YP CORP
Form 10KSB/A
December 01, 2005

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

FORM 10-KSB/A
(Amendment No. 1)

(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, 2001

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.NET, INC.
(Name of Small Business Issuer in its Charter)

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

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 o No x.

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 $15,084,917.

The aggregate market value of the common stock held by non-affiliates computed based on the closing price of such stock on November 23, 2001 was approximately $3,110,714.

The number of shares outstanding of the registrant's classes of common stock, as of November 23, 2001 was 43,813,680.

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, 2001, as originally filed by YP Corp. on December 31, 2001 (the "Original Filing"), 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

This Form 10-KSB, including documents incorporated herein by reference, contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements include, but are not limited to, projections of revenues, income or loss, capital expenditures, acquisitions, plans for future operations, financing needs or plans, the impact of economic and business factors and plans relating to our products or services, as well as assumptions relating to the foregoing. The words "believe," "expect," "estimate," "anticipate," "may," and "project" and similar expressions generally identify forward-looking statements. Forward-looking statements are inherently subject to risks and uncertainties, some of which cannot be predicted or quantified. Future events and actual results could differ materially from those set forth in, contemplated by, or underlying our forward-looking statements. Statements in this Form 10-KSB, including those set forth in "Risk Factors," as well as statements incorporated by reference herein that are included in "Business," and other sections of this Annual Report on Form 10-KSB describing factors, among others, that could contribute to or cause such difference.

Although we believe that the assumptions underlying the forward-looking statements in this Form 10-KSB are reasonable, any of these assumptions could prove inaccurate. In addition, our business and operations are subject to substantial risks, some of which are identified in this report and which increase the uncertainties inherent in the forward-looking statements included in this Form 10-KSB. There can be no assurance that the results contemplated in these forward-looking statements will be realized.

The inclusion of forward-looking information should not be regarded as a representation by us or any other person that the future events, plans or expectations contemplated will be achieved. We disclaim any obligation to subsequently revise forward-looking statements to reflect subsequent events or circumstances or the occurrence of unanticipated events.

OVERVIEW

We provide Internet-based yellow page listing services on our Yellow-Page.Net and yp.net websites. We acquired Telco 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 listing service. Our websites serve as a search engine for yellow page listings in the United States and Canada. We charge our customers for a preferred listing of their businesses on searches conducted by consumers on our websites.

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.

RESULTS OF OPERATIONS

Fiscal Year End September 30, 2001 Compared to Fiscal Year End September 30, 2000.

Revenue for the year ended September 30, 2001 ("Fiscal 2001") was $13,501,966 compared to $15,836,422 for the year ended September 30, 2000 ("Fiscal 2000"). Our revenue decreased primarily due to the application of Staff Accounting Bulletin #101 ("SAB 101") to our subscription revenue. Under SAB #101, revenue generally is realized or realizable and earned when all of the following criteria are met:

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1. Pervasive evidence of an arrangement exits
2. Delivery has occurred or services have been rendered
3. The seller's price to the buyer is fixed or determinable AND
4. Collectibility is reasonably assured.

In regards to the subscription/direct invoice gross revenue, and at the recommendation of our auditor we believed that SAB #101 applies and there should be impairment to gross revenue since we meet all the criteria except item #4. The collectibility of subscription revenue, in the past, has been between 7% - 13% and we have recorded an allowance for bad debt to reflect the bad debt as required. Therefore this year our gross revenue for subscription revenues has been reduced by $1,900,000 in compliance with SAB #101.

Presently, our new operations department has reevaluated and re-filtered our subscription customers and we have experienced increases in cash collected from the invoice billings. Progressing forward through the year, we expect a higher collection of subscription receivable since new procedures and processes have been implemented in operations.

We utilize direct mailings as our primary marketing program and this program generates our principal revenue of the Company. Our subscribing customers increased to 114,409 at December 31, 1999, 129,457 at March 31, 2000, 143,292 at June 30, 2000 and 130,592 at September 30, 2000, a 21% increase for the fiscal year. Our subscribing customers decreased to 123,408 at December 31, 2000, 103,187 at March 31, 2001, 99,862 at June 30, 2001 and 91,348 at September 30, 2001. The decrease in our customers for Fiscal 2001 is primarily due to management's decision to stop all direct mail marketing efforts until we had entered into a final settlement agreement with the FTC. In August 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.

Sales and marketing expenses for Fiscal 2001 was $688,349 compared to $1,619,113 for Fiscal 2000. The decrease was principally the result of our decreased or ceasing of all marketing efforts. The marketing expenses are attributed to our direct response marketing, which is our primary source of attracting new customers. The decrease in our marketing expenses for Fiscal 2001 is primarily due to management's decision 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.

General and administrative expenses for Fiscal 2001 were $3,987,040 compared to $5,392,860 for Fiscal 2000, due primarily to the application of SAB #101 discussed above, causing a reduction in bad debt expense of approximately $1.3 million in Fiscal 2001.

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 $447,087 for the year ended September 30, 2001. Annual amortization expense in future years related to the URL is anticipated to be approximately $300,000.

Interest expense for Fiscal 2001 was $571,248 compared to $853,761 for Fiscal 2000. The decrease in interest expense was a result of decreased debt due to the acquisition of Telco and the acquisition of the URL Yellow-Page.Net. The reduction in interest expense is also related to the payoff of Finovia Financial credit facility in June 2001.

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During Fiscal 2001, we have no available federal net operating loss carryforwards relating to Telco and federal net operating loss carryforwards of $4,021,753 relating to YP.Net. During Fiscal 2001, we had no state net operating loss carryforwards relating to Telco and state net operating loss carryforwards of $1,967,691 relating to YP.Net. Separate return limitations may limit our abilities to utilize these net operating loss carryforwards.

Net profits for Fiscal 2001 were $777,264, or $.02 per share, compared to $3,436,127, or $.09 per share for Fiscal 2000.

LIQUIDITY AND CAPITAL RESOURCES

Our cash balance increased to $683,847 for Fiscal 2001 from a $219,613 for Fiscal 2000. We funded working capital requirements primarily from cash generated from financing activities and utilized cash in operating activities and investing activities and the reduction of debt. We have no credit facility with Finovia Financial as that debt was paid off in June 2001.

Operating Activities. Cash provided by operating activities was $3,880,158 for Fiscal 2001 compared to $960,303 for Fiscal 2000. The principal source of our operations revenue is from sales of electronic yellow page advertising.

Investing Activities. Cash used by investing activities was $165,672 for Fiscal 2001 compared to $211,803 for Fiscal 2000. We purchased $28,520 of computer equipment in Fiscal 2001 compared to $211,803 of additional computer equipment to upgrade and replace incompatible equipment for Fiscal 2000. In Fiscal 2001 we advanced $137,152 to an affiliate and the note was repaid in full in October 2001.

Financing Activities. Cash flows used from financing activities were $3,250,252 for Fiscal 2001 compared to $784,211 for Fiscal 2000. We had cash outflow from the repaid our credit facility and Matthew Markson Ltd. of $3,199,452 for Fiscal 2001 compared to $1,657,781 for Fiscal 2000. We purchased treasury stock in the amount of $50,800 for Fiscal 2001. We had cash inflow from the financing arrangements in the amount of $789,241 for Fiscal 2000 and we realized inflow from the sale of common stock of $84,329 for Fiscal 2000.

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 and $2,000,000 as a carry-back from Matthew & Markson Ltd. Management has dedicated payments in the amount of $100,000 per month for the payment of the VanSickle note. Management has 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. 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.

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 eight months. The amortization lives are based on estimated attrition rates. During Fiscal 2001 we paid $3,781,485 in advertising and marketing compared to $3,206,576 in Fiscal 2000. Management anticipates the outlays for direct-response advertising to remain consistent over the next year.

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We do not intend to incur significant capital expenditures in the near future.

FUTURE OUTLOOK

For fiscal year 2002 we expect to continue our customer direct response program whereby we contact our existing customers for their many mini-web-page 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 Simple. Net, Inc. to provide both customer and technical services. Simple.Net is an Internet service provider ("ISP") that currently operates with us in a joint venture capacity.

We have offered our customers a dial-up ISP and are currently gaining customers weekly. Our dial-up ISP backbone provider is Level 3 and is providing a Tier 1 network that will ultimately provide the dial-up service for YP.net dial-up customers and Simple. Net, Inc. through our joint venture arrangement. 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.

We have entered into a billing agreement with OAN Billing, Inc. ("OAN"). This contract will provide us with another billing integrator that will allow us to broaden our billing area among all LECs. OAN is a reputable billing company that will provide us more flexibility and will reduce our concentration of billing risk with billing integrators.

We have entered into a credit card processing agreement with Bank of American. This agreement will provide us with the ability to expeditiously process our subscription invoices on a recurring basis. That is we will be able to process monthly billing in a recurring batch by this method we will be able to have a higher collection of our subscription revenue.

We have filed a preliminary 14-C information statement to increase our authorized common stock and create Class B and Class C preferred shares. We intend to offer our shareholders class B and C preferred shares. The preferred offer was at the request of our shareholders that were looking for an avenue to receive income rather than waiting for the gains in equity. "See item 4, Submission of Matter to Vote to Security Holders" Having received no comments back from the SEC to our Preliminary 14-C Information Statement, management will file a 14-C definitive statement and do a formal offering. See our Form 14-C filed with the SEC on November 1, 2001

Management believes that the future of this company will be based on its ability to market business services to its proprietary business customer base. We are actively seeking potential acquisitions and mergers to broaden our services offered to our customer base. We are presently seeking companies that will provide a diversified revenue stream with a strong revenue model that will provide more services to our existing customers. Management believes its strong financial controls and operating philosophy will help generate profits from its future acquisitions for the benefit of its shareholders.

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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 as well as the fact that we have not been performing our direct marketing at this time. 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.

We expect to make Future Acquisitions where Advisable and Acquisitions involve Numerous Risks: The Internet business is highly competitive, and as such, our growth is dependent upon market growth, our ability to enhance our existing products and our ability to introduce new products on a timely basis. One of the ways we will address the need to develop new products through the acquisition of other companies. Acquisitions involve numerous risks, including difficulties in integrating the operations, technologies, and products of the acquired companies; the risk of diverting management's attention from normal daily operations of the business; risks of entering markets in which we have no or limited direct prior experience and where competitors in such markets have stronger market positions; insufficient revenue to offset increased expenses associated with acquisitions; and the potential loss of key employees of the acquired companies. Mergers and acquisitions of high-technology companies are inherently risky, and there is no assurance that our previous or future acquisitions will be successful and not have a material adverse affect on our business, operating results, or financial condition. We must also manage any growth effectively. Failure to manage growth effectively and successfully integrate acquisitions we may make could have a material adverse effect on our business and operating results.

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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, 2001 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, 2001, and the consolidated results of its operations and cash flows for each of the two years in the period ended September 30, 2001, in conformity with accounting principles generally accepted in the United States of America.

As described Note 1, the Company restated its financial statements for the years ended September 30, 2001 and 2000.

/s/ Epstein, Weber & Conover, PLC
Scottsdale, Arizona
December 20, 2001
(except for the restatement of financial statements
described in Note 1, for which the date in November 18, 2005)

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YP.NET, INC.

CONSOLIDATED BALANCE SHEET
SEPTEMBER 30, 2001

ASSETS:		
CURRENT ASSETS		
Cash	$	683,847
Accounts receivable, net of allowance of $1,035,993		2,870,109
Customer acquisition costs, net of accumulated amortization of $3,588,242		
Prepaid expenses and other assets		20,169
Deferred income taxes		414,397
Total current assets		4,181,766
PROPERTY AND EQUIPMENT, net		374,885
DEPOSITS		23,287
INTELLECTUAL PROPERTY- URL, net of accumulated amortization of $1,077,916		3,932,084
ADVANCES TO AFFILIATE		116,316
DEFERRED INCOME TAXES		672,574
RECEIVABLE - COMMON STOCK TO BE RETURNED		115,978
TOTAL ASSETS	$	9,416,890
LIABILITIES AND STOCKHOLDERS' EQUITY:		
CURRENT LIABILITIES:		
Accounts payable	$	314,904
Accrued liabilities		76,234
Notes payable - current portion		888,236
Income taxes payable		1,222,318
Total current liabilities		2,501,692
NOTES PAYABLE - long term portion		410,669
Total liabilities		2,912,361
TEMPORARY EQUITY - Common stock to be returned, 82,500 shares issued and outstanding		115,978
STOCKHOLDERS' EQUITY:		
Common stock, $.001 par value, 50,000,000 shares authorized, 43,885,464 issued and outstanding		43,886
Paid in capital		4,592,525
Treasury stock at cost		(171,422)
Retained earnings		1,923,562
Total stockholders' equity		6,388,551
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$	9,416,890

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, 2001 AND SEPTEMBER 30, 2000

	2001	2000
NET REVENUES	$ 13,501,966	$ 15,836,422
OPERATING EXPENSES:		
Cost of services	6,150,085	5,234,906
General and administrative expenses	3,987,040	4,804,710
Sales and marketing expenses	688,349	1,619,113
Franchising expense		
Depreciation and amortization	603,426	616,660
Total operating expenses	11,428,900	12,275,539
OPERATING INCOME	2,073,066	3,561,033
OTHER (INCOME) AND EXPENSES		
Interest expense and other financing costs	571,248	853,761
Interest income	(7,342)	(802)
Other Income	191,462	(82,846)
Total other expense	755,368	770,113
INCOME BEFORE INCOME TAXES	1,317,698	2,790,920
INCOME TAX PROVISION (BENEFIT)	540,434	(645,207)
NET INCOME	$ 777,264	$ 3,436,127
NET INCOME PER SHARE:		
Basic	$ 0.02	$ 0.09
Diluted	$ 0.02	$ 0.09
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:		
Basic	40,738,839	40,120,829
Diluted	40,738,839	40,120,829

The accompanying notes are an integral part of these consolidated financial statements. Per share amounts may not total due to rounding of individual components.

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YP.NET, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY FOR THE
YEARS ENDED SEPTEMBER 30, 2001 AND SEPTEMBER 30, 2000

	COMMON STOCK		PREFERRED A		TREASURY	PAID-IN	ACCUMULATED	
	SHARES	AMOUNT	SHARES	AMOUNT	STOCK	CAPITAL	DEFICIT	TOTAL
BALANCE OCTOBER 1, 1999	38,231,853	$ 38,232	1,700,000	$ 1,700	$ (69,822)	$ 3,792,374	$ (2,289,829)	$ 1,472,655
Common stock issued for exercised options	53,611	54				84,275		84,329
Common stock issued as board of directors' fees	550,000	550				114,950		115,500
Common stock issued to former officer to convert preferred shares and as final compensation settlement	200,000	200	(200,000)	(200)		89,800		89,800
Net income							3,436,127	3,436,127
BALANCE SEPTEMBER 30, 2000	39,035,464	$ 39,036	1,500,000	$ 1,500	$ (69,822)	$ 4,081,399	$ 1,146,298	$ 5,198,411

(CONTINUED)

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, 2001 AND SEPTEMBER 30, 2000 (CONTINUED)

	COMMON STOCK SHARES	COMMON STOCK AMOUNT	PREFERRED A SHARES	PREFERRED A AMOUNT	TREASURY STOCK	PAID-IN CAPITAL	ACCUMULATED DEFICIT	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	$ 43,885	-	$ -	$ (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 CASH FLOWS FOR THE
YEARS ENDED SEPTEMBER 30, 2001 AND SEPTEMBER 30, 2000

CASH FLOWS FROM OPERATING ACTIVITIES:	2001	2000
Net income	$ 777,264	$ 3,436,127
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	156,343	144,993
Issuance of common stock as compensation for services	148,800	205,300
Penalties related to acquisition debt paid by issuance of debt, warrants and stock	917,967	-
Deferred income taxes	(421,457)	(645,207)
Provision for uncollectible accounts	(760,859)	1,590,840
Amortization of intellectual property	447,083	471,667
Changes in assets and liabilities:		
Trade and other accounts receivable	1,617,467	(4,345,544)
Customer acquisition costs	37,654	403,002
Other receivables	-	77,182
Prepaid and other current assets	79,060	39,621
Other assets	(11,500)	-
Accounts payable	161,089	48,014
Accrued liabilities	(251,894)	(243,432)
Deferred Financing Costs	21,250	102,500
Income taxes payable	961,891	-
Deferred revenue	-	(324,760)
Net cash provided by operating activities	3,880,158	960,303
CASH FLOWS FROM INVESTING ACTIVITIES:		
Advances made to affiliate	(137,152)	-
Purchases of equipment	(28,520)	(211,803)
Net cash (used in) investing activities	(165,672)	(211,803)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal repayments on borrowings from line of credit	(1,577,547)	789,241
Principal repayments on notes payable	(1,621,905)	(1,657,781)
Purchase of treasury stock	(50,800)	
Proceeds from sale of common stock	-	84,329
Net cash (used)/provided by financing activities	(3,250,252)	(784,211)
(DECREASE)/INCREASE IN CASH	464,234	(35,711)
CASH, BEGINNING OF YEAR	219,613	255,324
CASH, END OF YEAR	$ 683,847	$ 219,613

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, 2001 AND 2000

SUPPLEMENTAL CASH FLOW INFORMATION:

		2001		2000
Interest Paid	$	421,013	$	833,993
Income taxes paid	$	-0-	$	-0-

SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES:

		2001		2000
Note payable issued in payment of debt extension fee	$	550,791	$	-0-
Value of common stock issued as payment of debt extension fee	$	360,000	$	-0-
Liability incurred for purchase of treasury stock	$	50,800	$	-0-

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, 2001 AND 2000

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 all business 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. Accordingly, the historical financial statements have been restated after giving effect to the June 16, 1999, acquisition of the Company. The financial statements have been prepared to give retroactive effect to October 1, 1998, of the reverse acquisition completed on June 16, 1999, and represent the operations of Telco. Consistent with reverse acquisition accounting: (i) all of Telco's assets, liabilities, and accumulated deficit, are reflected at their combined historical cost (as the accounting acquirer) and (ii) the preexisting outstanding shares of the Company (the accounting acquiree) are 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 includes the accounts and results of operations of the Company and Telco, its wholly owned subsidiary, for the years ended September 30, 2001 and September 30, 2000.

Restatement of Financial Statements

Subsequent to the issuance of the Company's financial statements as of September 30, 2001, 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, 2001 of a decrease in net income of $1,035,017 from $1,812,281 to $777,264 and a decrease in the net income per share from per share from $0.04 to $0.02. The change in accounting had no effect on cash flows or on the net equity at September 30, 2001.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash 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, 2001, cash deposits exceeded those insured limits by $580,000.

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.

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Customer acquisition 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 eight months. The amortization lives are based on estimated attrition rates. The Company capitalized expenditures of $575,000 and $1,177,000 during the years ended September 30, 2001 and 2000 respectively. The Company amortized those capitalized amounts at $613,000 and $1,580,000 during the years ended September 30, 2001 and 2000 respectively.

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 $75,000 and $30,000 for the years ended September 30, 2001 and 2000 respectively.

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 $156,343 and $144,993 for the years ended September 30, 2001 and 2000 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 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.

Revenue for billings to certain customers whom are billed directly by the Company and not through the LEC's, is recognized on the basis of cash received due to poor experience associated with the collection of such billings. The Company recognizes revenue on these billings on estimated future collections which are determined on the basis of historical collections.

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 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.

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.

Recently Issued Accounting Pronouncements: In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin ("SAB") No. 101, Revenue Recognition in Financial Statements. SAB No. 101 summarizes the staff's views in applying generally accepted accounting principles to revenue recognition in financial statements. Management believes that the Company's revenue recognition policies have complied with those prescribed in SAB 101 and therefore, the adoption of SAB No. 101 did not have a material effect on the Company's revenues or revenue recognition policy. In June 2001, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards No.'s 141 Business Combinations and 142 Goodwill and Other Intangible Assets. The Company has reviewed the provisions of the new accounting pronouncements and 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 Company will likely be required to review its process of analyzing the carrying value of its intangible assets.

Impairment of long-lived assets is assessed by the Company for impairment whenever there is an indication that the carrying amount of the asset may not be recoverable. Recoverability of these assets is determined by comparing the forecasted undiscounted cash flows generated by those assets to the assets' net carrying value. The amount of impairment loss, if any, is measured as the difference between the net book value of the assets and the estimated fair value of the related assets.

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3. ACCOUNTS RECEIVABLE

The Company provides billing information to third party billing companies for the majority of its monthly billings. Billings submitted are "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 for 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 historical experience and subsequent information received from the billing companies. The Company estimates uncollectible account balances and provides an allowance for such estimates.

The Company entered into a customer billing service agreement with Integretel, Inc. Integretel provides billing and collection and related services. Determining the net realizable value requires an estimation of both uncollectible receivables or any returns and allowances. The trade receivable due from Integretel at September 30, 2001 was $2,126,219. These receivables have been reduced by an allowance for doubtful accounts of $637,866.

The Company also entered into a customer billing service agreement with Enhanced Services Billing, Inc. (ESBI). ESBI provides billing and collection and related services very similar to Integretel discussed above. Determining the net realizable value requires an estimation of both uncollectible receivables or any returns and allowances. The trade receivable due from ESBI at September 30, 2001 was $1,146,644 less aggregated amounts for telco fees, and reserve holdbacks based on dilution. This trade receivable has been reduced by an allowance for doubtful accounts of $298,127.

Trade subscription receivables, which are directly administered and carried by the Company, are valued and reported at net realizable value, the net amount expected to be received. This amount may or may not be necessarily the amount received. Determining the net realizable value requires an estimation of both uncollectible accounts or any returns and allowances. The net trade subscriptions receivable at September 30, 2001 was $395,000. The Company experiences significant dilution from 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 can be affected by holdbacks, fees and other matters that are determined by the LEC’s and the billing companies.

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.

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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. An extension fee of $200,000 was paid by the Company 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 substantiates the net book value of the asset. The Company will periodically analyze the net book value of this asset and determine if impairment has occurred. The URL is amortized on an accelerated basis over the twenty-year term of the licensing agreement. Amortization expense on the URL was $447,083 and $471,667 for the years ended September 30, 2001 and 2000 respectively.

5. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at September 30, 2001:

Leasehold improvements	$	319,150
Furnishings and fixtures		197,261
Office and computer equipment		275,364
Total		791,775
Less accumulated depreciation		(416,889)
Property and equipment, net	$	374,886

The Company has provided certain equipment and 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 utilized by the Company. The net book value of the office equipment and leasehold improvements being utilized by the affiliated entity was approximately $136,000 at September 30, 2001.

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6. NOTES PAYABLE AND LINE OF CREDIT

Notes payable at September 30, 2001 are comprised of the following:

Term loan from bank. Original balance of $40,525. Repayment terms require monthly installments of principal and interest of $1,844. Interest at 8.5% per annum. Due January 13, 2001. Collateralized by equipment.	$	1,805
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, 2001. Collateralized by 2,000,000 shares of the Company's common stock. Note is currently in default.		400,000
Note payable to former Telco shareholder for balance of URL purchase price (Note 4). Repayment terms require monthly installments of principal and interest at 20% per annum of $100,000 and due upon demand. Collateralized by 2,000,000 shares of the Company's common stock. Note is currently in default.		346,309
Note payable to former Telco shareholder, 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, 2001. Due September 25, 2004. Collateralized by all assets of the Company.		550,791
Totals		1,298,905
Less current portion		(888,236)
Long-term portion	$	410,669

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. The deferred tax consequences of temporary differences in reporting items for financial statement and income tax purposes are recognized, if appropriate. Realization of the future tax benefits related to the deferred tax assets is dependent on many factors, including the Company's ability to generate taxable income within the net operating loss period. The Company has considered these factors in reaching its conclusion as to the valuation allowance for financial reporting purposes.

At September 30, 2001 the Company has unused federal net operating losses of $4,021,753 that may be unavailable under Internal Revenue Code 382 - change in control rules - expiring from 2011 through 2014. The Company may utilize the unavailable net operating loss carryforwards upon generating taxable income in that operating entity. At September 30, 2001 the Company had unused state net operating losses of $1,967,691 that may be unavailable under the change in control rules expiring 2003.

Income taxes for years ended September 30, is summarized as follows:

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		2001		2000
Current Provision	$	271,878	$	1,762,649
Deferred Provision (Benefit)		268,556		(2,407,856)
Net income tax (benefit) provision	$	540,434	$	(645,207))

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

		2001			2000	
Federal statutory rates	$	448,017	34%	$	948,913	34%
State income taxes		94,275	6%		167,455	6%
Utilization of valuation allowance					(1,762,649)	(63)%
Other		(1,858)	-		1,074	-
Effective rate	$	540,434	40%	$	(645,207)	(23)%

Deferred tax assets totaling approximately $1,975,000 at September 30, 2001 are comprised of $512,000 for differences in book and tax bases of accounts receivable and intangible assets and approximately $1,463,000 relates to net operating loss carryforwards which is partially offset by a valuation allowance of $773,000, resulting in a net deferred tax asset of approximately $1,202,000. The valuation allowance was provided due to the uncertainty of future realization of certain federal and state net operating loss carryforwards because of restrictions on the utilization of such carryforwards due to the change in control rules under Internal Revenue Code Section 382. The valuation allowance decreased $1,305,260 in the year ended September 30, 2000, due to resolution of uncertainties as to the Company's ability to generate sufficient taxable income to utilize the net operating loss carryforwards that could be utilized. There was no change in the valuation allowance in the year ended September 30, 2001. At September 30, 2001, there was a deferred tax liability of approximately $115,000 related to the differences in book and taxes bases of property and equipment.

8. LEASES

The Company leases its office space under long-term operating leases expiring through 2003. Rent expense under these leases was $175,464 and $176,637 for the years ended September 30, 2001 and 2000. The Company consolidated office space from a variety of locations to a single facility effective with the Telco merger. The Company has subleased the former Telco office space.

Future minimum annual lease payments and sublease rentals under operating lease agreements for years ended September 30:

		Rents		Sublease Rentals
2002	$	392,862	$	203,500
2003		95,598		-
	$	488,460	$	203,500

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9. STOCKHOLDERS' EQUITY

Telco Acquisition

The Company issued 17,000,000 shares of its Common Stock in connection with the Telco acquisition. The transaction was valued at the book value of the net assets of RIGL as of the date of the transaction.

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, 2001, the Company issued 850,000 shares of common stock to officers, directors and consultants valued at $148,800. During the year ended September 30, 2000, the Company issued 550,000 shares of its common stock valued at $115,500 to members of the board of directors as consideration and payment for directors' fees. These amounts exclude the shares issued to nonperforming consultants described in Note 2 "Summary of Significant Accounting Policies - Temporary Equity".

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.

Treasury Stock

During the year ended September 30, 2001, the Company acquired 254,000 shares of its common stock from a single stockholder. The Company agreed to purchase the common stock for $101,600. The Company paid cash of $50,800 prior to September 30, 2001 and accrued the remaining $50,800 due at September 30, 2001

Other

During the year ended September 30, 2000, the Company agreed to settle all outstanding issues with a former officer by agreeing to convert 200,000 shares of Series B preferred stock held by this individual to 200,000, shares of common stock. The conversion was set at the original conversion rate for the preferred shares. However, under the original terms, the preferred shares were not convertible until the occurrence of certain "trigger events". Those "trigger events" had not occurred but the former officer was allowed to convert as part of the settlement agreement. The conversion was recorded at the estimated value of the common stock on the date of the conversion.

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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 preferred shares are convertible to common stock at the option of the holder. The shares are convertible at varying rates depending upon the trading price of the common stock at the time of conversion. The initial conversion rate is 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, 2000, 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 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.

New management has renegotiated the "Puts", by which the "Puts" were retired and the Company provided a credit facility of up to $5,000,000 to the former Telco shareholders, collateralized by the stock held by the 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 capital plus reserve or if the company is in an uncured default with any of its lenders.

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.

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The Company has also entered into a customer billing service agreement with Enhanced Services Billing, Inc. (ESBI). ESBI provides billing and collection and related services associated to the telecommunications industry. The agreement term is for two years, automatically renewable in one-year increments unless appropriate notice to terminate is given by either party. The agreement automatically renews on December 3, 2001, unless either party gives notice of termination 91 days prior to that renewal date. Under the agreement, ESBI bills, collects and remits the proceeds to Telco net of reserves for bad debts, billing adjustments, telephone company fees and ESBI 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, ESBI may at its own discretion increase the reserves and holdbacks under this agreement. 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 all paid after September 30, 2001. 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.

11. NET INCOME PER SHARE

Net income 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 no preferred stock dividends in the years ended September 30, 2001 and 2000. Warrants to purchase 500,000 shares of common stock were excluded from the calculation for the year ended September 30, 2001. 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.

Preferred stock convertible to 1,500,000 shares of common stock were not considered in the calculation for diluted earnings per share for the year ended September 30, 2000 because the ability to convert is contingent upon the Company attaining certain stock price and profitability goals. None of which was met at September 30, 2000. Also, warrants to purchase 350,000 shares of common stock were not considered in the calculation for diluted earnings per share for the year ended September 30, 2000 because the exercise price of the warrants is greater than the average common stock price for the period, therefore the effect of their inclusion would be antidilutive. Also excluded from the calculation for the year ended September 30, 2000, were 890,334 shares of common stock that are in dispute.

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The following presents the computation of basic and diluted loss per share from continuing operations:

	2001			2000		
	Income	Shares	Per Share	Income	Shares	Per share
Net income	$ 777,264		$ 3,436,127			
Preferred stock dividends						
Income from continuing operations	777,264			3,436,127		
BASIC EARNINGS PER SHARE:						
Income Loss available to common stockholders	$ 777,264	40,738,839	$ 0.02	$ 3,436,127	40,120,829	$ 0.09
Effect of dilutive securities	N/A			N/A		
DILUTED EARNINGS PER SHARE	$ 777,264	40,738,839	$ 0.02	$ 3,436,127	40,120,829	$ 0.09

12. RELATED PARTY TRANSACTIONS

The Company from time to time advances and borrows funds from Board members and other related entities. At September 30, 2001, the Company was owed approximately $116,000 along with $6,190 in accrued interest and also owed $10,386 to such entities.

The Company engaged an entity owned by the Chief Executive Officer for consulting services. The costs related to this engagement for the year ended September 30, 2001 were approximately $158,000. The Company's Chief Financial Officer also provided other professional services to the Company through an entity wholly owned by this officer. The costs related to these services for the year ended September 30, 2001 were approximately $67,000. The Board of Directors' fees for the year ended September 30, 2001 were approximately $45,000. The Company also compensated certain members of the Board of Directors for services other than routine duties of the Board. Fees paid to Board members for other services in the year ended September 30, 2001 were approximately $147,000. Fees paid to Board members in the year ended September 30, 2000 were $150,000. The Company also granted 550,000 shares of common stock to members of the Board of Directors as directors' fees in the year ended September 30, 2000.

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 $136,000 at September 30, 2001. 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.

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The Company has contracted the services of several related entities in its daily operations. The Company leases its employees from an entity in which certain officers have financial interests. The Company also has a contract with a related entity to provide dial-up services to the Company's customers. This affiliated entity's president is on the Company's Board of Directors. For the year ended September 30, 2001, the Company had recorded $10,000 in deposits due from this entity. Another affiliated entity provides customer service and technical support to the Company's customers, and this entity's president is also on the Company's Board of Directors. The Company has recorded revenues of $22,813 and costs of sales of $67,948 related to the activities contracted for form this entity for the year ended September 30, 2001.

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, 2001, 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 by two third party billing companies. The Company is dependent upon those two billing companies 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 the stock options granted to employees. There were no options granted in the years ended September 30, 2001 and 2001 nor was there any additional vesting of options previously granted.

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, 2001, the Company had granted an aggregate of 1,212,000 options under this plan. 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, 2001 and 2000.

The summary of activity for the Company's stock options is presented below:

	2001	2000	Weighted Average Exercise Price

Options outstanding at beginning of year	-0-	N/A			
			1,107,000	$	1.34
Granted	-0-		-0-		
Exercised	-0-	N/A	(53,611)	$	1.00
Terminated/Expired	-0-		(1,053,389)		
Options outstanding at end of year	-0-		-0-		
Options exercisable at end of year	-0-		-0-		
Options available for grant at end of year	1,341,389		1,341,389		
Price per share of options outstanding	N/A		N/A		
Weighted average remaining contractual lives	N/A				
Weighted Average fair value of options granted during the year	N/A				

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The Company has issued warrants in connection with certain debt and equity transactions. Warrants outstanding are summarized as follows:

	2001		Weighted Average Exercise Price	2000		Weighted Average Exercise Price
Warrants outstanding at beginning of year	350,000	$	2.00	1,355,000	$	2.00
Granted	500,000	$	2.12	-0-		
Expired	(350,000)	$	2.00	(1,005,000)	$	2.00
Exercised	-0-			-0-		
Outstanding at September 30,	500,000	$	2.12	350,000	$	2.00

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 value of each warrant grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions for year ended September 30, 2001:

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, 2001, 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 no contributions to the plan for the years ended September 30, 2001 and 2000.

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16. QUARTERLY FINANCIAL DATA (UNAUDITED)

Subsequent to filing the interim financial statements included on Form 10-QSB for the periods ending December 31, 1999, March 31, 2000, June 30, 2000, December 31, 2000, March 31, 2001, and June 30, 2001, 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:

	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)

	Quarter Ended			
	December 31, 1999	**March 30, 2000**	**June 30, 2000**	**September 30, 2000**
Quarterly Data Per 10-Q Filings				
Net revenues	$ 2,297,480	$ 3,826,077	$ 4,247,263	na
Gross profit	1,221,995	2,172,961	2,008,425	na
Net income (loss)	(637,515)	1,151,920	1,032,809	na

Earnings (loss) per share information:								
Basic	$	(0.02)	$	0.03	$	0.03		na
Diluted	$	(0.02)	$	0.03	$	0.03		na
Revised Quarterly Data								
Net revenues	$	2,297,480	$	3,826,077	$	4,247,263	$	5,465,602
Gross profit		1,221,995		2,172,961		2,008,425		5,198,135
Net income (loss)		(49,366)		1,151,921		1,032,809		1,300,764
Earnings (loss) per share information:								
Basic		(0.00)	$	0.03	$	0.03	$	0.03
Diluted		(0.00)	$	0.03	$	0.03	$	0.03

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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