

FILER:

COMPANY DATA:

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COMPANY CONFORMED NAME: YP.NET, INC.  
CENTRAL INDEX KEY: 0000875711  
STANDARD INDUSTRIAL CLASSIFICATION: INTERNET ADVERTISING  
IRS NUMBER: 85-0206668  
STATE OF INCORPORATION: NEVADA  
FISCAL YEAR END: 930

FILING VALUES:

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FORM TYPE: 10-QSB  
SEC ACT:  
SEC FILE NUMBER: 00-24217  
FILM NUMBER:

BUSINESS ADDRESS:

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STREET 1: 4840 EAST JASMINE STREET, SUITE 105  
CITY: MESA  
STATE: AZ  
ZIP: 85205  
BUSINESS PHONE: 480-654-9646

MAIL ADDRESS:

-----  
STREET 1: 4840 EAST JASMINE STREET, SUITE 105  
CITY: MESA  
STATE: AZ  
ZIP: 85205

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

\_\_\_\_\_  
FORM 10-QSB  
\_\_\_\_\_

(Mark One)

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

For the quarterly period ended June 30, 2000

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

\_\_\_\_\_  
Commission File Number 0-24217  
\_\_\_\_\_

YP.NET, INC.

(Exact name of small business issuer as specified in its charter)

Nevada  
(State or other jurisdiction of  
incorporation or organization)

85-0206668  
(IRS Employer Identification No.)

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

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

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

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

The number of shares of the issuer's common equity outstanding as of December 31, 2000 was 41,450,798 shares of common stock, par value \$.001.

Transitional Small Business Disclosure Format (check one):

Yes                      No              X  
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YP.NET, INC.  
INDEX TO FORM 10-QSB FILING  
FOR THE QUARTER ENDED JUNE 30, 2000

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

YP.NET, INC.  
CONSOLIDATED COMPARATIVE BALANCE SHEETS  
AS OF JUNE 30, 2000 and SEPTEMBER 30, 1999

ASSETS

	JUNE 30, 2000	SEPTEMBER 30,
		1999
<S>	<C>	<C>
	(unaudited)	
CURRENT ASSETS:		
Cash and Cash Equivalents	\$ 124,091	\$ 255,323
Accounts Receivable	3,031,082	951,177
Prepaid Expenses	127,287	138,400
Other Assets	-	77,182
Direct Response Marketing - Net	565,881	633,900

Deferred income taxes	209,716	91,172
TOTAL CURRENT ASSETS	4,058,057	2,147,154
PROPERTY AND EQUIPMENT:		
Furniture and Fixtures	152,261	-
Equipment & Computer Equipment	239,595	552,731
Leasehold Improvements	317,507	-
LESS: Accumulated Depreciation and Amortization	(223,822)	(116,833)
TOTAL PROPERTY AND EQUIPMENT	485,541	435,898
OTHER ASSETS:		
Intangible Assets	5,010,000	5,010,000
Deposits	13,287	13,287
LESS: Accumulated Amortization	(517,083)	(159,166)
TOTAL OTHER ASSETS	4,506,204	4,864,121
TOTAL ASSETS	9,049,803	7,447,173
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Trade Accounts Payable	57,597	55,000
Income Taxes Payable	331,292	260,427
Accrued Expenses	169,355	772,120
Finova Line-Of-Credit - Note 1	1,778,331	-
Short-Term Notes Payable - Note 2	900,000	4,808,865
TOTAL CURRENT LIABILITIES	3,236,575	5,896,412
LONG-TERM LIABILITIES:		
Long-Term Notes Payables - Note 3	1,899,489	7,241
Deferred income taxes	18,050	70,865
TOTAL LONG-TERM LIABILITIES	1,917,539	78,106
TOTAL LIABILITIES	5,154,114	5,974,518
STOCKHOLDER' EQUITY:		
Common Stock \$.001 par value, 50,000,000 shares	41,452	39,157
41,450,798 and 39,156,853 issued and outstanding		
For June 30, 2000 and September 30, 1999		
Additional Paid In Capital	5,769,112	892,538
Treasury Stock	(69,822)	(69,822)
Preferred Stock - Class B. \$.001 par value	1,500	1,700
2,500,000 shares designated 1,500,000 and 1,700,000 issued		
and outstanding for June 30, 2000 and September 30, 1999.		
Retained Deficit	(1,846,554)	(3,390,918)
TOTAL STOCKHOLDERS' EQUITY	3,895,688	1,472,655
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 9,049,803	\$ 7,447,173

</TABLE>

See the accompanying notes to these unaudited financial statements

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YP.NET, INC.  
CONSOLIDATED STATEMENTS OF OPERATIONS  
FOR THE THREE MONTHS AND NINE MONTHS ENDED JUNE 30, 2000

	THREE MONTHS ENDED JUNE 30, 2000	NINE MONTHS ENDED JUNE 30, 2000
	(unaudited)	
	<C>	<C>
<S>		
INCOME		
Revenue	\$ 4,247,263	\$ 10,370,820
COST OF SALES	2,238,838	4,967,438

GROSS PROFIT	2,008,425	5,403,382
SELLING EXPENSES	2,149	22,931
GENERAL AND ADMINISTRATIVE	629,267	2,941,367
DEPRECIATION AND AMORTIZATION	154,930	466,185
TOTAL EXPENSES	786,346	3,430,483
EARNINGS FROM OPERATIONS	1,222,080	1,972,898
OTHER INCOME (EXPENSE)		
Other Income	10,270	45,518
Interest Income/(Expense)	(199,541)	(571,695)
TOTAL OTHER INCOME	(189,271)	(526,178)
Net Income Before Income Taxes	1,032,809	1,446,721
Provisions for Income Taxes	-0-	(100,494)
NET INCOME	\$ 1,032,809	\$ 1,547,215
EARNINGS PER SHARE:		
Basic Earnings Per Share	\$ 0.03	\$ 0.04
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	40,986,354	40,516,876
Diluted Earnings Per Share	\$ 0.03	\$ 0.04
WEIGHTED AVERAGE NUMBER OF COMMON AND COMMON SHARE EQUIVALENTS OUTSTANDING	40,986,354	40,516,876

See the accompanying notes to these unaudited financial statements

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YP.NET, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE THREE MONTHS AND NINE MONTHS ENDED JUNE 30, 2000

	THREE MONTHS ENDED JUNE 30, 2000	NINE MONTHS ENDED JUNE 30, 2000
<S>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES	(unaudited)	
Net Income	\$ 1,032,809	\$ 1,547,215
Adjustments to reconcile net income to net cash used by operating activities.		
Depreciation and amortization	37,014	108,268,
Consultants & Officers paid with common stock	115,500	878,669
Amortization of intellectual property	117,917	357,917
Income tax benefit	--	(100,494)
(Increase) decrease in assets		
Trade accounts receivable	(373,548)	(2,079,905)

Customer acquisition costs	(79,569)	68,019
Other receivables	--	77,182
Prepaid and other current assets	30,550	(85,681)
Other assets	--	31,368
Increase (decrease) in liabilities		
Trade accounts payable	18,444	34,913
Accrued liabilities	(339,402)	(534,628)
Deferred revenue	-	(81,190)
	-----	-----
NET CASH PROVIDED IN OPERATING ACTIVITIES	559,715	221,654
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(30,037)	(186,631)
	-----	-----
NET CASH USED BY INVESTING ACTIVITIES	(30,037)	(186,631)
CASH FLOWS FROM FINANCING ACTIVITIES		
Advances from line of credit	87,275	984,923
Principal repayments on notes payable	(600,512)	(1,151,178)
	-----	-----
Proceeds from the issuance of common stock		
NET CASH USED BY FINANCING ACTIVITIES	(513,237)	(166,255)
NET INCREASE (DECREASE) IN CASH	16,441	(131,232)
CASH AT BEGINNING OF PERIOD	107,650	255,323
	-----	-----
CASH AT END OF PERIOD	\$ 124,091	\$ 124,091
	=====	=====
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid	66,290	118,887

</TABLE>

See the accompanying notes to these unaudited financial statements

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE AND NINE MONTHS ENDED JUNE 30, 2000

1. Basis of Presentation

The accompanying unaudited financial statements represent the consolidated financial position of YP.Net, Inc. ("Company") as of June 30, 2000 and include results of operations of the Company and Telco Billing, Inc. ("Telco"), its wholly owned subsidiary, and cash flows for the three and nine months ended June 30, 2000. These statements have been prepared in accordance with generally accepted accounting principles for interim financial information and the instructions for Form 10-QSB. Accordingly, they do not include all the information and footnotes required by generally accepted accounting principles ("GAAP") for complete financial statements. In the opinion of management, all adjustments to these unaudited financial statements necessary for a fair presentation of the results for the interim period presented have been made. The results for the three and nine month periods ended June 30, 2000 may not necessarily be indicative of the results for the entire fiscal year. These financial statements should be read in conjunction with the Company's Form 10-KSB for the year ended September 30, 1999, including specifically the financial statements and notes to such financial statements contained therein.

2. Summary of Significant Accounting Policies

The accounting policies followed by the Company, and the methods of applying those policies, which affect the determination of its financial position, results of operations or cash flows are summarized below:

Cash and Cash Equivalents

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Cash and cash equivalents include all short-term 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.

## Principles of Consolidation

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The consolidated financial statements include the Company and its wholly owned subsidiary, Telco Billing, Inc. All intercompany accounts in consolidation have been eliminated.

## Revenue Recognition

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The Company's revenue is generated by customer subscription of directory and advertising services. Revenue is recognized monthly for services subscribed in that specific month. The Company utilizes outside billing companies to transmit billing data that is forwarded to Local Exchange Carriers ("LECs"). Monthly subscription fees are included on the telephone bills of the LEC customers. The Company recognizes revenue based on net billings accepted by the LECs.

## Fair Value of Financial Instruments

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The carrying amounts for cash, investments in marketable securities, trade accounts receivable, trade accounts payable, accrued liabilities and notes payable, approximate their fair value due to the short maturity of these instruments. The Company has determined that the recorded amounts approximate fair value.

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## Net Earnings Per Share

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Net earnings per share are calculated using the weighted average number of shares of common stock outstanding during the year. The Company has adopted the provisions of Statement of Financial Accounting Standards No. 128, Earnings Per Share.

## Use of Estimates

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The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. This may affect the reported amounts of assets and liabilities and disclosure of 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

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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.

## 3. Business Combination

On June 16, 1999, the Company exchanged 17,000,000 shares of common stock for all of the common stock of Telco. Prior to the acquisition, the Company had not yet commenced material operations. For financial accounting purposes, the acquisition was accounted for as a reverse merger and was treated as a recapitalization with Telco as the acquirer. The accompanying financial statements present the historical cost bases of assets and liabilities and results of operations of Telco. After the merger, the Company ceased its previous operations and abandoned assets related to those operations. The remaining Company assets are recorded at their historical cost. The recapitalization of Telco reflects the book value of the net assets of RIGL as of the date of the merger as of June 16, 1999 of \$1,722,563.

## 4. Intangible Asset

In connection with the Company's acquisition of Telco, the Company is required to provide payment of licensing fees for the use of the Internet domain name or Universal Resource Locator ("URL") Yellow-Page.Net. The URL is recorded at its

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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. Management believes that the current revenue and cash flow generated using the URL Yellow-Page.Net substantiates the net book

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value of the asset. The Company will periodically analyze the net book value of this asset and determine if impairment has incurred. The URL is amortized on an accelerated basis over the twenty-year term of the licensing agreement.

#### 5. Notes Payable and Line of Credit

Notes payables are recorded and interest is accrued in accordance with the individual terms of each note. Notes payable at June 30, 2000 were as follows:

Note 1: The Company entered into an agreement with Finova Capital Corporation

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for a \$3,000,000 revolving line of credit with interest payable at the prime rate plus three percent. The amount available to be drawn under the facility is limited to 80% of eligible account receivable. At June 30, 2000 the credit facility had an outstanding balance of \$1,778,331. Assets of the Company, specifically accounts receivables, collateralize the credit facility. The credit facility expired on August 31, 2003, and the institution may withdraw the line with a notification within 90 days. The Company has executed three forbearance agreements one dated August 15, 2000, November 3, 2000 and January 3, 2001. The January 3, 2001 forbearance reduced the credit facility from \$3,000,000 to \$1,000,000 and the available and eligible accounts receivables may be drawn at a 50% limit. This existing forbearance expires February 3, 2001

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Note 2: The Company entered into a loan agreement with Mr. Joseph Van Sickle

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during the acquisition of Telco under which Mr. Van Sickle lent \$2,000,000 to the Company. At June 30, 2000 this note payable had an outstanding balance of \$900,000. Mr. Van Sickle is a shareholder of the Company and owns approximately one percent of the Company's outstanding stock. Mr. Van Sickle is not a member of management and currently has no position on the Board of Directors of the Company.

Note 3: The Company entered into an agreement with Matthew & Markson, Ltd., an

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Antigua corporation ("M&M"), in conjunction with the acquisition of Telco for the license of the URL Yellow-Page.Net. The Company agreed to pay M&M

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\$5,000,000 for the licensing agreement of the URL Yellow-Page.Net. At June 30,

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2000 the M&M note payable had an outstanding balance of \$1,899,489. M&M owns approximately 18% of the Company's outstanding stock.

#### 6. Common Stock

Transactions in the Company's common stock issued for the acquisition of assets, products, or services are accounted for at 90% of fair value. Fair value is determined based on the traded closing price of the Company's common stock on the date of the transaction, or the fair value of the asset, product, or service received, whichever is more readily determinable.

#### 7. 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. The provision for income taxes for interim periods is calculated on the basis of the expected effective rate for the full year.

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

Except for historical information contained herein, the following discussion contains forward-looking statements that involve risks and uncertainties. Such forward-looking statements include, but are not limited to,

statements regarding future events and our plans and expectations. Our actual results could differ materially from those discussed herein. Factors that could cause or contribute to such differences include, but are not limited to, those discussed elsewhere in this Form 10-QSB or incorporated herein by reference. See "Special Note on Forward-Looking Statements" below.

#### OVERVIEW

We provide Internet-based yellow page listing services on our Yellow-Page.Net and yp.net Web sites. We acquired Telco Billing, Inc. in June

1999, and because of this acquisition changed our primary business focus to become an electronic yellow page listing service. Our Web sites 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 through our Web sites.

With the acquisition of Telco, we discontinued our prior operations in the multi-media software and medical billing and practice management areas. We completed closing down our operations in these areas in the prior fiscal quarters ended December 31, 1999. We anticipate continued operations in our Internet yellow page listings business and in other Internet-based product areas. We have experienced continued increases in competition in the electronic yellow page market, and continue to seek joint venture and investment acquisition opportunities to potentially lessen the effects of competition in the electronic yellow page markets.

We utilized direct mailings as our primary marketing program. We have not sent out direct mailers nor solicited business customers since June 2000. We have experience some attrition in our customer base since June 2000, however, we have implemented a customer contact programs that has assisted us in maintaining our customer base and growing out customer base without the solicitation of direct mailing marketing efforts. We are intending to send out direct mailers in the next 60 days. At October 1, 1999, we had 103,133 customers subscribing to our services. At December 31, 1999, we had 114,409, at March 30, 2000, we had 129,457 customers, and at June 30, 2000 we had 143,292 customers. We believe the increase in our customer base for these periods was primarily a result of our marketing efforts. In March 2000, we implemented a customer contact program to attempt to increase our customer satisfaction and decrease customer attrition. This program has and will continue to provide decrease in attrition and better customer satisfaction.

Expenditures related to professional and consulting fees were significant in the three and nine months periods ended June 30, 2000. Existing management believes that these expenditures will not be as significant in future periods. Management is actively pursuing rescission and cancellation of certain common and preferred stock that was previously issued for services. Management has presently entered into a written offer to settle this dispute and the return of approximately 66% of the disputed shares. If offers to settle are negated, legal action regarding the disputed shares may adversely affect our future earnings due to costs of potential litigation. If we are successful in canceling some or all of these shares, our total outstanding shares will decrease which will positively affect our per share operating results in the future.

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On March 13, 2000, management entered into an engagement with King, Weber & Associates, P.C. ("K&W") to conduct the audit of our financial statements for the fiscal year ended September 30, 1999. K&W estimated the cost to prepare the fiscal year end audit to be from \$75,000 to \$100,000 with an estimated completion date of August 2000. K&W subsequently issued the audited financial statements on August 24, 2000 within the budgeted fees.

Common stock has been issued to the members of the new Board of Directors 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. The expense for that consideration is stated at 90% of the trading value of the shares to reflect a discount for the regulatory restrictions on trading of those shares. During the three months ended June 30, 2000, 550,000 common shares were issued to the new Board members. Prior management also issued 845,049 common shares to the Hudson Consulting Group, Inc. in the nine months ended June 30, 2000. We did not record any expenses associated with this issuance of the Hudson Consulting Group, Inc. because we are presently in litigation related to the consideration for the issuance. We



are seeking the rescission of these and other common shares issued to the Hudson Consulting Group, Inc. by prior management. We have made and have received a settlement offer regarding these disputed shares.

YP.Net 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 later 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 our Internet-based yellow page services.

The acquisition of Telco was treated as a reverse merger for financial accounting purposes. Consequently, Telco was deemed the acquiring entity. For financial accounting purposes, Telco was considered to have engaged in a recapitalization and acquired the net assets of RIGL as of June 1999. Financial statements of Telco for the nine months ended June 30, 1999 are not included in this Form 10-QSB due to such statements not being available and the financial hardship we would incur to prepared comparative financial statements for the interim period ending June 30, 1999.

#### RESULTS OF OPERATIONS

With the acquisition of Telco, our business focus shifted to the Internet yellow page services business and this business is currently the sole source of our revenue. All operations conducted by RIGL prior to the acquisition of Telco have been discontinued. Revenues for the three months ended June 30, 2000 were \$4,247,263 and for the nine months ended June 30, 2000 were \$10,370,820. Until other sources of revenue are developed, our total revenues will be directly dependent upon the number of customers subscribing to our preferred listing service.

Cost of sales for the three months ended June 30, 2000 was \$2,238,838 and for the nine months ended June 30, 2000 was \$4,967,439. Cost of sales is comprised of dilution expenses, direct mailer marketing costs, allowances for bad debt and our billing costs. Dilution expenses include customer credits and any other receivable write-downs. Dilution expenses were approximately \$1,216,829 for the three months ended June 30, 2000 and approximately \$2,398,934 for the nine months ended June 30, 2000. Direct mailer marketing costs were also a significant component of our costs of sales. These costs were \$404,152 for the three months ended June 30, 2000 and \$1,221,317 for the nine months ended June 30, 2000.

Selling expenses, primarily the costs associated with general advertising and market testing of other revenue sources, were approximately \$1,500 and \$5600 for the three and nine month periods ending June 30, 2000, respectively.

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General and administrative expenses for the three months ended June 30, 2000 were \$629,267 and for the nine months ended June 30, 2000 were \$2,941,367. These costs are primarily related to customer service staffing, which we believe provides better service to our customers. For the three months ended June 30, 2000 our professional fees were \$121,724 and \$227,923 for the Nine Months ended June 30, 2000. These expenses were primarily a result of hiring a new independent auditor and new law firm to represent the company in litigation issues and SEC compliance issues. For the three months ended June 30, 2000 our consulting expenses were \$20,812 and \$707,396 for the nine months ended June 30, 2000. The expenses related to the three months ended June 30, 2000 were a result of hiring a consulting firm that specializes in LEC billing accounting to assist the auditors to complete the audited financial statements for September 30, 1999. The expenses related to the nine months ended June 30, 2000, were primarily a result of the issuance of common stock by prior management as consideration under several consulting contracts and is not expected to be recurring.

Interest expense net of interest income for the three months ended June 30, 2000 was \$199,541 and for the nine months ended June 30, 2000 was \$571,695. Interest expense was a result of our debt outstanding. This debt outstanding included debt incurred in connection with the acquisition of the URL Yellow-Page.Net and due to an increase in the amount outstanding under our  
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credit facility with Finova Capital Corporation.

Net income for the three month period ended June 30, 2000 was \$1,032,809 or

\$.03 per diluted share. Net income for the nine month period ended June 30, 2000 was \$1,547,215 or \$.04 per diluted share.

#### LIQUIDITY AND CAPITAL RESOURCES

Cash provided by operating activities for the Nine Months ended June 30, 2000 was \$221,654. Revenue was generated solely from providing electronic yellow page preferred listing advertising. Cash from operating activities for the nine months ended June 30, 2000 was utilized by an increase in our accounts receivable (\$2,079,905) and in prepaid assets (\$85,681) and by decreases in accrued liabilities (\$534,628) and deferred revenue (\$81,190). Cash in the nine months ended June 30, 2000 was generated by decreases in customer acquisition costs (\$68,019), other receivables (\$77,182), and prepaid and other assets (\$31,638), and by increase in our trade accounts payable (\$34,913).

Cash used by investing activities was \$186,631 for the nine months ended June 30, 2000. We purchased additional computer equipment of approximately \$98,631 and performed tenant leasehold improvements of approximately \$88,000 in the nine months ended June 30, 2000.

Cash used by financing activities was \$166,255 for nine months ended June 30, 2000. For the nine months ended June 30, 2000, we realized cash of \$984,923 from advances on our line of credit and utilized \$1,151,178 to pay notes payable. The \$1,151,178 represents the total payments made to reduce the principal balances of the outstanding notes.

We have an existing asset-based collateralized line of credit with Finova Capital Corporation. Because of certain technical defaults under the terms of the loan agreement, which occurred under prior management, Finova exercised its right to terminate the agreement. We have entered into letter agreements whereby Finova has agreed to forbear the exercise of any of its available remedies through February 3, 2001. Our line of credit has been reduced to \$1,400,000 for the period of November 6, 2000 through December 5, 2000 and to \$1,200,000 thereafter. Management is seeking other potential lenders that specialize in financing businesses utilizing LEC billings. We do not anticipate these changes to have an adverse affect on our ability to continue operating at our current levels.

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#### OTHER CONSIDERATIONS

There are numerous factors that affect our business and the results of its operations. Sources of these factors include general economic and business conditions, federal and state regulation of our business activities, the level of demand for our services, the level and intensity of competition in the electronic yellow page industry and the pricing pressures that may result, our ability to develop new services based on new or evolving technology and the market's acceptance of those new services, our ability to timely and effectively manage periodic product transitions, the services, customer and geographic sales mix of any particular period, and our ability to continue to improve our infrastructure (including personnel and systems) to keep pace with the growth in its overall business activities.

We have been delinquent in our filings under the Securities Exchange Act of 1934 ("Exchange Act"). This Form 10-QSB will cause our filings to be current. It is management's intent to complete all past due filings and to cause all required filings to be timely made in the future. While trading of our stock has occurred during the periods before and after this filing, sales under Rule 144 have not been available until now. Management also intends to take actions to cause YP.Net's common stock to be relisted on the OTC Bulletin Board as soon as possible. It is not possible to determine the effect, if any, on the actions of current or former shareholders of bringing current the required Exchange Act filings, and the financial statements and disclosures contained therein.

We have attempted to keep the public informed through press releases and Form 8-K filings while making a concerted effort to become current with our filings. We are currently unable to determine the materiality of the affect of the prior delinquent filings, if any, or the potential impact any such delinquencies may have on our operations.

#### SPECIAL NOTE ON FORWARD-LOOKING STATEMENTS

Except for historical information contained herein, this Form 10-QSB contains express or implied forward-looking statements within the meaning of

Section 27A of the Securities Act of 1933 and Section 21E of the Exchange Act. We intend that such forward-looking statements be subject to the safe harbors created thereby. We may make written or oral forward-looking statements from time to time in filings with the SEC, in press releases, quarterly conference calls or otherwise. The words "believes," "expects," "anticipates," "intends," "forecasts," "project," "plans," "estimates" and similar expressions identify forward-looking statements. Such statements reflect our current views with respect to future events and financial performance or operations and speak only as of the date the statements are made.

Forward-looking statements involve risks and uncertainties and readers are cautioned not to place undue reliance on forward-looking statements. Our actual results may differ materially from such statements. Factors that cause or contribute to such differences include, but are not limited to, those discussed elsewhere in this Form 10-QSB, as well as those discussed in our Form 10-KSB which is incorporated by reference in this Form 10-QSB.

Although we believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate with the result that there can be no assurance the results contemplated in such forward-looking statements will be realized. The inclusion of such forward-looking information should not be regarded, as a representation that the future events, plans, or expectations contemplated will be achieved. We undertake no obligation to publicly update, review, or revise any forward-looking statements to reflect any change in our expectations or any change in events, conditions, or circumstances on which any such statements based. Our filings with the SEC, including the Form 10-KSB, may be accessed at the SEC's Web site, [www.sec.gov](http://www.sec.gov).

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## PART II - OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

YP.Net is involved in various legal proceedings and claims as described in our Form 10-KSB for the year ended September 30, 1999.

We have settled the case YP.Net, Inc vs. Vigil. YP.Net has agreed to pay a settlement offer of \$125,000 to the Vigils and the Vigils will deliver to YP.Net the 250,000 shares of common stock of YP.Net. This settlement was agreed to in December, 2000. We have also entered into a settlement offer with Hudson Consulting Group. We have offer to enter into a new agreement with Hudson Consulting Group for newly issued 500,000 shares of common stock of YP.Net, Inc. and Hudson Consulting Group will return 1,900,000 shares of YP.Net's common shares issued to them in fiscal year end September 30, 1999 and three months ended December 31, 1999 by prior management. Final settlement is still pending. No other material developments have occurred in any of these proceedings. The costs associated with these legal proceedings could be significant and could adversely affect the results of our future operations. An unfavorable result in any of these proceedings could also adversely affect our operations.

On June 26, 2000 the Federal Trade Commission ("FTC") filed a complaint against us and other defendants alleging that YP.Net and other defendants were engaged in deceptive advertising practices and sought preliminary injunctive remedies, including the appointment of a receiver over the business and a freeze on all assets. The alleged deceptive practices related to a check mailer solicitation utilized in our marketing activities. On July 13, 2000, YP.Net and all other defendants entered into a global settlement of the preliminary injunction, resulting in dismissal of the receiver and dissolution of the asset freeze. Subsequently, we have met with the FTC and anticipate a final order in settlement of the matter to be negotiated. The legal fees and litigation related to the allegation of the FTC has adversely affected our profitability and has caused our marketing efforts to be greatly curtailed.

### ITEM 2. CHANGES IN SECURITIES

In June 2000 YP.Net issued 550,000 common shares to the members of the Board of Directors. The shares were issued in reliance on the exemption from registration provided by Section 4(2) of the Securities Act.

### ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

EXHIBITS

NONE

REPORTS ON FORM 8-K

Three reports on Form 8-K were filed during the three months ended June 30, 2000. These reports are as follows:

Form 8-K filed on April 6, 2000 announced the appointment of King, Weber & Associates, P.C. as YP.Net's independent auditors.

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Form 8-K filed on May 22, 2000 disclosed the terms of the loan made to YP.Net by Joseph and Helen Van Sickle.

Form 8-K/A filed on May 22, 2000 amended the Form 8-K/A filed on March 14, 2000. This Form 8-K/A was filed to include the letter sent by McGladry & Pullen, LLP to YP.Net as a result of their termination as YP.Net's independent auditors.

SIGNATURES

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

YP.NET, INC.

Dated: January \_\_\_\_\_, 2001

By /s/ Angelo Tullo

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Angelo Tullo, Chairman of the Board

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