The Company's revenue is generated by customer

subscriptions of directory and advertising services. Revenue is billed and recognized monthly for services subscribed in that specific month. The Company utilizes outside billing companies to transmit billing data, much of which is forwarded to Local Exchange Carriers ("LEC's") that provide local telephone service. Monthly subscription fees are generally included on the telephone bills of the customers. The Company recognizes revenue based on net billings accepted by the LEC's. Due to the periods of time for which adjustments may be reported by the LEC's and the billing companies, the Company estimates and accrues for dilution and fees reported subsequent to year-end for initial billings related to services provided for periods within the fiscal year. Refunds are estimated based upon historical experience and are recorded as a reduction in revenue .

Revenue for billings to certain customers whom are billed directly by the Company and not through the LEC's, is recognized based on estimated future collections. The Company continuously reviews this estimate for reasonableness based on its collection experience.

Income Taxes: The Company provides for income taxes based on the provisions

of Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes, which, among other things, requires that recognition of deferred income taxes be measured by the provisions of enacted tax laws in effect at the date of financial statements.

Financial Instruments: Financial instruments consist primarily of cash,

accounts receivable, and obligations under accounts payable, accrued expenses and notes payable. The carrying amounts of cash, accounts receivable, accounts payable, accrued expenses and notes payable approximate fair value because of the short maturity of those instruments. The Company has applied certain assumptions in estimating these fair values. The use of different assumptions or methodologies may have a material effect on the estimates of fair values.

Net Income Per Share: Net income per share is calculated using the weighted

average number of shares of common stock outstanding during the year. The Company has adopted the provisions of SFAS No. 128, Earnings Per Share.

Use of Estimates: The preparation of financial statements in conformity

With generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and

Edgar Filing: YP NET INC - Form 10QSB/A

liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Significant estimates made in connection with the accompanying financial statements include the estimate of dilution and fees associated with LEC billings and the estimated reserve for doubtful accounts receivable.

Stock-Based Compensation: Statements of Financial Accounting Standards No. -----

123, Accounting for Stock-Based Compensation, ("SFAS 123") established accounting and disclosure requirements using a fair-value based method of accounting for stock-based employee compensation. In accordance with SFAS 123, the Company has elected to continue accounting for stock based compensation using the intrinsic value method prescribed by Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees."

10

4. ACCOUNTS RECEIVABLE

The Company provides billing information to third party billing companies for the majority of its monthly billings. Billings submitted are "filtered" (ie. Delete invalid phone numbers etc.) by these billing companies and the LEC's. Net accepted billings are recognized as revenue and accounts receivable. The billing companies remit payments to the Company on the basis of cash ultimately received from the LEC's by those billing companies. The billing companies and LEC's charge fees for their services which are netted against the gross accounts receivable balance. The billing companies also apply holdbacks to the remittances for potentially uncollectible accounts. These dilution amounts will vary due to numerous factors and the Company may not be certain as to the actual amounts of dilution on any specific billing submittal until several months after that submittal. The Company estimates the amount of these charges and holdbacks based on historical experience and subsequent information received from the billing companies. The Company also estimates uncollectible account balances and provides an allowance for such estimates. The billing companies retain certain holdbacks that may not be collected by the Company for a period extending beyond one year. These balances have been classified as long-term assets in the accompanying balance sheet.

The Company experiences significant dilution of its gross billings by the billing companies. The Company negotiates collections with the billing companies on the basis of the contracted terms and historical experience. The Company's cash flow may be affected by holdbacks, fees, and other matters which are determined by the LEC's and the billing companies as well as by refunds to customers.

5. INTELLECTUAL PROPERTY

The URL is recorded at its cost net of accumulated amortization. Management believes that the Company's business is dependent on its ability to utilize this URL given the recognition of the Yellow page term. Also, its current -----

customer base relies on the recognition of this term and URL as a basis for maintaining the subscriptions to the Company's service. Management believes that the current revenue and cash flow generated through use of Yellow-page.net supports the carrying of the asset. The Company

Edgar Filing: YP NET INC - Form 10QSB/A

periodically analyzes the carrying value of this asset to determine if impairment has occurred. No such impairments were identified during the year ended September 30, 2002 or the three months ended March 31, 2003. The URL is amortized on an accelerated basis over the twenty-year term of the licensing agreement. Amortization expense on the URL was \$93,032 and \$186,440 for the three and six months ended March 31, 2003, respectively.

6. PROVISION FOR INCOME TAXES

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

During the year ended September 30, 2002, the Company structured certain transactions related to its merger with Telco that allowed the Company to utilize net operating losses that were previously believed to be unavailable or limited under the change of control rules of Internal Revenue Code 382. The deferred income tax asset of \$1,471,000 related to these net operating losses recorded at September 30, 2001, was fully offset by a valuation allowance. That valuation allowance was eliminated and recognized as a benefit in the year ended September 30, 2002. Due to these changes, the Company

11

recognized an income tax benefit of \$1,614,716 for the year ended September 30, 2002. At September 30, 2002 the Company has utilized all of its federal and state net operating losses.

Income taxes for three and six months ended March 31, is summarized as follows:

	Three Months Ended March, 31	Six Months Ended March 31,	
	----- 2003 -----	----- 2003 -----	
Current Provision	\$ 888,889	\$ 1,576,233	
Deferred (Benefit) Provision	110,964	152,214	
	-----	-----	
Net income tax provision	\$ 999,853	\$ 1,728,447	
	=====	=====	

At March 31, 2003, deferred income tax assets related to differences in book and tax bases of accounts receivable, direct marketing costs and intangible assets.

At March 31, 2003 deferred tax liabilities were comprised of differences in book and tax bases of customer acquisition costs and property and equipment respectively.

7. STOCKHOLDERS' EQUITY

Edgar Filing: YP NET INC - Form 10QSB/A

Series E Convertible Preferred Stock

During the year ended September 30, 2002, the Company created a new series of equity, the Series E Convertible Preferred Stock. The Company authorized 200,000, \$0.001 par value shares. The shares carry a \$0.30 per share liquidation preference and accrue dividends at the rate of 5% per annum on the liquidation preference per share, payable quarterly from legally available funds. If such funds are not available, dividends shall continue to accumulate until they can be paid from legally available funds. Holders of the preferred shares shall be entitled, after two years from issuance, to convert them into common shares on a one-to-one basis together with payment of \$0.45 per converted share.

During the year ended September 30, 2002, pursuant to an existing tender offer, holders of 131,840 shares of the Company's common stock exchanged said shares for an equal number of the Series E Convertible Preferred shares, at the then \$0.085 market value of the common stock. As of March 31, 2003, the liquidation preference value of the outstanding Series E Convertible Preferred Stock was \$39,552, and dividends totaling \$1,483 had been accrued associated with said shares.

Common Shares Received and Retired Under Legal Settlements--

Treasury Stock

During the three months ended March 31, 2003, the Company reacquired 500,000 shares of its common stock in connection with a settlement with an attorney formerly on retainer to the Company. The Company had issued these shares to the attorney as consideration for services. The portion of the settlement which includes the return of the shares is recorded at the market value of the shares at the

12

settlement date. The Company recognized an expense on this settlement of approximately \$90,000. At March 31, 2003, there were 6,318,618 shares of stock held in treasury.

8. NET INCOME PER SHARE

Net income per share is calculated using the weighted average number of shares of common stock outstanding during the three and six months ended March 31, 2003, respectively. Preferred stock dividends are subtracted from the net income to determine the amount available to common shareholders. There were \$494 and \$989 preferred stock dividends in the three and six months ended March 31, 2003, respectively. Warrants to purchase 500,000 shares of common stock were excluded from the calculation for the three months ended March 31, 2003. The exercise price of those warrants was greater than the trading value of the common stock and therefore inclusion of such would be anti-dilutive. Also excluded from the calculation were 131,840 shares of Series E Convertible Preferred Stock issued during the year ended September 30, 2002, which are considered anti-dilutive due to the cash payment required by the holders of the securities at the time of conversion. The following presents the computation of basic and diluted loss per share from continuing operations for the three and six months ended March 31, :

Edgar Filing: YP NET INC - Form 10QSB/A

	2003			2003		
	Three Months Ended March 31, 2003	Shares	Per Share	Six Months Ended March 31, 2003	Shares	Per share
Net Income	\$1,504,921			\$2,597,813		
Preferred stock dividends	(494)			(989)		
Income available to common Stockholders	\$1,504,427			\$2,596,824		
BASIC EARNINGS PER SHARE:						
Income available to common stockholders	\$1,504,427	43,271,333	\$ 0.03	\$2,596,824	42,011,711	\$ 0.06
Effect of dilutive securities						
DILUTED EARNINGS PER SHARE	\$1,504,427	43,271,333	\$ 0.03	\$2,596,824	42,011,711	\$ 0.06

13

9. RELATED PARTY TRANSACTIONS

During the three and six months ended March 31, 2003, the Company conducted transactions with entities affiliated with the Company because of commonality in members in management or direct or indirect control of the affiliate by a member or members of the Company's management. The following summarizes those transactions:

Entity	Three Months Ended March 31, 2003	Six Months Ended March 31, 2003
Simple.Net, Inc. ("SN")	\$ 80,523	136,626
Commercial Finance Services d/b/a/ HR Management ("CFS")	162,579	528,630
Business Executive Services, Inc.	62,242	110,242
Advertising Management Specialists, Inc.	209,837	306,235
Advanced Internet Marketing	71,901	162,331
DLC Consulting	30,000	60,000
Sunbelt	232,520	604,851
	\$ 849,602	\$1,908,915

Edgar Filing: YP NET INC - Form 10QSB/A

These entities provide consulting, employee leasing and marketing services to the Company. The above amounts represent payments made to these entities during the period. CFS sold the payroll processing portion of its business during the quarter ended March 31, 2003 and the Company no longer does its payroll processing business with CFS.

In addition to these transactions, the Company also provides customer and technical support to Simple.net for a fee. These fees are included in other income and amounted to \$276,155 for the six months ended March 31, 2003.

During the six months ended March 31, 2003, the Company advanced \$400,000 to entities (\$200,000 to Mathew & Markson and \$200,000 to Morris & Miller) that are significant shareholders of the Company. In accordance with the instructions that the Company received from said shareholders, the Company has made payments (\$100,000 in the first quarter of Fiscal 2003) to third parties (including related parties) on behalf of the stockholders and applied those payments as a reduction to the note payable. The balance due from each of these entities was \$447,415 from Mathew & Markson and \$206,074 from Morris & Miller at March 31, 2003.

During the three month period ended March 31, 2003, the Company's board of directors resolved to pay for the costs of defending a civil action filed against its CEO and Chairman. The action involves a business that the CEO was formerly involved in. The Board action includes any other officers and directors that may potentially become involved in this civil action. Through March 31, 2003, the Company has paid approximately \$151,000 on behalf of its CEO relative to this matter. This civil action remains unresolved. At this time, the Company cannot estimate what additional costs may be incurred to continue covering the costs related to this matter.

14

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Quarterly Report contains certain forward-looking statements, including those regarding the Company and its subsidiaries' expectations, intentions, strategies and beliefs pertaining to future performance. All statements contained herein are based upon information available to the Company's management as of the date hereof, and actual results may vary based upon future events, both within and without management's control.

YP.Net, Inc., a Nevada corporation (the "Company," "we," "us," or "our"), is in the business of providing Internet-based yellow page advertising space on or through www.Yellow-Page.Net and www.YP.Net.

The Company's "yellow page" database lists approximately 18 million businesses throughout the United States. Our website enables internet users to search through these "yellow page" listings and is used by businesses and consumers attempting to locate a business and/or service provider in response to a user's specific search criteria.

As our primary source of revenue, we offer "preferred" listings to businesses for a monthly fee (generally \$17.95). The "preferred" listing provides a business with a priority placement listing over non-paying listings and is displayed in a bigger and bolder font at the beginning of, or in the first section of the user's search results - thus featuring our paying customers more prominently to user's of our website. In addition, our paying customers get a Mini-Webpage(TM) which includes a 40-word description of their business, their

Edgar Filing: YP NET INC - Form 10QSB/A

hours of operation and other useful information, a direct link to the paying customers website, (if they have one and it is provided by the advertiser), map, driving directions to the paying customers location and more. As of March 31,, 2003 we have approximately 279,071 "preferred" listing advertisers who have subscribed for this enhanced advertising service. This represents less than 2% of the estimated available market for preferred listings. We market for advertisers of our "preferred" listing service ,under the name "Yellow-Page.Net, exclusively to businesses through a direct mail solicitation program. The solicitation includes a promotional incentive (ie. generally a \$3.50 check) which, if cashed by the business, automatically signs the business up for the Preferred Listing service for an initial twelve month period with automatic renewals thereafter. This easy subscription process provides a written confirmation (ie. the check) of the subscription by the newly subscribing business, which is verified by an independent third party (ie. the paying customers depositing bank). To additionally insure the intention of sign-up, the Company then mails a written confirmation card to the newly subscribing business generally within 30 days from activation. The Company also provides a 120-day cancellation period whereby the subscribing business may cancel and receive a full refund of any amounts paid to the Company.

Recently, the Company has created an outbound calling department whose function is to proactively obtain the 40-word description to be used in the Mini-Webpage(TM), as well as other information from each newly subscribing

15

customer. This effort is expected to provide more information for potential customers searching our website to help them choose to do business with one of our Preferred Listing advertisers.

Each paying customer is billed monthly for that month's service, the vast majority of such monthly billings appear on the subscribing business's local phone bill. Management believes this ability to bill the paying customer through the paying customers phone bill is a significant competitive advantage for the Company as few independent (not owned by a telephone company) yellow page companies are authorized to bill directly on the phone bill for services rendered.

The Company uses Simple.Net, Inc. ("SN"), an internet service provider beneficially owned by a director (DeVal Johnson) of the Company, to provide internet dial-up and other services to its customers (See Footnote 9 to the financial statements). SN charges the Company's customers \$2.50 per month for such internet access.

We were originally incorporated as a New Mexico company in 1969 and the Company was re-incorporated in Nevada in 1996 as Renaissance Center, Inc. Our Articles of Incorporation were restated in July 1997 and our name was changed to Renaissance International Group, Ltd. Effective July 1998, we changed our name to RIGL Corporation. In June 1999, we acquired Telco Billing, Inc. ("Telco") and commenced our current operations through this entity which is a wholly-owned subsidiary. In October 1999, we amended our Articles of Incorporation to change our corporate name to YP.Net, Inc. to better identify our company with our business focus.

From August through March 1999, we abandoned all subsidiaries previously involved in the multi-media software and medical billing and practice management areas. With the acquisition of Telco, our business focus shifted to the Internet yellow page services business and this business is currently our main source of revenue. Telco is operated as our wholly owned subsidiary.

GROWTH INITIATIVES

Edgar Filing: YP NET INC - Form 10QSB/A

PRIMARY GROWTH STRATEGIES

PREFERRED LISTINGS-We currently derive almost all of our revenue from selling Preferred Listings for the search results on our website. A Preferred Listing is displayed at the beginning of search results in response to a user's specific search query. A Preferred Listing is enhanced on the display of search results and includes a "Mini-Webpage(TM)" listing where the paying customer can use up to 40 words to advertise; among other features. Our primary growth strategy is to obtain a significantly greater number of Preferred Listings given the large, estimated potential available market for such listings. As part of this strategy, the Company has re-instituted its marketing program and plans to regularly solicit its potential customer base of approximately 18 million businesses through its direct mail solicitation program. As a result of such program, the Company has increased its customer count from approximately 86,000 at March 31, 2002 to 279,071 at March 31, 2003.

BRANDING-The Company also plans to further embark upon a substantial campaign to brand its product using the YP.Net and Yellow-Page.Net names. The Company seeks to become the "internet yellow pages of choice" to businesses and consumers performing searches.

16

In addition to its cross marketing and cross placement agreement(s) with other websites, the Company has signed a contract for advertising relating to Baca Racing and National Hot Rod Association ("NHRA") events which provides us with advertising on the Baca Racing vehicles as well as public relations and advertising as a sponsor of NHRA. In addition, we are members of both the Yellow Pages Integrated Media Association (YPIMA) and the Association of Directory Publishers (ADP). As further described under "Strategic Alliances", these organizations are trade associations for yellow page publishers that promote quality of published content and advertising methods. The Company plans to take an even more active role in the year ahead. In the future, the Company also plans to substantially increase its advertising through print, media and fixed placement advertising in select markets.

RECENT EVENTS

During the quarter ended March 31, 2003 and prior to this filing, the Company entered into several contracts relating to its business. The Company signed a license agreement with Palm, Inc. ("Palm") to become a provider of "yellow page" and "white page" content on PDA ("personal data assistant") devices using the Palm operating system. Such content will be provided by the Company to Palm through a hypertext link from the Palm operating system to the Company's website. The cost of this agreement was \$20,000 up-front for two years. This agreement is renewable for successive two year periods unless either party elects to terminate the agreement with no less than 60 days notice prior to the end of the then-current term.

In addition, the Company also signed an agreement with Pike Street Industries whereby the Company's online "yellow pages" will be added to the list of online "yellow page" sites on Pike Street Industries, Inc's websites. The cost of this agreement is \$20,000 per month. This agreement may be terminated by either party at any time with 30 days notice.

The Company also recently signed a contract with Switchboard Incorporated ("Switchboard") which allows preferred listing customers of YP.Net to be included in the "Featured Listing" section of Switchboard.com's internet "yellow pages". This agreement is for one year initially and is renewable unless either

Edgar Filing: YP NET INC - Form 10QSB/A

party terminates the agreement. The agreement involves a minimum monthly payment of \$20,000 by the Company for up to 250,000 directory advertisements hosted by Switchboard. The payment would increase for additional directory advertisements exceeding 250,000 at the rate of \$.08 per directory advertisement per month. This agreement is renewable for successive one year periods unless either party elects to terminate the agreement with no less than 30 days notice prior to the end of the then-current term.

The Company believes each of these agreements will increase the number of page views for our customers and, in the case of the Switchboard agreement, also provides Switchboard's customers the ability to also achieve additional page views by being listed on the YP.Net-related websites.

During the quarter ended March 31, 2003 and prior to this filing, the Company's unsecured trade acceptance facility with AcTrade Financial Technologies, Ltd. was verbally increased to \$250,000 from \$150,000. Such financings are conducted through the Company's wholly-owned subsidiary, Telco Billing, Inc., and in conjunction with the Company's vendors. Also, the Company signed an unsecured credit facility of \$250,000 with Bank of the Southwest on May 2, 2003. The facility is for one year and interest on borrowings, if any, will be at an interest rate of 0.5% above the Prime Rate, as defined.

The Company signed a new service agreement with eBillit, Inc. ("eBillit", formally Integretel), a current provider of billing aggregator services to the Company. The agreement requires the Company to pay processing fees of 2.75% of gross dollars deposited with eBillit per month plus other ancillary service fees. This agreement is for three years and is renewable for successive one year periods unless either party elects to terminate the agreement with no less than 90 days notice prior to the end of the then-current term.

RESULTS OF OPERATIONS

Revenue for the three month period ended March 31, 2003, was \$6,849,044 compared to \$2,839,438 for the three month period ended March 31, 2002 an increase of over 140%. For the six month periods ended March 31, 2003 and 2002, revenue increased to \$12,590,499 from \$5,832,839, an increase of over 115%. The increase in revenue is primarily the result of an increase in preferred listing customers. Preferred listing customers increased to 279,071 at March 31, 2003 compared to approximately 86,000 preferred listing customers at March 31, 2002, an increase of over 220%. Compared to the 113,565 preferred listing customers at September 30, 2002, the beginning of this fiscal year, the number of preferred listing customer has grown by 145% thus far this fiscal year. The increase in preferred listing customers is the result of our direct mail solicitation marketing efforts.

17

Cost of services for the three month periods ended March 31, 2003 and March 31, 2002 were \$1,848,966 and \$733,402, respectively, an increase of approximately 150%. Cost of services for the six months ended March 31, 2003 and 2002 were \$3,671,116 and \$1,917,679, respectively, an increase of approximately 90%. Cost of services is comprised of billing aggregator dilution expenses, certain direct mailer marketing costs and the amortization of such costs, allowances for bad debt and our billing costs including billing fees charged by our billing aggregators. Dilution expenses include customer credits and any other receivable write-downs. The primary reason our cost of services has continued to increase is due primarily to the previously mentioned increase in preferred listing customers as well as increased dilution and billing fees resulting from our direct solicitation mailing efforts. Cost of services as a percent of net revenue was approximately 27% for the three months ended March

Edgar Filing: YP NET INC - Form 10QSB/A

31, 2003 compared to approximately 26% for the same period in the prior fiscal year. Cost of services as a percent of net revenue was essentially flat comparing the three months ended March 31, 2003 with the comparable period in 2002 due the previously mentioned increased dilution and billing fees. These increased costs were offset by the leveraging of our fixed cost infrastructure over a larger customer base. For the six months ended March 31, 2003 and 2002, Cost of services as a percent of net revenue was 29% and 33%, respectively. This improvement is the result of the leveraging of our fixed infrastructure over a larger customer base compared to previous years period offset by the previously-mentioned increased costs relating to dilution and billing fee.

General and administrative expense for the three month periods ended March 31, 2003 and March 31, 2002 were \$1,666,108 and \$1,030,889, respectively, an increase of approximately 62%. For the six months ended March 31, 2003 and 2002, such expenses were 3,042,186 and 1,888,671, respectively, an increase of approximately 61%. General and administrative expenses increased due to an increase in costs and employees relating to our growth in preferred listing customers, our Quality Assurance and Outbound marketing initiatives as well as an increase in certain officers compensation relating to employment contracts with such officers. In addition, during the three month period ended March 31, 2003, the Company's Board of Directors resolved to pay for the costs of defending a civil action filed against its CEO and Chairman. The action involves a business that the CEO was formerly involved in. The Company and at least one officer have received subpoenas in connection with this matter and the Board believes that it is important to help resolve this matter as soon as possible. The Board action includes the payment of legal and other fees for any other officers and directors that may become involved in this civil action. Through March 31, 2003, the Company has paid \$150,930 on behalf of its CEO relative to this matter. This civil action remains unresolved. At this time, the Company cannot estimate what additional costs may be incurred to continue covering the costs related to this matter, but all such costs shall be deemed to be additional compensation to the CEO. As a percent of net revenue, general and administrative expenses were 24% for the three months ended March 31, 2003 compared to 36% for the comparable period in 2002. For the six months ended March 31, 2003, general and administrative expenses as a percent of net revenue were 24% compared to 32% for the comparable period in 2002. The reduction in general and administrative expenses as a percent of net revenue is the result of the leveraging our fixed cost infrastructure over a larger customer base.

18

Sales and marketing expenses are primarily the costs associated with our marketing relating to our direct mail solicitations. Sales and marketing expenses for the three month periods ended March 31, 2003 and March 31, 2002 were \$862,939 and \$85,454, respectively, an increase of approximately 900%. For the six months ended March 31, 2003 and 2002, sales and marketing expenses were \$1,495,374 and \$139,333, respectively, an increase of almost 1000%. The primary reason for the increase in sales and marketing is due to the Company fully re-instituting its marketing solicitation program and the implementation of new market strategies and modification of direct mail marketing pieces. Such marketing has resulted in the increase in preferred listing customers cited previously. We capitalize certain direct marketing expenses and amortize those costs over an 18 month period based on the customer attrition rates analyzed by the Company. As a percent of net revenues, sales and marketing expenses were 13% and 3% for the three month periods ended March 31, 2003 and 2002, respectively. For the six month periods ended March 31, 2003 and 2002, sales and marketing expenses as a percent of net revenue were 12% and 2%, respectively. The increase in sales and marketing expenses as a percent of net revenue results from the full re-institution of our marketing program.

Depreciation and amortization primarily relates to the amortization of the

Edgar Filing: YP NET INC - Form 10QSB/A

Company's intellectual property and depreciation of equipment. Regarding the Company's intellectual property, the cost of our Yellow-Page.Net URL license was

capitalized at \$5,000,000. The URL is amortized on an accelerated basis over the twenty-year term of the licensing agreement. Amortization expense on the URL was \$93,032 and \$101,250 for the three month periods ended March 31, 2003 and March 31, 2002, respectively. For the six months ended March 31, 2003 and 2002, amortization expense on the URL were \$186,440 and \$202,500, respectively. Annual amortization expense in future years related to the URL is anticipated to be approximately \$200,000-\$300,000. Depreciation and amortization for the three and six month periods ended March 31, 2003 did not change significantly compared to the comparable periods in 2002. However, with the significant equipment purchases relating to the Company's previously- mentioned infrastructure additions, depreciation expense is expected to increase in future periods.

Interest income, net of interest expense for the three month periods ended March 31, 2003 and March 31, 2002, were \$12,069 and \$-0-, respectively. For the six month periods ended March 31, 2003 and 2002, interest income increased to \$12,789 from \$5,570. The increase in the interest income portion results from the Company's increased cash position resulting from the Company's increased profitability. The decrease in the interest expense portion was a result of the payment of a substantial portion of our debt in Fiscal 2002.

We recorded other income of \$180,980 and other expense of \$9,584, respectively, for the three month periods ended March 31, 2003 and March 31, 2002. The primary component of the increase in other income was an increase in revenue received from Simple.Net, a related party (See Footnote 9 to the Financial Statements) for customer and technical services provided by the Company to Simple.net offset by an expense of \$90,000 resulting from a settlement with an attorney formerly on retainer to the Company (See Footnote 7 to the Financial Statements). For the six months ended March 31, 2003, we recorded other income of \$229,886 compared to other expense of \$36,994 for the comparable period in 2002 as a result of the previously- mentioned items as well as a gain on the settlement with a former consultant to the Company.

19

Net income before taxes for the three month periods ended March 31, 2003 and March 31, 2002 were \$2,504,774 and \$828,390 , respectively, an increase of over 200%. For the six month periods ended March 31, 2003 and 2002, net income before taxes were \$4,326,260 and \$1,555,631, respectively, an increase of approximately 178%.

Net income for the three month periods ended March 31, 2003 and March 31, 2002 were \$1,504,921 , or \$0.03per diluted share, and \$620,288 , or \$0.01 per diluted share, respectively, an increase in net income of over 140%. For the six months ended March 31, 2003 and 2002, net income was \$2,597,813 or \$0.06 per diluted share and \$927,344, or \$0.02 per diluted share, respectively, an increase in net income of 180%. In the three and six month periods ended March 31, 2003 compared to the comparable periods in 2002, net income increased due to the increase in preferred listing customers cited above with a less than corresponding increase in the expenses to service such customers due to nature of certain fixed infrastructure expenses which do not necessarily increase as revenues increase offset by costs incurred relating to the previously cited infrastructure additions

LIQUIDITY AND CAPITAL RESOURCES

Net cash provided by operating activities for the six -month period ended March 31, 2003, was \$1,255,263 compared to \$915,816 for the six -month period ended March 31, 2002. The increase in cash generated from operations is

Edgar Filing: YP NET INC - Form 10QSB/A

primarily due to a significant increase in net income and corresponding income tax payable resulting from an increase in preferred listing customers offset by an increase in the accounts receivable balance from such growth and funds expended for mailings related to the Company's marketing efforts.

We had working capital of \$4,035,589 as of March 31, 2003 compared to \$2,376,087 as of March 31, 2002. The increase is due to primarily to increases in accounts receivable of \$2,448,346.

Cash used in investing activities was \$876,309 for the six -month period ended March 31, 2003. The primary components of cash used represents purchase of computer equipment (relating to the previously-mentioned infrastructure additions) and intellectual property of \$476,309, as well as net advances to affiliates of \$400,000. Compared to the six -month period ended March 31, 2002, where cash used of \$206,886 consisted of significantly lower purchases of computer equipment of \$69,459 and lower net advances to affiliates of \$62,857.

Cash used by financing activities was \$307,000 for the six -month period ended March 31, 2003, compared to \$\$1,051,743 for the six -month period ended March 31, 2002. The cash used represents total payments made to reduce the principal balances of our outstanding debt reduced by financing of \$147,000 under the Company's trade acceptance draft program with AcTrade Financial Technologies, Ltd.

We have repaid almost all of our debt. We believe that we will continue to generate adequate cash flow from our operations to service our remaining debt. We have a commitment to provide up to \$10,000,000 in loans to each of the M&M's (Morris & Miller, Ltd. and Matthew & Markson, Ltd.). Those funding commitments are contingent upon the Company having sufficient cash flow for its operations. Any amounts advanced to the M&M's are to be repaid to the Company and can be offset against amounts owed to the M&M's. We do not believe that the M&M's will make significant requests for funding under this commitment, as such advances would adversely affect our liquidity since the M&M's are our largest shareholders.

20

On September 20, 2002, the Company entered into Executive Consulting Agreements with Sunbelt Financial Concepts Inc. ("Sunbelt"), Advertising Management and Consulting Services, Inc. ("AMCS") and Advanced Internet Marketing Inc. ("AIM") relating to the employment of three executive managers and their respective staffs. As part of these agreements, a Flex Compensation program was instituted. Under these agreements, each of Sunbelt, AMCS and AIM may annually draw up to \$220,000, \$50,000 and \$30,000 respectively subject to sufficient cash on hand at the Company. The amounts are increased by 10% annually and also contain a Due on Sale Clause, whereby if there is a change of control of the Company, as defined, then the respective agreements allows each to receive the greater of 30% of the amounts due under the respective agreements or 12 months worth of fees. As of March 31, 2003, all amounts had been drawn except \$18,841 remaining for Sunbelt

During the quarter ended March 31, 2003 and prior to this filing, the Company's unsecured trade acceptance facility with AcTrade Financial Technologies, Ltd. was increased to \$250,000 from \$150,000. Such financings are conducted through the Company's wholly-owned subsidiary, Telco Billing, Inc., and in conjunction with the Company's vendors. Also, the Company signed an unsecured credit facility of \$250,000 with Bank of the Southwest on May 2, 2003. The facility is for one year and interest on borrowings, if any, will be an interest rate of 0.5% above the Prime Rate, as defined.

Edgar Filing: YP NET INC - Form 10QSB/A

CERTAIN RISK FACTORS

There are numerous factors that affect our business and the results of our operations. Sources of these factors include general economic and business conditions, federal and state regulation of our business activities, the level of demand for our services, the level and intensity of competition in the electronic yellow page industry and the pricing pressures that may result, our ability to develop new services based on new or evolving technology and the market's acceptance of those new services, our ability to timely and effectively manage periodic product transitions, the services, customer and geographic sales mix of any particular period, and our ability to continue to improve our infrastructure (including personnel and technology systems) to keep pace with the growth in our overall business activities. Our operations can be adversely affected if we are unable to increase our customer base and revenue through our direct marketing efforts. We are also subject to intense competition from other providers of Internet "yellow page" type services, Yahoo and Microsoft, as well as competition from large telephone companies. Set forth below and elsewhere in this Form 10-QSB are risks and uncertainties that could cause actual results to differ materially from the results contemplated by the forward-looking statements contained in the Annual Report.

GROSS MARGINS MAY DECLINE OVER TIME: We expect that gross margins may be adversely affected because we have determined that profit margins from the electronic yellow pages offerings that we have profited from in the past have fluctuated. We have experienced a decrease in revenue from the LEC from the effects of the Competitive Local Exchange Carriers (CLEC) that are participating in providing local telephone services to customers. We have begun to address this problem and we are implementing data filters to reduce the effects of the CLEC's. We have also sought other billing methods to reduce the adverse effects of the CLEC billings. These other billing methods may be cheaper or more expensive than our current LEC billing and we have not yet determined if they will be less or more effective. We continue to look for profitable Internet opportunities; however there are no assurances that we will be successful, and presently we have no acquisitions in progress.

21

DEPENDENCE ON KEY PERSONNEL: Our performance is substantially dependant on the performance of our executive officers and other key employees and our ability to attract, train, retain and motivate high quality personnel, especially highly qualified technical and managerial personnel. The loss of services of any executive officers or key employees could have a material adverse effect on our business, results of operations or financial condition. Competition for talented personnel is intense, and there is no assurance that we will be able to continue to attract, train, retain or motivate other highly qualified technical and managerial personnel in the future. Our Chief Executive Officer is involved in personal litigation, which may divert his attention from the management of the Company During the three month period ended March 31, 2003, the Company's Board of Directors resolved to pay for the costs of defending a civil action filed against its CEO and Chairman. The action involves a business that the CEO was formerly involved in. The Company and at least one officer have received subpoenas in connection with this matter and the Board believes that it is important to help resolve this matter as soon as possible. The Board action includes the payment of legal and other fees for any other officers and directors that may become involved in this civil action. Through March 31, 2003, the Company has paid \$150,930 on behalf of its CEO relative to this matter. This civil action remains unresolved. At this time, the Company cannot estimate what additional costs may be incurred to continue covering the costs related to this matter, but all such costs shall be deemed to be additional

Edgar Filing: YP NET INC - Form 10QSB/A

compensation to the CEO.

Since our Growth Rate may slow, operating results for a particular quarter are difficult to predict: We expect that in the future, our net sales may grow at a slower rate on a quarter-to-quarter basis than experienced in previous periods. This may be a direct cause of the projected changes to our direct marketing pieces or regulatory matters discussed below. See "MARKETING," above. As a consequence, operating results for a particular quarter are extremely difficult to predict. Our ability to meet financial expectations could be hampered if we are unable to correct the billing/dilution through the billing aggregators and CLEC markets seen recently. Additionally, in response to customer demand, we continue to attempt develop new products to reduce our attrition rates.

REGULATORY ENVIRONMENT. Existing laws and regulations and any future regulation may have a material adverse effect on our business. These effects could include substantial liability including fines and criminal penalties, preclusion from offering certain products or services and the prevention or limitation of certain marketing practices. As a result of such changes, our ability to increase our business through Internet usage could also be substantially limited.

22

Item 3 - Controls and Procedures

As required by Rule 13a-14 under the Exchange Act, within 90 days prior to the filing date of this report, the Company carried out an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures. This evaluation was carried on under the supervision and with the participation of the Company's management, including our Chief Executive Officer and Principal Accounting Officer. Based upon that evaluation, our Chief Executive Officer and Principal Accounting Officer concluded that our controls and procedures are effective. There have been no significant changes in the Company's internal controls or in other factors that could significantly affect internal controls subsequent to the date the Company carried out this evaluation.

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in the Company's reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include controls and procedures designed to ensure that information required to be disclosed in Company reports filed under the Exchange Act is accumulated and communicated to management, including the Company's Chief Executive Officer and Principal Accounting Officer as appropriate, to allow timely decisions regarding disclosures.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are party to ordinary routine litigation in the course of our operations. We have also been subject to certain state and federal regulatory proceedings. See Footnote 7 to the Company's financial statements included herein. The Company's Chairman and Chief Executive Officer, Mr. Tullo, is a

Edgar Filing: YP NET INC - Form 10QSB/A

party defendant in an adversary proceeding ancillary to the Bankruptcy proceedings under Chapter 11 of American Business Funding, Inc. ("ABF"). See United States Bankruptcy Court for the District of Arizona, Case #00-01782-ECF-RJH, and Case #00-00151-RJH American Business Funding Corporation (ABF) v. Tullo, et. al. The suit alleges that all of the former officers of ABF, including Mr. Tullo, and others and entities that may have been controlled by them, made fraudulent conveyances and breached their fiduciary duty to certain shareholders of ABF.

Mr. Tullo has answered the complaints against him and has denied all the allegations and has been vigorously contesting the plaintiffs' claims. Mr. Tullo and his legal counsel have provided the following information:

Mr. Tullo alleges that he discovered a scheme of financial improprieties by his partners and some employees, including misappropriation of funds from ABF. Further that after Mr. Tullo left his former partners and those appointed by them continued to raise funds without disclosure and to pay old obligations with this new money. Mr. Tullo states that it was through his intervention, by contacting many of the creditors, meeting with the Arizona Attorney General's Office, and moving for and obtaining the appointment of a Receiver, and later a court appointed examiner, that the activities stopped. Upon the appointment of the receiver, the directors appointed by Tullo's former partners authorized ABF to file for protection under the United States Bankruptcy Code and initiated the suit referenced above.

There are several other suits related to ABF and its bankruptcy proceedings. In all of the cases not filed by the control persons of ABF, Mr. Tullo is not named as a defendant. The only findings of fact and conclusions of law that have been rendered in this series of cases is against one of the directors installed by Tullo's former partners, and that was by the Arizona Corporation Commission, docket number S-03443A-01-0000 Decision number 64079.

The Company has conducted a limited investigation of these matters, but is not in a position to confirm or deny the truth of the various and conflicting allegations. The litigation does not presently name the Company as a defendant. The litigation could adversely affect the Company if the litigation diverts Mr. Tullo's attention from his duties as an officer and director of the Company. Recently, the parties have engaged in preliminary settlement discussions, some of which have included the possible payment of cash or equity by the Company. There can be no assurance that the Company may not be named a defendant in this action in the future.

ITEM 2. CHANGES IN SECURITIES

During the six-months ended March 31, 2003, the Company issued an aggregate of approximately 6,050,000 shares in consideration of executive service agreements and compensation to an employee.

The Company issued the following shares:

- 4,000,000 shares (value of \$300,000) to Sunbelt Financial Concepts, Inc. ("Sunbelt"), for services provided to the Company. Angelo Tullo, the Company's CEO and Chairman, is President of Sunbelt;

23

- 1,000,000 shares (value of \$75,000) to Advertising Management and Consulting Services, Inc. ("AMCS") for services rendered to the Company. Greg Crane, Company's Vice President of Marketing and a Director, is President of AMCS;

Edgar Filing: YP NET INC - Form 10QSB/A

- 1,000,000 shares (value of \$75,000) to Advanced Internet Marketing, Inc. ("AIM") for services rendered to the Company. DeVal Johnson, the Company's Secretary and Director is President of AIM; and
- 50,000 shares (value of \$3,750) to David J. Iannini, the Company's CFO, for services rendered as such

The restricted shares were issued based upon the average bid and ask prices at the time of issuance (\$0.075) and were issued in reliance on the exemption from registration provided by Section 4 (2) of the Securities Act.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

EXHIBITS

- 10.24 eBillit, Inc. Master Services Agreement
- 10.25 Palm, Inc. License Agreement
- 10.26 Pike Street Industries, Inc. Agreement
- 10.27 Bank of the Southwest Promissory Note
- 10.28 Switchboard Incorporated Services Agreement
- 10.35 Actrade TAD Agreement

REPORTS ON FORM 8-K None

24

SIGNATURES

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

YP.NET, INC.

Dated: May 14th, 2003

/s/ Angelo Tullo

Chairman, President, Chief Executive Officer

/s/ David J. Iannini

Chief Financial Officer

25

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE
SARBANES-OXLEY ACT OF 2002

I, Angelo Tullo, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of YP.Net, Inc.;

Edgar Filing: YP NET INC - Form 10QSB/A

2. Based on my knowledge, this quarterly 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 quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

26

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Dated: May 14, 2003

By: /s/ ANGELO TULLO

Angelo Tullo
Chairman, President and Chief Executive
Officer

27

Edgar Filing: YP NET INC - Form 10QSB/A

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE
SARBANES-OXLEY ACT OF 2002

I, David Iannini, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of YP.Net, Inc.;
2. Based on my knowledge, this quarterly 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 quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

28

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Edgar Filing: YP NET INC - Form 10QSB/A

Dated: May 14, 2003

By: /s/ DAVID IANNINI

David Iannini
Chief Financial Officer