YP CORP
Form 10KSB/A
December 01, 2005

U.S. SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-KSB/A
(Amendment No. 4)

(Mark one)
x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE
SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended September 30, 2002

o TRANSITION REPORT UNDER SECTION 13 OR 15 (d)
OF THE
SECURITIES EXCHANGE ACT OF 1934
For the Transition period from ________ to ____________

Commission File Number: 0-24217

YP CORP.
(Name of Small Business Issuer in its Charter)

NEVADA	85-0206668
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
4840 EAST JASMINE STREET, SUITE 105, MESA, ARIZONA	85205
(Address of principal executive offices)	(Zip Code)

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

Securities registered under Section 12(b) of the Exchange Act: NONE

Securities registered under Section 12(g) of the Exchange Act:

COMMON STOCK, $.001 PAR VALUE
(Title of Class)

YP.NET, INC.
(Former Name)

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

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB o.

Registrant's revenues for its most recent fiscal year were $12,618,126.

The aggregate market value of the common stock held by non-affiliates computed based on the closing price of such stock on January 7, 2003 was approximately $1,677,062.

The number of shares outstanding of the registrant's classes of common stock, as of January 7, 2003 was 43,963,222.

EXPLANATORY NOTE

This Amendment on Form 10-KSB/A (this "Amendment") amends the Annual Report on Form 10-KSB for the year ended September 30, 2002, as originally filed by YP Corp. on January 14, 2003 (the "Original Filing"), and as amended by Amendment No. 1 on Form 10-KSB/A filed on April 10, 2003, and further amended by Amendment No. 2 on Form 10-KSB/A filed on July 8, 2003, and further amended by Amendment No. 3 on Form 10-KSB/A filed on January 22, 2004, solely for the purpose of revising Part II, Items 6 and 7, to amend and restate the disclosure with respect to our accounting for shares issued to, and subsequently recovered from, certain non-performing consultants during 1999 and 2000. The historical financial statements generated by predecessor management reflected an expense upon issuance of the shares and a reversal of this expense when it was deemed (through a settlement agreement or judgment) that these shares would be returned. However, after further analysis and consultation with the Securities and Exchange Commission, it was determined to be inappropriate to recognize the initial expense and its subsequent reversal as no services were rendered by these consultants. Instead, the issuance of these shares will be reflected as temporary equity, together with a related receivable, until the shares were returned. The net decrease to cumulative after-tax income of approximately $510,000 relates to shares issued in 1999 that were expected to be returned but, for various reasons, cannot be obtained. Such amounts will continue to be reflected as expense in the year granted and our revised statements will no longer reflect the reversal of this expense.

In addition, in connection with the filing of this Amendment and pursuant to the rules of the Securities and Exchange Commission, we are including with this Amendment a currently dated consent of our independent public accountants and certain currently dated certifications.

Except as described above, no other changes have been made to the Original Filing. This Amendment continues to speak as of the date of the Original Filing, and, except a specifically stated herein, we have not updated the disclosures contained in this Amendment to reflect any events that occurred at a date subsequent to the filing of the Original Filing. The filing of this Form 10-KSB/A is not a representation that any statements contained in items of the Original Filing other than that information being amended are true or complete as of any date subsequent to the date of the Original Filing. The filing of this Form 10-KSB/A shall not be deemed an admission that the Original Filing or the amendments made thereto, when made, included any untrue statement of a material fact or omitted to state a material fact necessary to make a statement not misleading.

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PART II

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS

OVERVIEW

We provide Internet-based yellow page listing services on our YP.Net website. We acquired Telco Billing, Inc. in June 1999 as a wholly owned subsidiary, and, as a result of this acquisition, changed our primary business focus to become an electronic yellow page directory service. Our website enables users to search for yellow page listings in the United States. We charge our customers for a Preferred Listing of their businesses on searches conducted by consumers on our website.

The Company was originally incorporated in Nevada in 1996 as Renaissance Center, Inc. Renaissance Center and Nuclear Corporation merged in 1997. Our articles of incorporation were restated in July 1997 and our name was changed to Renaissance International Group, Ltd. Our name was subsequently changed to RIGL Corporation in July 1998. With the acquisition of Telco and shift of the focus of our business, our corporate name was again changed to YP.Net, Inc., effective October 1, 1999. The new name was chosen to reflect our focus on Internet-based yellow page services.

In order to ensure the accuracy and completeness of the Company's financial information in May, 2002, the independent members of the Company's Board of Directors engaged the services of Jerrold Pierce, the former Senior Special Agent of the Criminal Investigations Division of the Internal Revenue Service for seven western states. Mr. Pierce performs unannounced inspections of the Company's financial records at least once every quarter. Mr. Pierce reports his findings directly to the independent members of the Board, and to the Board in its entirety. To date, Mr. Pierce has found no irregularities with current management

RESULTS OF OPERATIONS

Fiscal Year End September 30, 2002 Compared to Fiscal Year End September 30, 2001.

Revenue for the year ended September 30, 2002 ("Fiscal 2002") was $12,618,126 compared to $13,501,966 for the year ended September 30, 2001 ("Fiscal 2001"). The decrease in revenue is principally the result of a change in revenue recognition on direct billings. In Fiscal 2002, revenue on direct billings was recognized only as cash was collected in order to be more conservative. In Fiscal 2001, direct revenue was recognized upon providing the Preferred Listing service and a reserve against such revenues was established in accordance with SAB #101. Management believes that recognizing direct billings as revenue upon cash collection is more conservative than its previous methodology.

We utilize direct mailings as our primary marketing program and this program generates our principal revenue of the Company. Our subscribing customers increased to 113,565 at September 30, 2002, approximately a 24 % increase for the fiscal year.

Cost of Services for Fiscal 2002 were $3,497,678 compared to $6,150,085. The decrease in cost of services is due to a decrease resulting from lower dilution (i.e., unbillable customer phone numbers, customer credits, LEC charge-backs) in 2002 compared to 2001 resulting from the previously mentioned improvement in the Company's LEC billing filtering process. We have been able to reduce our dilution expenses with the third party billing companies, as the Company becomes better able to track its individual subscriber billings and collections, The Company ceased its relationship with a billing company due to the higher cost of doing business with this third party biller. The Company reduced its total billing related expenses by $3,826,000 in the year ended September 30, 2002 primarily due to its ability to challenge dilution charges made by these third party billers.

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General and administrative expenses for Fiscal 2002 were $4,754,665 compared to $3,987,040 for Fiscal 2001. The increase was principally the result of increased staffing costs of $953,000 and legal and professional fees of approximately $182,000. These higher costs were partially offset by lower expense of consultants and rent expense. The Company added staff in anticipation of adding an outbound customer service group and to begin performing more of the billing process in-house.

Sales and marketing expenses for Fiscal 2002 were $963,868 compared to $688,349 for Fiscal 2001. The increase was principally the result of our re-instituting our marketing efforts in Fiscal 2002. The marketing expenses are attributed to our direct response marketing, which is our primary source of attracting new customers. In Fiscal 2001, the Company's management decided to cease all direct mail marketing efforts until we had entered into a final settlement agreement with the FTC. In July 2001 we entered into a settlement agreement and voluntarily complied with the order set forth by the FTC. See our Form 10-QSB for the period ended June 30, 2001.

Operating income in Fiscal 2002 was $2,820,625 compared to $2,073,066 in Fiscal 2001 representing an increase of approximately 36%. Income before income taxes was $3,182,814 in Fiscal 2002 and $1,317,698 in Fiscal 2001, an increase of over 140%. The increases in both operating income and income before income taxes were the result of the substantial savings in the billing company and LEC dilution expenses and lower interest expense due to lower debt levels in Fiscal 2002. The Company is likely to continue to experience lower billing expenses as a percentage of revenue but not on the level of the gains experienced in Fiscal 2002. However, the Company intends to increase its marketing efforts in the short term resulting in higher marketing expenses.

The cost of the Yellow-Page.Net URL was capitalized at its cost of $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 $399,833 for the year ended September 30, 2002. Annual amortization expense in future years related to the URL is anticipated to be approximately $200,000-300,000

Interest expense for Fiscal 2002 was $92,341 compared to $571,248 for Fiscal 2001. The decrease in interest expense was a result of decreased debt due to the repayment of approximately $800,000 of debt in Fiscal 2002.

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 related to these net operating losses recorded at September 30, 2001, was partially offset by a valuation allowance of approximately $773,000. That valuation allowance was eliminated and recognized as a benefit in the year ended September 30, 2002. Due to these changes, the Company recognized income tax benefits of $917,000 that are included as part of the overall tax provision for the year ended September 30, 2002. At September 30, 2002 the Company has utilized all of its federal and state net operating losses.

Net profits for Fiscal 2002 were $2,840,731, or $0.06 per share, compared to $777,264, or $.02 per share for Fiscal 2001. The increase in net income resulted from the increased subscribing customer count and associated revenue cited above with a less than corresponding increase in expenses cited above as well as the usage by the Company of remaining net operating losses which reduced the income tax provision from the previous fiscal year.

LIQUIDITY AND CAPITAL RESOURCES

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Our cash balance increased to $767,108 for Fiscal 2002 from $683,847 for Fiscal 2001. We funded working capital requirements primarily from cash generated from operating activities and utilized cash in investing activities and financing activities, primarily through repayments of debt.

Operating Activities. Cash provided by operating activities was $1,158,015 for Fiscal 2002 compared to $3,880,158 for Fiscal 2001. The principal source of our operations revenue is from sales of Internet yellow page advertising. The decrease in cash provided from operations resulted from an increase in the Company’s accounts receivable and customer acquisition costs due to the increased subscribing customer count resulting from our marketing solicitation program.

Investing Activities. Cash used by investing activities was $244,077 for Fiscal 2002 compared to $165,672 for Fiscal 2001. We purchased $77,632 of computer equipment in Fiscal 2002 compared to $28,520 of computer equipment in Fiscal 2001. Increased computer purchases in Fiscal 2002 resulted from growth in the customer base in Fiscal 2002 and in preparation for anticipated future growth in the customer base.

Financing Activities. Cash flows used from financing activities were $830,677 for Fiscal 2002 compared to $3,250,252 for Fiscal 2001. We had cash outflow of approximately $800,000 in Fiscal 2002 relating to the repayment of debt and cash outflow in Fiscal 2001 resulting from the repayment of our credit facility relating to Matthew Markson Ltd. of $3,199,452. During Fiscal 2002, the Company established a Trade Acceptance Draft program with Actrade Financial Technologies which enables the Company to borrow up to $150,000. A trade acceptance draft ("TAD") is a draft signed by the Company made payable to the order of a vendor providing services to the Company. AcTrade provides payment to the vendor and collects from the Company the amount advanced to the vendor (plus interest) under extended payment terms, generally 30, 60 or 90 days. When used, the Company pays a rate of 1% per month of the amount of the TAD. There is no term to the agreement with Actrade and either party may terminate the agreement at any time.

We incurred debt in the acquisition of the license right to the Yellow-Page.Net URL. A total of $4,000,000 was borrowed, $2,000,000 from Joseph and Helen VanSickle, $1,000,000 from shareholders of the Company and $2,000,000 as a Note from Matthew & Markson Ltd. Management which has dedicated payments in the amount of $100,000 per month for the payment of the VanSickle note. This note was paid in full subsequent to year end. Management had also dedicated payments to the Matthew & Markson note in the amount of $100,000 per month, with the provision that no payment be made if we have less than 30 days operating capital reserved, or if we are in an uncured default with any of our lenders. The original note has been paid in full while a balance of $115,866 remains on another note to Matthew & Markson. (see "Certain Relationships"). A total of 4,500,000 shares of our common stock were issued to secure these notes and are held in escrow.

Collections on accounts receivables are received primarily through the billing service integrators under contract to administer this billing and collection process. The billing service providers generally do not remit funds until they are collected. The billing companies maintain holdbacks for refunds and other uncertainties. Generally, cash is collected and remitted to us over a 90 to 120 day period subsequent to the billing dates. In August 2002, the Company entered into a new agreement with its primary billing service provider, IGT, whereby cash is remitted to us on a sixty day timetable beginning November 2002.

We market our products primarily through the use of direct mailers to businesses throughout the United States. We generally pay for these marketing costs when incurred and amortize the costs of direct-response advertising on a straight-line basis over eighteen months. The amortization lives are based on estimated attrition rates. During Fiscal 2002 we paid $2,258,006 in advertising and marketing compared to $3,781,485 in Fiscal 2001. Management anticipates the outlays for direct-response advertising to remain consistent over the next year.

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The acquisition of Telco by the Company called for the issuance of 17,000,000 new shares of stock in exchange of the existing shares of Telco. As part of that agreement, the Company gave the former shareholders the right to "Put" back to the Company certain shares of stock at a minimum stock price of 80% of the current trading price with a minimum strike price of $1.00. The net effect of which was that each of the former Telco shareholders could require the Company to repurchase shares of stock of the Company at a minimum cost of $10,000,000. The agreement required the Company to attain certain market share levels.

The "Puts" were renegotiated and retired. As part of the renegotiated settlement, the Company provided a credit facility of up to $10,000,000 to each of the former Telco shareholders (Mathew & Markson and Morris & Miller. See Item 11.), collateralized by the stock held by these shareholders, with interest at least 0.25 points higher than the Company’s average cost of borrowing. Additional covenants warrant that no more that $1,000,000 can be advanced at any point in time and no advances can be made in excess with out allowing at least 30 days operating cash reserves or if the Company is in an uncured default with any of its lenders. At September 30, 2002, the Company had advanced $233,073 under this agreement.

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. (See Certain Relationships and Related Transactions"). 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.

FUTURE OUTLOOK

For fiscal year 2003 we expect to continue our customer satisfaction program whereby we contact our existing customers for their many Mini-Webpage(TM) information and to develop and market new products. We also are generating a new revenue source to provide customer service and technical services to related and industry entities. We presently have agreements with Dial-Up Services, Inc. (dba Simple.Net) to provide both customer and technical services. Simple.Net is an Internet service provider ("ISP") beneficially owned by a director (Deval Johnson) of the Company. SN charges the Company’s customers $2.50 per month for internet access. (See Footnote 12 to the financial statements).

We have offered our customers Internet access services and are currently gaining customers weekly. Our dial-up ISP backbone provider is Simple.Net. Under our current provider’s network, over 65 percent of the US’s population has the ability to dial to a local point of presence. The remaining population will be allowed access through an 800 number solution. This revenue stream will prove vital in expanding our ability to reach various customer needs.

Our future success will depend on our ability to integrate continually and distribute information services of broad appeal. Our ability to maintain our relationships with content providers and to build new relationships with additional content providers is critical to our marketing plan.

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FACTORS WHICH MAY AFFECT FUTURE OPERATING RESULTS

Set forth below and elsewhere in this Annual Report and in the other documents we file with SEC, including the most recent 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.

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.

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. 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 through the CLEC markets seen in the fourth quarter continue in the future. Additionally, in response to customer demand, we continue to attempt develop new products to reduce our customer 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.

ITEM 7. FINANCIAL STATEMENTS

YP.NET, INC.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and Board
of Directors of YP Corp.:

We have audited the accompanying consolidated balance sheet of YP Corp. and subsidiaries as of September 30, 2002 and the related statements of operations, stockholders' equity and cash flows for the each of the two years in the period then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with the auditing standards generally accepted in the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of YP Corp. and subsidiaries as of September 30, 2002, and the consolidated results of its operations and cash flows for each of the two years in the period ended September 30, 2002, in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the Company restated its financial statements for the years ended September 30, 2002 and 2001.

/s/ Epstein, Weber & Conover, PLC
Scottsdale, Arizona
December 2, 2002
(except for the restatement of financial statements
described in Note 1, for which the date is November 18, 2005)

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YP.NET, INC.

CONSOLIDATED BALANCE SHEET
SEPTEMBER 30, 2002

ASSETS:		
CURRENT ASSETS		
Cash and cash equivalents	$	767,108
Accounts receivable, net		3,561,808
Prepaid expenses and other current assets		64,211
Total current assets		4,393,127
ACCOUNTS RECEIVABLE - long term portion		513,485
CUSTOMER ACQUISITION COSTS, net of accumulated amortization of $718,594		1,418,227
PROPERTY AND EQUIPMENT, net		274,459
DEPOSITS AND OTHER ASSETS		150,725
INTELLECTUAL PROPERTY- URL, net of accumulated amortization of $1,481,148		3,578,542
ADVANCES TO AFFILIATES		233,073
RECEIVABLE - COMMON STOCK TO BE RETURNED		115,978
DEFERRED INCOME TAXES		96,036
TOTAL ASSETS	$	10,773,652
LIABILITIES AND STOCKHOLDERS' EQUITY:		
CURRENT LIABILITIES:		
Accounts payable	$	195,396
Accrued liabilities		182,797
Notes payable - current portion		352,362
Deferred income taxes		87,221
Income taxes payable		486,243
Total current liabilities		1,304,019
NOTES PAYABLE - long-term portion		115,866
Total liabilities		1,419,885
TEMPORARY EQUITY - Common stock to be returned, 82,500 shares issued and outstanding		115,978
STOCKHOLDERS' EQUITY:		
Series E convertible preferred stock, $.001 par value, 200,000 shares authorized, 131,840 issued and outstanding, liquidation preference $39,552		11,206
Common stock, $.001 par value, 50,000,000 shares authorized, 43,853,624 issued and outstanding		43,854
Paid in capital		4,590,351
Treasury stock at cost		(171,422)
Retained earnings		4,763,800

Total stockholders’ equity		9,237,789
TOTAL LIABILITIES AND STOCKHOLDERS’ EQUITY	$	10,773,652

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

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YP.NET, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED SEPTEMBER 30, 2002 AND SEPTEMBER 30, 2001

	2002	2001
NET REVENUES	$ 12,618,126	$ 13,501,966
OPERATING EXPENSES:		
Cost of services	3,497,678	6,150,085
General and administrative expenses	4,754,665	3,987,040
Sales and marketing expenses	963,868	688,349
Depreciation and amortization	581,290	603,426
Total operating expenses	9,797,501	11,428,900
OPERATING INCOME	2,820,625	2,073,066
OTHER (INCOME) AND EXPENSES		
Interest expense and other financing costs	92,341	571,248
Interest income	(17,682)	(7,342)
Other Income	(436,848)	191,462
Total other expense	(362,189)	755,368
INCOME BEFORE INCOME TAXES	3,182,814	1,317,698
INCOME TAX PROVISION (BENEFIT)	342,082	540,434
NET INCOME	$ 2,840,732	$ 777,264
NET INCOME PER SHARE:		
Basic	$ 0.06	$ 0.02
Diluted	$ 0.06	$ 0.02
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:		
Basic	44,024,329	40,738,839
Diluted	44,024,329	40,738,839

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

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YP.NET, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY FOR THE YEARS ENDED SEPTEMBER 30, 2002 AND SEPTEMBER 30, 2001

	COMMON STOCK		PREFERRED A		TREASURY	PAID-IN	RETAINED	
	SHARES	AMOUNT	SHARES	AMOUNT	STOCK	CAPITAL	EARNINGS	TOTAL
BALANCE OCTOBER 1, 2000	39,035,464	$ 39,036	1,500,000	$ 1,500	$ (69,822)	$ 4,081,399	$ 1,146,298	$ 5,198,411
Common stock issued for consulting services	850,000	850				147,950		148,800
Common stock issued for extension on debt	4,000,000	4,000				356,000		360,000
Cancellation of preferred stock			(1,500,000)	(1,500)				(1,500)
Purchase of treasury stock					(101,600)			(101,600)
Value of common stock warrants issued						7,176		7,176
Net income							777,264	777,264
BALANCE SEPTEMBER 30, 2001	43,885,464	$ 43,886	-	$ -	$ (171,422)	$ 4,592,525	$ 1,923,562	$ 6,388,551

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

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YP.NET, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY FOR THE YEARS ENDED SEPTEMBER 30, 2002 AND SEPTEMBER 30, 2001 (CONTINUED)

	COMMON STOCK		PREFERRED E		TREASURY	PAID-IN	RETAINED	
	SHARES	AMOUNT	SHARES	AMOUNT	STOCK	CAPITAL	EARNINGS	TOTAL
BALANCE OCTOBER 1, 2001	43,885,464	$ 43,886	-	$ -	$ (171,422)	$ 4,592,525	$ 1,923,562	$ 6,388,551
Common stock issued for services	100,000	100				8,900		9,000
Series E preferred stock issued in exchange for common shares	(131,840)	(132)	131,840	11,206		(11,074)		-
Series E preferred stock dividends							(494)	(494)
Net income							2,840,732	2,840,732
BALANCE SEPTEMBER 30, 2002	43,853,624	$ 43,854	131,840	$ 11,206	$ (171,422)	$ 4,590,351	$ 4,763,800	$ 9,237,789

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

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YP.NET, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE
YEARS ENDED SEPTEMBER 30, 2002 AND SEPTEMBER 30, 2001

CASH FLOWS FROM OPERATING ACTIVITIES:	2002	2001
Net income	$ 2,840,732	$ 777,264
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	581,290	603,426
Issuance of common stock as compensation for services	9,000	148,800
Penalties related to acquisition debt paid by issuance of debt, warrants and stock	-	917,967
Deferred income taxes	1,078,157	(421,457)
Provision for uncollectible accounts	1,375,226	(760,859)
Changes in assets and liabilities:		
Accounts receivable	(2,580,410)	1,617,467
Customer acquisition costs	(1,224,983)	37,654
Prepaid and other current assets	(44,042)	79,060
Deposits and other assets	(127,438)	(11,500)
Accounts payable	(119,511)	161,089
Accrued liabilities	106,069	(230,644)
Income taxes payable	(736,075)	961,891
Net cash provided by operating activities	1,158,015	3,880,158
CASH FLOWS FROM INVESTING ACTIVITIES:		
Advances made to affiliate	(116,757)	(137,152)
Expenditures for intellectual property	(49,688)	-
Purchases of equipment	(77,632)	(28,520)
Net cash used for investing activities	(244,077)	(165,672)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal repayments on borrowings from line of credit	-	(1,577,547)
Principal repayments on notes payable	(830,677)	(1,621,905)
Purchase of treasury stock	-	(50,800)
Net cash used for financing activities	(830,677)	(3,250,252)
INCREASE IN CASH AND CASH EQUIVALENTS	83,261	464,234
CASH AND CASH EQUIVALENTS, beginning of year	683,847	219,613
CASH AND CASH EQUIVALENTS, end of year	$ 767,108	$ 683,847

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

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YP.NET, INC.

CONSOLIDATED STATEMENT OF CASH FLOWS, (CONTINUED)
FOR THE YEARS ENDED SEPTEMBER 30, 2002 AND 2001

SUPPLEMENTAL CASH FLOW INFORMATION:

	2002	2001
Interest Paid	$ 99,541	$ 421,013
Income taxes paid	$ -0-	$ -0-

SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES:

	2002	2001
Common stock issued for services	$ 9,000	$ 148,800
Note payable issued in payment of debt extension fee	$ -0-	$ 550,791
Value of common stock issued as payment of debt extension fee	$ -0-	$ 360,000
Common stock exchanged for Series E Convertible Preferred Stock	$ 11,206	$ -0-
Liability incurred for purchase of treasury stock	$ -0-	$ 50,800

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

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YP.NET, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2002 AND 2001

1. ORGANIZATION AND BASIS OF PRESENTATION

YP.Net, Inc. (the "Company"), formally RIGL Corporation, had previously attempted to develop software solutions for medical practice billing and administration. The Company had made acquisitions of companies performing medical practice billing services as test sites for its software and as business opportunities. The Company was not successful in implementing its medical practice billing and administration software products and looked to other business opportunities. The Company acquired Telco Billing Inc. ("Telco") in June 1999, through the issuance of 17,000,000 shares of the Company’s common stock. Prior to its acquisition of Telco, RIGL had not generated significant or sufficient revenue from planned operations. Telco was formed in April 1998, to provide advertising and directory listings for businesses on its Internet web site in a "Yellow Page" format. Telco provides those services to its subscribers for a monthly fee. These services are provided primarily to businesses throughout the United States. Telco became a wholly owned subsidiary of YP.Net, Inc. after the June 16, 1999 acquisition.

At the time that the transaction was agreed to, the Company had 12,567,770 common shares issued and outstanding. As a result of the merger transaction with Telco, there were 29,567,770 common shares outstanding, and the former Telco stockholders held approximately 57% of the Company’s voting stock. For financial accounting purposes, the acquisition was a reverse acquisition of the Company by Telco, under the purchase method of accounting, and was treated as a recapitalization with Telco as the acquirer. Consistent with reverse acquisition accounting: (i) all of Telco’s assets, liabilities, and accumulated deficit were reflected at their combined historical cost (as the accounting acquirer) and (ii) the preexisting outstanding shares of the Company (the accounting acquiree) were reflected at their net asset value as if issued on June 16, 1999. The accompanying financial statements represent the consolidated financial position and results of operations of the Company and include the accounts and results of operations of the Company and Telco, its wholly owned subsidiary, for the years ended September 30, 2002 and September 30, 2001. Certain reclassifications have been made to the September 30, 2001 balances to conform to the 2002 presentation.

Restatement of Financial Statements

Subsequent to the issuance of the Company’s financial statements as of September 30, 2002, and the year then ended, the Company determined that the accounting for its common stock issued to, and subsequently recovered from, certain non-performing consultants during 1999 and 2000 should not have been expensed when originally issued as had been previously reported. The subsequent recovery of these shares was recorded as an item in other income at the same value at which they were originally issued. It has been determined to be inappropriate to recognize the initial expense and its subsequent reversal as no services were rendered by these consultants. Instead, the issuance of these shares will be reflected as temporary equity, together with a related receivable, until the shares were returned. The change in accounting for the recovery of the shares has the effect in the year ended September 30, 2002 of a decrease in net income of $1,035,017 from $3,696,463 to $2,840,732 and a decrease in the net income per share from per share from $0.08 to $0.06.

Additionally, the Company’s consolidated statement of operations for the year ended September 30, 2002, had previously reported net revenues of $13,232,743 which has been decreased by $614,617 due to reclassifications of certain customer refunds of $313,716 previously reported in cost of services and $300,901 of revenue generated for services performed for an affiliate being reclassified as other income. These changes had no effect on net income for the year ended September 30, 2002. It was also noted that 3,081,500 shares of issued common stock had been improperly included in the outstanding shares. These shares were actually treasury shares and therefore should be excluded from the number of shares outstanding. The Company corrected the error by reclassifying the par value of those shares of $3,082 from the common stock account to the paid in capital account. This matter had the effect of overstating the weighted average shares outstanding.

2. 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 September 30, 2002, cash deposits exceeded those insured limits by $563,000.

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 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 $1,941,000 and $575,000 during the years ended September 30, 2002 and 2001 respectively. The Company amortized $719,000 and $613,000, respectively, of these capitalized costs during the years ended September 30, 2002 and 2001.

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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 $245,000 and $75,000 for the years ended September 30, 2002 and 2001 respectively.

Property and Equipment: Property and equipment is stated at cost less accumulated depreciation. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets ranging from 3 to 5 years. Depreciation expense was $178,058 and $156,343 for the years ended September 30, 2002 and 2001 respectively.

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 billings are generally included on the telephone bills of the customers. Due to billings submitted by the Company being subject to adjustment by the billing companies and the LEC's, 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. Revenues generated under billings through the LEC's were approximately $12,311,000 and $13,005,000 for the fiscal years ended September 30, 2002 and September 30, 2001 respectively.

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. Collections under this billing process have historically been poor. Monthly direct bill subscription fee revenue is recognized as earned within the month for which the service is provided. However, these monthly billings are adjusted to take into consideration the poor collection experience. The Company continuously reviews this estimate for reasonableness based on its collection experience. Revenues generated under direct billings were $651,000 and $529,000 for the years ended September 30, 2002 and 2001 respectively.

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.

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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 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." The proforma effect of the fair value method is discussed in Note 15.

Temporary Equity: During fiscal 1999 and 2000, the Company issued 925,000 shares and 600,000 shares, respectively, to consultants and other third parties whereupon it was subsequently determined that the consultants did not perform under the terms of the related agreements. The Company has pursued legal action against the consultants and third parties and expect the shares to be retrieved. The value of such shares, totaling $1,689,239, was not recorded as expense but rather was reflected as temporary equity, together with a related receivable until such times that the shares are retrieved. During fiscal 2001, 1,442,500 of these shares were returned.

Impairment of Long-lived Assets: The Company assesses long-lived assets for impairment in accordance with the provisions of SFAS 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of. SFAS 121 requires that the Company assess the value of a long-lived asset whenever there is an indication that its carrying amount may not be recoverable. Recoverability of the asset is determined by comparing the forecasted undiscounted cash flows generated by said asset to its carrying value. The amount of impairment loss, if any, is measured as the difference between the net book value of the asset and its estimated fair value.

Recently Issued Accounting Pronouncements: In June 2001, the Financial Accounting Standards Board (the FASB) issued Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets. The Company will be required to adopt SFAS No. 142 at the beginning of its 2003 fiscal year. The Company is currently reviewing the impact of adoption of SFAS 142, but does not believe the adoption of such will have a material effect on the financial position and results of operations of the Company.

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In June 2001, the FASB issued Statement of Financial Accounting Standards No.43, Accounting for Asset Retirement Obligations. The Company is currently reviewing the impact of adoption of SFAS 143, but does not believe the adoption of such will have a material effect on the financial position and results of operations of the Company.

In August 2001, the FASB issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. The Company will be required to adopt SFAS No. 144 at the beginning of its 2003 fiscal year. SFAS No. 144 supersedes SFAS 121, but carries over most of its general guidance. The Company is currently reviewing the impact of adoption of SFAS 144, but does not believe the adoption of such will have a material effect on the financial position and results of operations of the Company. However, the provisions of SFAS will be applied to long-lived assets such as the URL.

3. ACCOUNTS RECEIVABLE

The Company provides billing information to third party billing companies for the majority of its monthly billings. Billings submitted are sorted and analyzed for accuracy and completeness ("filtered") 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. The Company entered into a customer billing service agreement with Integretel, Inc. Integretel provides the majority of the Company’s billings, collections, and related services. The net receivable due from Integretel at September 30, 2002 was $3,955,218, including an allowance for doubtful accounts of $1,695,093.

At September 30, 2002, the Company still had certain amounts due from Enhanced Services Billing, Inc. (ESBI). In prior years, ESBI provided billing and collection services very similar to Integretel, discussed above, but was gradually phased out during the year. The receivable due from ESBI at September 30, 2002 of $154,037 has been fully reserved as collectibility of the remaining amount is doubtful.

Subscription receivables that are directly billed by the Company are valued and reported at the estimated future collection amount. Determining the expected collections requires an estimation of both uncollectible accounts and returns and allowances. The net subscriptions receivable at September 30, 2002 was $108,659.

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Gross accounts receivable and the aggregate related allowance was $5,944,422 and $1,869,129 at September 30, 2002. The following allowances on accounts receivable existed at September 30, 2002:

Allowance for doubtful accounts	$ 1,034,899
Allowance for billing company holdbacks	545,608
Allowance for LEC holdbacks	288,622
Total	$ 1,869,129

The Company expensed billing fees to the LEC's and third party billing companies of $1,718,573 and $5,544,906 for the years ended September 30, 2002 and 2001 respectively.

4. INTELLECTUAL PROPERTY

In connection with the Company's acquisition of Telco, the Company was required to provide accelerated payment of license fees for the use of the Internet domain name or Universal Resource Locator (URL) Yellow-page.net. Telco had previously entered into a 20-year license agreement for the use of the URL with one of its two 50% stockholders. The original license agreement required annual payments of $400,000. However, the agreement stated that upon a change in control of Telco, a $5,000,000 accelerated payment is required to maintain the rights under the licensing agreement. The URL holder agreed to discount the accelerated payments from $8,000,000 to $5,000,000 at the time of the acquisition. The Company agreed to make that payment upon effecting the acquisition of Telco.

The Company made a $3,000,000 cash payment and issued a note payable for $2,000,000 to acquire the licensing rights of the URL. The Company also issued 2,000,000 shares of its common stock to be held as collateral on the note. The note payable was originally due on July 15, 1999. The Company failed to make the $2,000,000 payment when due. The repayment terms were renegotiated to extend the due date to January 15, 2000. The Company was required to pay an extension fee of $200,000 at that time. The Company again renegotiated the repayment terms on April 26, 2000, to a demand note, with monthly installments of $100,000, subject to all operating requirements, which, management believes, have subsequently been met by the Company.

In the year ended September 30, 2001, the former URL holder claimed that it was due additional amounts for the prior loan extensions. The Company reached a settlement with the former URL holder that required the Company to issue to the former URL holder, 4,000,000 shares of the Company's common stock, warrants to purchase 500,000 shares of the Company's common stock and a note payable for $550,000. The Company recorded an expense of approximately $917,000 related to the settlement representing the principal amount of the note payable, $360,000 as the fair value of the 4,000,000 common shares and $7,176 as the fair value of the warrants. The value of the common stock was determined on the basis of the quoted trading price of the shares on the date of the agreement. The fair value of the warrants was determined on the using the Black-Scholes option pricing model. 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 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. The URL is amortized on an accelerated basis over the twenty-year term of the licensing agreement. Amortization expense on the URL was $403,232 and $471,667 for the years ended September 30, 2002 and 2001 respectively.

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5. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at September 30, 2002:

Leasehold improvements	$ 332,492
Furnishings and fixtures	108,629
Office and computer equipment	256,588
Total	697,709
Less accumulated depreciation	(423,250)
Property and equipment, net	$ 274,459

The Company has provided certain office equipment and leasehold improvements to an affiliated entity at no cost to that affiliated entity. This arrangement was made as part of the Company's original default settlement with the prior owners of the URL discussed in Note 4. The Company retains title and control of these assets; however, they are not being used by the Company. The net book value of the office equipment and leasehold improvements being utilized by the affiliated entity was approximately $60,000 at September 30, 2002.

6. NOTES PAYABLE AND LINE OF CREDIT

Notes payable at September 30, 2002 are comprised of the following:

Note payable to stockholders, original balance of 2,000,000, interest at 10% per annum. Repayment terms require monthly installments of $100,000 plus interest. Due January 11, 2002. Collateralized by 2,000,000 shares of the Company's common stock. Note was paid off subsequent to September 30, 2002.	$	205,362
Note payable to former Telco stockholders, original balance of $550,000, interest at 10.5% per annum. Repayment terms require monthly installments of principal and interest of $19,045 beginning December 15, 2002. Stated maturity September 25, 2004. Collateralized by all assets of the Company.		115,866
Trade acceptance draft, interest at 12.25% per annum, due November 4, 2002. Collateralized by certain trade accounts receivable.		147,000
		468,228
Less current portion		352,362
Totals	$	115,866

Subsequent to year-end, the Company settled the outstanding amount due on the note payable to stockholder resulting in an immaterial gain on extinguishment.

The note payable to the former Telco stockholders totaled $550,000 at the beginning of the fiscal year. In accordance with instructions that the Company received from said stockholders, the Company has made payments to third parties on behalf of the stockholders and applied those payments as reductions to the note payable. Said stockholders are not a part of management or on the Board of Directors of the Company. Payments on the note were accelerated at the option of the Company. Although the note calls for monthly payments of $19,045, the Company would not be required to make another payment until February 2004 under the original repayment provisions of the note. The full remaining balance of $115,866 is due in the year ended September 30, 2004.

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The trade acceptance draft is effected similarly to factoring accounts receivable. The Company enters into separate financing agreements with the lender for specific accounts receivable.

7. 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 approximately $1,463,000 related to these net operating losses recorded at September 30, 2001, was partially offset by a valuation allowance of approximately $773,000. That valuation allowance was eliminated and recognized as a benefit in the year ended September 30, 2002. Due to these changes, the Company recognized an income tax benefit of approximately $917,000 included as part of the tax benefit 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 years ended September 30, is summarized as follows:

		2002		2001
Current Provision	$	376,582	$	271,878
Deferred Provision		(34,500)		268,556
Net income tax provision	$	342,082	$	540,434

A reconciliation of the differences between the effective and statutory income tax rates for years ended September 30, is as follows:

		2002			2001	
Federal statutory rates	$	1,082,228	34%	$	448,017	34%
State income taxes		222,811	7%		94,275	6%
Utilization of valuation allowance		(773,424)	(43)%		-	-
Change in estimate of NOL due to structuring changes		(143,575)	(4)%		-	-
Other		(45,958)	(1)%		(1,858)	-
Effective rate	$	342,082	(7)%	$	540,434	40%

At September 30, 2002, deferred income tax assets totaling $695,940 were comprised of $494,252, $101,956, and $99,733 related to differences in book and tax bases of accounts receivable, stock based compensation and intangible assets respectively. During the year ended September 30, 2002 the valuation allowance was reduced by approximately $773,000. There was no change in the valuation allowance in the year ended September 30, 2001.

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At September 30, 2002 deferred tax liabilities of $687,127 were comprised of $581,473 and $105,654 related to differences in book and tax bases of customer acquisition costs and property and equipment, respectively.

8. LEASES

The Company leases its office space and certain equipment under long-term operating leases expiring through fiscal year 2005. Rent expense under these leases was $145,052 and $175,464 for the years ended September 30, 2002 and 2001, respectively.

Future minimum annual lease payments under operating lease agreements for years ended September 30 are as follows:

2003	$ 138,015
2004	42,417
2005	28,278
Total	$ 208,710

9. STOCKHOLDERS' EQUITY

Common Stock Issued for Services

The Company has historically granted shares of its common stock to officers, directors and consultants as payment for services rendered. The value of those shares was determined based on the trading value of the stock at the dates on which the agreements were made for the services. During the year ended September 30, 2002, the Company issued 100,000 shares of common stock to officers and directors valued at $9,000. During the year ended September 30, 2001, the Company issued 850,000 shares of common stock to officers, directors and consultants valued at $148,800

Common Stock Issued for Debt Extension

The former holder of the Yellow-page.net. URL made a claim against the Company in the year ended September 30, 2001. The former URL holder claimed that it was owed $1,000,000 that represented a loan extension fee for an extension given in 1999. The Company disputed the claim but ultimately settled with the former URL holder. The settlement agreement required the Company to pay the former URL holder $550,000, 4,000,000 shares of the Company's common stock and warrants for and additional 500,000 shares of the Company's common stock. The Company recorded an expense of approximately $917,000 related to the settlement representing the principal amount of the note payable, $360,000 as the fair value of the 4,000,000 common shares and $7,176 as the fair value of the warrants. The value of the common stock was determined on the basis of the quoted trading price of the shares on the date of the agreement. The fair value of the warrants was determined on the using the Black-Scholes option pricing model.

Series E Convertible Preferred Stock

During the year ended September 30, 2002, the Company created a new series of capital stock, 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.

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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 September 30, 2002, the liquidation preference value of the outstanding Series E Convertible Preferred Stock was $39,552, and dividends totaling $494 had been accrued and paid associated with said shares.

Treasury Stock

During the year ended September 30, 2001, the Company acquired 254,000 shares of its common stock from a single stockholder for $101,600. At September 30, 2002, there were 3,858,500 shares of stock held in treasury.

Other

The Company granted 1,700,000 shares of Series B preferred stock to certain employees during the year ended September 30, 1999. The Series B preferred stock has no stated dividend. The Series B preferred shares were convertible to common stock at the option of the holder. The shares were convertible at varying rates depending upon the trading price of the common stock at the time of conversion. The initial conversion rate was one share of common for each share of preferred. Conversion may not occur until certain "trigger events" occur and all rights with respect to the preferred shares terminate on November 30, 2004. "Trigger events" are defined as trading prices of the Company's common stock reaching or exceeding $5 through $10 per share and net income reaching or exceeding $5,000,000. No value was assigned to the preferred shares in the accompanying balance sheet nor was any compensation expense recognized for the year ended September 30, 2001, because the preferred shares were not exercisable at the time of issuances because of the failure of the Company to meet the "trigger events". Subsequently, management has cancelled the Series B preferred stock and rescinded those issuances and all shares of the Series B preferred stock were returned as of September 30, 2001.

10. COMMITMENTS AND CONTINGENCIES

Telco Billing

The acquisition of Telco by the Company called for the issuance of 17,000,000 new shares of stock in exchange of the existing shares of Telco. As part of that agreement, the Company gave the former shareholders the right to "Put" back to the Company certain shares of stock at a minimum stock price of 80% of the current trading price with a minimum strike price of $1.00. The net effect of which was that each of the former Telco shareholders could require the Company to repurchase shares of stock of the Company at a minimum cost of $10,000,000. The agreement required the Company to attain certain market share levels.

The "Puts" were renegotiated and retired. As part of the renegotiated settlement, the Company provided a credit facility of up to $10,000,000 to each of the former Telco shareholders (Mathew & Markson and Morris & Miller), collateralized by the stock held by these shareholders, with interest at least 0.25 points higher than the Company's average cost of borrowing. Additional covenants warrant that no more that $1,000,000 can be advanced at any point in time and no advances can be made in excess with out allowing at least 30 days operating cash reserves or if the Company is in an uncured default with any of its lenders. The advance agreement has no stipulated expiration date. At September 30, 2002, the Company had advanced $233,073 under this agreement. The interest rate on these advances was 8% at September 30,2002. Based on the requirement for 30 days cash reserve, the Company estimates that the maximum balance that could be drawn under this agreement at September 30, 2002 is approximately $525,000. At September 30, 2002 ,$233,073 was drawn on the advance agreement.

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Billing Service Agreements

The Company has entered into a customer billing service agreement with Integretel, Inc. (IGT). IGT provides billing and collection and related services associated to the telecommunications industry. The agreement term is for two years, automatically renewable in two-year increments unless appropriate notice to terminate is given by either party. The agreement will automatically renew on September 1, 2003, unless either party gives notice of termination 90 days prior to that renewal date. Under the agreement, IGT bills, collects and remits the proceeds to Telco net of reserves for bad debts, billing adjustments, telephone company fees and IGT fees. If either the Company's transaction volume decreases by 25% from the preceding month, less than 75% of the traffic is billable to major telephone companies, IGT may at its own discretion increase the reserves and holdbacks under this agreement. IGT handles all billing information and collection of receivables. The Company's cash receipts on trade accounts receivable are dependent upon estimates pertaining to holdbacks and other factors as determined by IGT. IGT may at its own discretion increase the reserves and holdbacks under this agreement.

The Company has also entered into an agreement with ACI Billing Services, Inc. ACI provides billing and collection and related services associated to the telecommunications industry.

These agreements with the billing companies provide significant control to the billing companies over cash receipts and ultimate remittances to the Company. The Company estimates the net realizable value of its accounts receivable on historical experience and information provided by the billing companies reflecting holdbacks and reserves taken by the billing companies and LEC's.

United States Federal Trade Commission (FTC)

The Company was a subject of an FTC investigation pertaining to claims made of deceptive marketing practices. The Company has reached an agreement with the FTC requiring the Company to make certain changes to mailing and promotional materials and notify certain customers that a refund of past paid service fees is available. The settlement requires the Company to notify approximately 11,000 customers. Each of those customers may receive a refund of up to $12.50. At September 30, 2001, the Company accrued $45,413 which was paid in the year ended September 30, 2002. Management does not believe that there will be any additional material refunds. The Company may also be required to pay certain expenses incurred in the FTC investigation. The Company intends to contest payment of these expenses but believes that if such is a requirement of any final settlement with the FTC, the amount could range from $50,000 to $70,000.

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11. NET INCOME PER SHARE

Net loss per share is calculated using the weighted average number of shares of common stock outstanding during the year. Preferred stock dividends are subtracted from the net income to determine the amount available to common shareholders. There were $494 and $ 0 preferred stock dividends in the years ended September 30, 2002 and 2001, respectively. Warrants to purchase 500,000 shares of common stock were excluded from the calculation for the year ended September 30, 2002. 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:

	2002			2001		
	Income	Shares	Per Share	Income	Shares	Per share
Net Income	$ 2,840,731			$ 777,264		
Preferred stock dividends	(494)			-		
Income available to common Stockholders	$ 2,840,237			$ 777,264		
BASIC EARNINGS PER SHARE:						
Income available to common stockholders	$ 2,840,237	44,024,329	$ 0.06	$ 777,264	40,738,839	$ 0.02
Effect of dilutive securities	N/A	N/A		N/A	N/A	
DILUTED EARNINGS PER SHARE	$ 2,840,237	44,024,329	$ 0.06	$ 777,264	40,738,839	$ 0.02

12. RELATED PARTY TRANSACTIONS

During the years ended September 30, 2002 and 2001, the Company entered into the related party transactions with Board members, officers and affiliated entities as described below:

Directors & Officers

Board of Director fees for the years ended September 30, 2002 and 2001 were $101,120 and $45,000 respectively. The Company also paid entities owned or controlled by certain board members $147,625 and $147,000 in 2002 and 2001, respectively, for consulting services other than routine Board duties. At September 30, 2002, $40,000 of the 2002 amount was accrued but unpaid. The Company also granted 100,000 shares of common stock to certain directors as part of their Board of Director fees for the year ended September 30, 2002. During the year ended September 30, 2002, the Company made loans to its Chief Executive Officer and its Chief Financial Officer. The Board of Directors approved the loans as part of the officers' respective compensation packages. The loans carried an 8% interest rate and were collateralized by shares of Company common stock owned by the officers' valued at the greater of $1.00 per share or the current market price of the shares. The loans to the CEO and CFO totaled approximately $200,000 and $17,000 respectively. At September 30, 2002, the loan to the CEO was repaid and a bonus of a similar amount was paid. In May 2002, the CFO resigned. The Company believes the value of the collateral may not be sufficient to cover the outstanding loan balance. Thus, the Company has fully reserved the balance due on the loan.

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At September 30, 2002, the Company had advanced $15,000 to its CEO related to his fiscal 2003 compensation and recorded a corresponding receivable. This amount will be amortized to compensation expense during the 2003 fiscal year. During the year ended September 30, 2001, the Company paid an entity controlled by its CEO approximately $158,000 for consulting services. During the years ended September 30, 2002 and 2001, the Company paid approximately $70,000 and $67,000, respectively, to an entity owned by its former CFO for other professional services. During the year ended September 30, 2002, the Company paid approximately $27,000 to an entity owned by its former COO for certain consulting services he provided to the Company subsequent to his June 2002 termination of employment.

Simple.Net, Inc. ("SN")

The Company has contracted with Simple.Net, Inc. ("SN"), an internet service provider owned by a director of the Company, to provide internet dial-up and other services to its customers. SN has sold said services to the Company at below market rate prices from time to time. During the years ended September 30, 2002 and 2001, the Company paid SN approximately $55,000 and $68,000, respectively for said services. At September 30, 2002, $40,963 due SN was accrued in accounts payable.

In addition, SN pays a monthly fee to the Company for technical support and customer service provided to SN's customers by the Company's employees. The Company charges SN for these services according to a per customer pricing formula:

Customer Service & Management Agreement fees are calculated by number of customer records of SN multiplied by a base cost of $1.02. Technical Support fees are calculated by number of customer records of SN multiplied by a base cost of 60 cents.

For the years ended September 30, 2002 and 2001, the Company recorded revenues of approximately $300,901 and $22,813, respectively, from SN for these services.

Prior to July 2002, the Company provided accounting functions to SN for a $2,500 monthly fee. This arrangement was canceled in July 2002. The principal stockholders of the Company have provided significant financing to SN in the form of interest bearing loans. Said stockholders are not involved in the management of or represented on the boards of the Company or SN.

Commercial Finance Services d/b/a/ HR Management ("CFS")

The Company leases its employees from Commercial Finance Services, Inc. d/b/a HR Management (CFS). CFS provides factoring and financing services as well as act as a professional employer organization ("PEO") for small to mid-sized companies. CFS does not provide any services to the Company, other than those of a PEO. The majority of the Company's payroll is paid via CFS. This arrangement allows the Company to offer additional employee benefits by sharing those costs with other clients of CFS. The Company pays CFS a monthly fee of $2,800 for payroll and benefit administration. The majority owner of CFS is Central Account Services, Inc.(CAS). CAS is partially owned by the Company's primary legal counsel (3% ownership) and its former CFO (4% ownership). The remaining ownership of CAS is unrelated to the Company. The principal stockholders of the Company have provided significant financing to CFS in the form of an interest bearing loan. Said stockholders are not involved in the management of or represented on the boards of the Company or SN.

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Business Executive Services, Inc.

The Company has contracted with Business Executive Services, Inc. ("BESI"), an entity affiliated through certain common management, for processing of direct mail solicitation, welcome letters, and other customer communications. BESI subleases a portion of the Company's office space. The Company pays a base fee of $15,750 per month plus a fee based on a per mail piece price of $0.015 based on the number of mail pieces prepared and sent. The floor amount is adjusted quarterly. During the year ended September 30, 2002, the Company paid $176,149 to BESI related to this agreement.

A director (Greg Crane) of the Company was employed, through an employee leasing arrangement, by BESI and received a salary of approximately $2,000 per month from BESI and bonuses in an undetermined amount. Mr. Crane is no longer employed by BESI. BESI has no ownership in the Company. The Company paid BESI $90,000 under this arrangement.

Advertising Management & Consulting Services, Inc.

Advertising Management& Consulting Services Inc. ("AMCS"), is a marketing and advertising company experienced in designing Direct Marketing Pieces, insuring compliance with regulatory authorities for those pieces and designing new products that can be mass marketed through the mail. AMCS' president is a director of the Company.

The Company outsources the design and testing of its many direct mail pieces to AMCS for a monthly fee of $20,000 per month. AMS is also solely responsible for the new products that have been added to the Company's website and is working on new mass-market products to offer the Company's customers.

Other

As part of the Company's original default settlement with the prior owners of the URL discussed in Note 4, the Company has provided certain equipment and improvements to an affiliated entity at no cost to that affiliated entity. The Company retains title and control of these assets. However, the assets are not being utilized by the Company. The net book value of the office equipment and leasehold improvements being utilized by the affiliated entity was approximately $60,000 at September 30, 2002. The Company is also providing office space to this entity for substantially below market rental rates. This entity is affiliated through commonality of certain management members.

Advances to affiliates are summarized as follows at September 30, 2002:

Sunbelt Financial	$ 197,640
The Thompson Group	16,899
Mathew & Markson	233,073
Total	447,612
Less allowance	(214,539)
Total	$ 233,073

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13. CONCENTRATION OF CREDIT RISK

The Company maintains cash balances at banks in Arizona. Accounts are insured by the Federal Deposit Insurance Corporation up to $100,000. At September 30, 2002, the Company had bank balances exceeding those insured limits of $580,000.

Financial instruments that potentially subject the Company to concentrations of credit risk are primarily trade accounts receivable. The trade accounts receivable are due primarily from business customers over widespread geographical locations within the LEC billing areas across the United States. The Company historically has experienced significant dilution and customer credits due to billing difficulties and uncollectible trade accounts receivable. The Company estimates and provides an allowance for uncollectible accounts receivable. The handling and processing of cash receipts pertaining to trade accounts receivable is maintained primarily by a single third party billing company. The Company is dependent upon this billing company for collection of its accounts receivable.

14. STOCK BASED COMPENSATION

From time to time, the Company issues stock options to executives, key employees and members of the Board of Directors. The Company has adopted the disclosure-only provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation," and continues to account for stock based compensation using the intrinsic value method prescribed by Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees". Accordingly, no compensation cost has been recognized for stock options granted to employees. There were no options granted in the years ended September 30, 2002 and 2001 nor was there any additional vesting of options previously granted.

During the year ended September 30, 2002, the Company’s shareholders approved the 2002 Employees, Officers & Directors Stock Option Plan (the 2002 Plan). Under the 2002 Plan, the total number of shares of common stock that may be granted is 3,000,000. The Plan provides that shares granted come from the Corporation’s authorized but unissued common stock. The price of the options granted under this plan shall not be less than 100% of the fair market value, or in the case of a grant to a principal shareholder, not less than 110% of the fair market value of such common shares at the date of grant. The options expire 10 years from the date of grant. At September 30, 2002, no stock options had been granted under the 2002 Plan. Under the Employee Incentive Stock Option Plan approved by the stockholders in 1998, the total number of shares of common stock that may be granted is 1,500,000. The plan provides that shares granted come from the Corporation’s authorized but unissued common stock. The price of the options granted pursuant to this plan shall not be less than 100 percent of the fair market value of the shares on the date of grant. The options expire from five to ten years from date of grant. At September 30, 2002, the Company had granted an aggregate of 1,212,000 options under this plan, all of which had expired as of September 30, 2001.

In addition to the Employee Incentive Stock Option Plan, the Company will occasionally grant options to consultants and members of the board of directors under specific stock option agreements. There were no such options granted in the years ended September 30, 2002 and 2001.

At September 30, 2002, there were no options exercisable or outstanding. No options were granted in the years ended September 30, 2002 and 2001. The Company has issued warrants in connection with certain debt and equity transactions. Warrants outstanding are summarized as follows:

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	2002		2001	
		Weighted Average Exercise Price		Weighted Average Exercise Price
Warrants outstanding at beginning of year	500,000	$ 2.12	350,000	$ 2.00
Granted	-0-		500,000	$ 2.12
Expired	-0-		(350,000)	$ 2.00
Exercised	-0-		-0-	
Outstanding at September 30,	500,000	$ 2.12	500,000	$ 2.12

The warrants granted in the year ended September 30, 2001 were issued in connection with the settlement with the former URL holder (NOTE 4). The exercise prices of the warrants range from $1.00 to $3.00. The fair values of these warrants were estimated at the date of grant using the Black-Scholes option-pricing model with the following assumptions:

Dividend yield	None
Volatility	0.491
Risk free interest rate	4.18%
Expected asset life	2.5 years

The 500,000 warrants outstanding at September 30, 2002, expire in September 2006.

15. EMPLOYEE BENEFIT PLAN

The Company maintains a 401(k) profit sharing plan for its employees. Employees are eligible to participate in the plan upon reaching age 21 and completion of three months of service. The Company made contributions of $3,400 and $2,300 to the plan for the years ended September 30, 2002 and 2001.

16. OTHER INCOME

Other income for the year ended September 30, 2002, includes a gain of $267,000 related to the rescission of a consulting contract that was entered into in a prior year (NOTE 9). Also, included is a gain of $130,000, net of legal costs, resulting from the settlement of a dispute with one of the Company's former billing companies.

17. QUARTERLY FINANCIAL DATA (UNAUDITED)

Subsequent to filing the interim financial statements included on Form 10-QSB for the periods ending December 31, 2000, March 31, 2001, June 30, 2001, December 31, 2001, March 31, 2002, and June 30, 2002, the Company has changed its accounting treatment of shares issued to non-performing consultants. The previously filed interim statements reflected an expense upon issuance of the shares and a reversal of this expense when it was deemed (through a settlement agreement or judgment) that these shares would be returned. However, after further analysis and consultation with the Securities and Exchange Commission, it was determined to be inappropriate to recognize the initial expense and its subsequent reversal as no services were rendered by these consultants. Instead, the issuance of these shares will be reflected as temporary equity, together with a related receivable, until the shares were returned. Such treatment is described in Note 2.

The following table sets forth the impact of this change on the following three month periods:

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	Quarter Ended			
	December 31, 2001	**March 30, 2002**	**June 30, 2002**	**September 30, 2002**
Quarterly Data Per 10-Q Filings				
Net revenues	$ 2,992,993	$ 2,839,438	$ 3,416,953	na
Gross profit	1,808,716	2,106,037	2,248,557	na
Net income	306,349	620,288	798,742	na
Earnings per share information:				
Basic	$ 0.01	$ 0.01	$ 0.02	na
Diluted	$ 0.01	$ 0.01	$ 0.02	na
Revised Quarterly Data				
Net revenues	$ 2,992,993	$ 2,839,438	$ 3,416,953	$ 3,368,742
Gross profit	1,808,716	2,106,036	2,248,557	2,957,139
Net income	306,349	620,286	640,728	1,273,369
Earnings per share information:				
Basic	$ 0.01	$ 0.01	$ 0.01	$ 0.03
Diluted	$ 0.01	$ 0.01	$ 0.01	$ 0.03

	Quarter Ended			
	December 31, 2000	**March 30, 2001**	**June 30, 2001**	**September 30, 2001**
Quarterly Data Per 10-Q Filings				
Net revenues	$ 4,526,623	$ 4,138,223	$ 4,033,088	na
Gross profit	1,640,271	1,697,869	1,548,103	na
Net income	518,396	578,984	428,852	na
Earnings per share information:				
Basic	$ 0.01	$ 0.01	$ 0.01	na
Diluted	$ 0.01	$ 0.01	$ 0.01	na
Revised Quarterly Data				
Net revenues	$ 4,526,623	$ 4,138,223	$ 4,033,088	$ 804,032
Gross profit	1,640,271	1,697,869	1,548,103	2,465,638
Net income	452,396	343,817	428,852	(447,801)
Earnings per share information:				
Basic	$ 0.01	$ 0.01	$ 0.01	$ (0.01)
Diluted	$ 0.01	$ 0.01	$ 0.01	$ (0.01)

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PART III

ITEM 13. EXHIBITS

The following exhibits are attached hereto.

Exhibit Number	Description
23	Consent of Epstein, Weber and Conover P.L.C
31	Certification pursuant to SEC Release No. 33-8238, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: November 30, 2005

/s/ Peter J. Bergmann
Peter J. Bergmann, Chief Executive Officer