FILER:

COMPANY DATA:

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:

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

BUSINESS ADDRESS:

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

For the quarterly period ended March 31, 2001

[X] 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	85-0206668
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

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

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

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

Yes X No ___

The number of shares of the issuer's common equity outstanding as of March 31, 2001 was 41,450,798 shares of common stock, par value $.001.

Transitional Small Business Disclosure Format (check one):

Yes ___ No X

YP.NET, INC.
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FOR THE QUARTER ENDED MARCH 31, 2001

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

YP.NET, INC.
CONSOLIDATED
BALANCE SHEETS
AS OF MARCH 31, 2001
ASSETS

<S>	MARCH 31, 2001 (unaudited) <C>
CURRENT ASSETS:	
Cash and Cash Equivalents	$ 271,962
Accounts Receivable	2,817,783
Prepaid Expenses	118,280
Direct Response Marketing - Net	151,753
Deferred income taxes	836,488
TOTAL CURRENT ASSETS	4,196,267
PROPERTY AND EQUIPMENT:	
Furniture and Fixtures	197,260
Equipment & Computer Equipment	258,183
Leasehold Improvements	317,507
LESS: Accumulated Depreciation and Amortization	(337,762)
TOTAL PROPERTY AND EQUIPMENT	435,188
OTHER ASSETS:	
Intangible Assets	5,010,000
Deposits	23,287
LESS: Accumulated Amortization	(858,333)
TOTAL OTHER ASSETS	4,174,954
TOTAL ASSETS	8,806,410
LIABILITIES AND STOCKHOLDERS' EQUITY	
CURRENT LIABILITIES:	
Trade Accounts Payable	63,578
Income Taxes Payable	841,363
Accrued Expenses	46,494
Finova Line-Of-Credit - Note 1	499,992
Short-Term Notes Payable - Note 2	524,726
Short-Term Notes Payables - Note 3	863,216
TOTAL CURRENT LIABILITIES	2,839,370
LONG-TERM LIABILITIES:	
Deferred income taxes	105,868
TOTAL LONG-TERM LIABILITIES	105,868

TOTAL LIABILITIES	2,945,238
STOCKHOLDER' EQUITY:	
Common Stock $.001 par value, 50,000,000 shares 40,615,464 and 40,560,464 issued and outstanding For March 31, 2001.	40,836
Additional Paid In Capital	5,445,587
Treasury Stock	(179,822)
Retained Earnings	554,572
TOTAL STOCKHOLDERS' EQUITY	5,861,173
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$8,806,410

</TABLE>

See the accompanying notes to these unaudited financial statements

<TABLE>
<CAPTION>

YP.NET, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE MONTHS AND SIX MONTHS ENDED MARCH 31, 2001 AND MARCH 31, 2000

	Three Month Ended March 31, 2000	Six Month Ended March 31, 2000	Three Month Ended March 31, 2000	Six Month Ended March 31, 2000
	(unaudited)			
<S>	<C>	<C>	<C>	<C>
INCOME				
Revenue	$ 4,138,223	$ 8,664,846	$ 3,826,077	$ 6,123,557
COST OF SALES	2,440,354	5,320,758	1,653,116	2,728,601
GROSS PROFIT	1,697,869	3,344,088	2,172,961	3,394,956
SELLING EXPENSES	24,666	35,472	985	20,783
GENERAL AND ADMINISTRATIVE	564,800	1,138,504	777,242	2,312,101
DEPRECIATION AND AMORTIZATION	158,803	304,715	156,006	311.254
TOTAL EXPENSES	748,269	1,478,692	934,233	2,644,138
EARNINGS (LOSS) FROM OPERATIONS	949,599	1,865,397	1,238,728	750,818
OTHER INCOME (EXPENSE)				
Other Income	6,776	16,212	13,204	35,247
Interest Income/(Expense)	(99,572)	(268,398)	(200,506)	(372,154)
TOTAL OTHER INCOME (EXPENSE)	(92,796)	(252,186)	(187,302)	(336,907)
Net Income (Loss) Before Income Taxes	856,804	1,613,210	1,051,426	413,911
Provisions for Income Taxes	277,819	515,830	(100,494)	-0-
NET INCOME (LOSS)	$ 578,984	$ 1,097,380	$ 1,151,920	$ 413,907
EARNINGS (LOSS) PER SHARE:				
Basic Earnings (Loss) Per Share	$ 0.01	$ 0.03	$ 0.03	$ 0.01
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	39,667,871	40,108,701	40,695,622	40,230,409
Diluted Earnings (Loss) Per Share	$ 0.01	$ 0.03	$ 0.03	$ 0.01
WEIGHTED AVERAGE NUMBER OF COMMON AND COMMON SHARE EQUIVALENTS OUTSTANDING	39,667,871	40,108,701	40,695,622	40,230,409

</TABLE>

See the accompanying notes to these unaudited financial statements

<TABLE>
<CAPTION>

YP.NET, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS AND SIX MONTHS ENDED MARCH 31, 2001 AND MARCH 31, 2000

	Three Months Ended	Six Months Ended March 31,	Three Months Ended March	Six Months Ended March 31,

	March 31, 2001	2001	31, 2000	2000
<S>	<C>	<C>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES	(unaudited)			
Net Income	$ 578,984	$ 1,097,380	$ 1,151,920	$ 413,911
Adjustments to reconcile net income to net cash used by operating activities.				
Depreciation and amortization	45,045	77,208	36,006	71,254
Officers & Consultants paid with common stock	-0-	59,700	25,691	763,169
Common stock surrendered	(384,310)	(494,310)	120,000	240,000
Amortization of intellectual property	113,750	227,500	-0-	-0-
Income tax benefit	277,819	515,830	(100,494)	-0-
(Increase) decrease in assets				
Trade accounts receivable	1,140,986	888,099	(1,135,405)	(1,706,357)
Customer acquisition costs	-0-	138,846	(45,237)	147,588
Other Receivables	-0-	-0-	-0-	77,182
Prepaid and other current assets	127,150	(57,503)	-0-	(116,231)
Other assets	(10,000)	(10,000)	(3,081)	31,368
Increase (decrease) in liabilities				
Trade accounts payable	(547,225)	(39,439)	311	16,469
Accrued liabilities	(92,241)	(281,707)	(69,222)	(195,226)
Deferred revenue	-0-	-0-	-0-	(81,190)
NET CASH PROVIDED (USED) IN OPERATING ACTIVITIES	2,121,604	(19,511)	(338,062)	1,249,959
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchases of property and equipment	(9,697)	(9,697)	(3,349)	(159,594)
NET CASH USED BY INVESTING ACTIVITIES	(9,697)	(3,349)	(159,594)	(9,697)
CASH FLOWS FROM FINANCING ACTIVITIES				
Advances from line of credit	-0-	-0-	65,940	897,648
Principal repayments on notes payable	(1,237,631)	(2,059,559)	(100,000)	(550,665)
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	(2,059,559)	(34,060)	346,983	(1,237,631)
NET INCREASE (DECREASE) IN CASH	2,630	52,349	(56,920)	(147,673)
CASH AT BEGINNING OF PERIOD	269,331	219,613	164,570	255,323
CASH AT END OF PERIOD	$ 271,961	$ 271,961	$ 107,650	$ 107,650

</TABLE>

See the accompanying notes to these unaudited financial statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED MARCH 31, 2001 AND MARCH 31, 2000

1. Basis of Presentation

The accompanying unaudited financial statements represent the consolidated financial position of YP.Net, Inc. ("the Company") for the three and six months ended March 31, 2001 and 2000 include results of operations of the Company and Telco Billing, Inc. ("Telco"), its wholly owned subsidiary, and cash flows for the three and six months ended March 31, 2001 and 2000. These statements have been prepared in accordance with generally accepted accounting principles ("GAAP")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 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 six months period ended March 31, 2001 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, 2000, 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 and cash flows are summarized below:

Cash and Cash Equivalents
- ---------------------------

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
- ----------------------------

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

Revenue Recognition

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. Net billings result from gross submittals reduced by billing records rejected by the LEC's and adjusted for resubmittals. Revenue is reported gross of fees charged by the billing company and the LEC's.

Fair Value of Financial Instruments

The carrying amounts for 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.

Net Earnings Per Share

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

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

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 its common stock for all of the common stock of Telco (2,000 shares).

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 cost net of accumulated amortization. The Company's management believes that the Company's business is dependent on its ability to utilize this URL given the recognition of the "yellow page" term. The Company's management believes that the current revenue and cash flow generated using the URL 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 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 March 31, 2001 were as follows:

Note 1: The Company entered into an agreement with Finova Capital Corporation ("Finova") 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 line of credit is limited to 80% of eligible accounts receivable. At March 31, 2001 the line of credit had an outstanding balance of $499,992. Assets of the Company, specifically accounts receivables, secure the line of credit. The line of credit expires on August 31, 2003, and the institution may withdraw the line with a notification within 90 days. Finova gave notice that it desires to withdraw its line of credit. Since that time the Company has executed six forbearance agreements dated August 15, 2000, November 3, 2000, January 3, 2001,

February 8, 2001, March 8, 2001, and May 8, 2001 respectively. Each Forbearance Agreement has reduced the availability of funds to the Company from the Line of

Credit. The January 3, 2001 forbearance reduced the line of credit from $1,500,000 to $1,000,000. The February 8, 2001 forbearance reduced the line of credit from $1,000,000 to a ceiling of $750,000. The March 8, 2001 forbearance reduced the line of credit from $750,000 to a ceiling of $500,000, April 8, 2001 reducing the line of credit from $500,000 to a ceiling of $250,000, and in May 8, 2001 again forbearance reduced the line of credit from $250,000 to a ceiling of $125,000. Management, with the co-operation of Finova had already reduced the outstanding Balance below the new ceiling prior to signing the new forbearance. The Company can draw funds against the ceiling so long as eligible accounts receivable, as collateral exceeds the ceiling. This existing forbearance expires June 8, 2001

Note 2: The Company entered into a loan agreement with Mr. Joseph Van Sickle during the acquisition of Telco under which Mr. Van Sickle lent $2,000,000 to the Company. At March 31, 2001 this note payable had an outstanding balance of $524,726. 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 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 $5,000,000 to license URL Yellow-Page.Net. At March 31, 2001 the M&M note payable had an outstanding balance of $863,216. M&M owns approximately 20% 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 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.

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.

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 "Forward-Looking Statements" below.

OVERVIEW

YP.Net, Inc. ("we" or "our" refers to 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 later changed to RIGL Corporation in July 1998. With the acquisition of Telco Billing, Inc. ("Telco"), the Company shift of the focus of our business and changed its name to YP.Net, Inc., effective October 1, 1999. The new name was chosen to reflect our focus on our Internet-based yellow page services.

We provide Internet-based yellow page listing services on our Yellow-Page.Net and YP.Net Web sites. We acquired Telco in June 1999, changing our primary business focus to become an Internet-based 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 our websites.

We have experienced continued increases in competition in the Internet 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 experienced some attrition in our customer base since September 2000. However, we have implemented a customer contact programs with the goals of assisting us in maintaining our customer base and growing our customer base without direct mail marketing efforts. We resumed our direct mailing program in February 2001 on a limited basis. As of September 30, 2000, we had 130,592 customers subscribing to our services. As of March 31, 2001, we had 103,187 customers. We believe the decrease in our customer base for these periods was primarily the result of natural attrition we have not sent a direct mailer to customers since June 2000 due to our election to close any open issues with the Federal Trade Commission. We have continued our customer contact program to attempt to increase our customer satisfaction and limit customer attrition. This program has and will continue to provide decrease in attrition and better customer satisfaction.

Expenditures related to professional fees were significant in the three and six months period ended March 31, 2001 and 2000. Management believes that these expenditures will not be as significant in future periods. Management also believes the professional fees expended to reach an agreement with the Federal Trade Commission has adversely effected our current earnings for the three month and six months ended March 31, 2001. 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 with some of the recipients and the return of approximately 66% of the disputed shares held by those recipients (approximately 82,000 shares). If offers to settle are rejected, 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 could affect our earners per share.

On March 9, 2001, the Company retained S.G. Martin Securities LLC to serve as its investment banker for a one year period commencing March 9, 2001. S.G. Martin will assist in implementing the Company's strategic business and capital formation plans and programs. They will also assist the Company in its presentation to the brokerage community and with introductions to security firms and brokers other than S.G.Martin.

Our new co-branded syndication with I411.com has provided our preferred customers and those using our site to finds goods and services easier and faster. This arrangement has allowed us to have additional advertising space on our website which Management believes will bring in additional revenue. With I411.com powering our sites we will have more pages with our "Look and Feel". This has allowed us to have more control over content, which management believes will help attract more people to our site. The company now has the ability to sell syndicate yellow page sites. The company is already able to offer our client visible storefronts. Through visible storefronts our clients will be able to set up "Web Stores" easily and cheaply; complete with the ability to utilized credit cards to process orders. Management is currently testing these products and believes that they have the potential to add income.

Management believes that our Direct Response Program if partnered with other reputable companies could be an additional source of revenue. The Company has embarked on a program to find and solicit promotional partners for its Direct Response Program on a test basis.

RESULTS OF OPERATIONS

Our Internet yellow page services is currently the sole source of our revenue. Revenues were $4,138,223 and $8,664,846 for the three and six month periods ended March 31, 2001, respectively, compared to $3,826,077 and $6,123,557 for three and six month periods ended March 31, 2000, respectively. 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. We are presently, seeking other revenue sources from advertising media through our new co-branding agreement with I411.com.

Cost of Sales were $2,440,354 and $5,320,758 for three and six month periods ended March 31, 2001, respectively, compared to $1,653,116 and $2,728,601 for three and six month periods ended March 31, 2000, respectively. 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 $1,754,068 for the three months ended March 31, 2001 compared to $945,000 for March 31, 2000. Cost of sales inclusive of dilution expenses has primarily increased because the expenses are directly related to the increase in revenue. Our cost of sales has increased also because an increase in dilution primarily due to the increase in competitive local exchange carriers (CLEC) that cannot be billed through the LEC's. We have made corrective steps to counter the increase in CLEC's by billing on credit cards and ACH.

Selling expenses were $24,666 and $35,472 for three and six month periods ended March 31, 2001, respectively, compared to $985 and $20,783 for three and six month periods ended March 31, 2000, respectively. Selling costs are primarily associated with general advertising and marketing of other revenue sources.

General and administrative expenses were $564,800 and $1,138,504 for three and six month periods ended March 31, 2001, respectively, compared to $777,242 and $2,312,101 for three and six month periods ended March 31, 2000, respectively. These costs are primarily related to customer service staffing, which we believe provides better service to our customers. For the three months ended March 31, 2001 our professional fees were 264,228 compared to $163,000 for March 31, 2000, due primarily to defending and negotiating with the Federal Trade Commission related to the allegations that the Company engaged in the settlement of advertising in June 2000.

Interest expense net of interest income was $92,796 and $252,186 for three and six month periods ended March 31, 2001, respectively, compared to $187,302

and $336,907 for three and six month periods ended March 31, 2000, respectively. Interest expense was a result of our outstanding debt. This outstanding debt included debt incurred in connection with the acquisition of the URL Yellow-Page.Net. The reduction in interest expense is due to a decrease in the
- ----------------
amount outstanding under our credit facility with Finova Capital Corporation, Matthew Markson Ltd, and to Joseph and Helen Van Sickle.

Net Income was $578,985 or $.01 per diluted share, and $1,097,380 or $.03 per diluted share, for the three and nine month periods ended March 31, 2001, compared to $1,151,920, or $.03 per diluted share, and $413,907, or $.01 per diluted share, for the three and nine month periods ended March 31, 2000. Unlike prior periods the Net Income for the current period reflects the provision for income taxes required now that the tax loss carry forwards for Telco billing have all been utilized. The decrease in Net income is primarily due to the attrition of our customers from reduced marketing efforts due to the Federal Trade Commssion's requirements. We have made corrective changes to increase marketing efforts.

LIQUIDITY AND CAPITAL RESOURCES

Cash provided by operating activities was $2,121,605 for the six months period ended March 31, 2001, compared to cash used by operating activities of ($338,062) for the six months period ended March 31, 2000. Revenue was generated solely from providing electronic yellow page listing advertising. Cash from operating activities for the six months period ended March 31, 2001 was used to increase our prepaid expenses ($57,503), and to decrease trade accounts receivables by $888,099; customer acquisition $138,846; trade accounts payable ($39,429); and accrued liabilities ($281,707). Cash in the six months period ended March 31, 2000 was generated by an increase in our accounts receivables $1,706,3577, in prepaid assets $116,231, and in accounts payable $16,469 and by decreases in customer acquisition costs $147,588; other receivables $77,182; accrued liabilities ($195,226); and deferred revenue ($81,190).

Cash used by investing activities was $9,697 for the six month period ended March 31, 2001, compared to $159,594 for the six months ended March 31, 2000. We purchased additional computer equipment of $9,697 for March 31, 2001 compared to $159,594 for March 31, 2000.

Cash provided by financing activities was $2,059,559 for six month period ended March 31, 2001, compared to cash provided by financing activities of $346,983 for the six months ended March 31, 2000. The cash used represents total payments made to reduce the principle balances of the outstanding notes for March 31, 2001. Cash provided by financing activities was $346,983 for the six months period ended March 31, 2000; we realized cash of $897,648 from advances on our line of credit and utilized $550,665 to pay notes payable. The $550,665 represents the total payments made to reduce the principal balances of the outstanding notes.

We have an existing asset collateralized line of credit with Finova Capital Corporation ("Finova"). Because of certain 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 June 8, 2001. Our line of credit has been reduced to $1,400,000 on November 6, 2000; reduced to $1,200,000 on December 5, 2000; reduced to $1,000,000 on January 6,

2001; reduced to $750,000 on February 8, 2001; reduced to $500,000 on March 8, 2001, reduced to $250,000 April 8, 2001, reduced to $0.00 on June 8, 2001. 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.

OTHER CONSIDERATIONS

There are numerous factors that affect the Company 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 Internet-based 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.

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.

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, 2000.

We settled YP.Net, Inc vs. BJM Consulting, Inc. ("BJM") on January 11, 2001. BJM has agreed to return 500,000 shares of the Company's common stock that was issued by prior management and has agreed to return the stock since they did not perform the services required by its contract. By a further prior agreement YP.Net purchased additional consulting services from BJM Consulting Inc. Payment for those new services that began in October of 2000 was 500,000 shares of common stock and was to be paid in full upon completion and was not deemed earned until fully completed. Those service were to include but not be limited to advise the Company on the availability of potential lenders in the Company's market niche, assist in evaluating potential Public Relation firms and Investor Relations firms, and contact market makers to regain our listing on the OTC: Bulletin Board and to provide other financial services. These services will be rendered in a three months period and was completed during this period. 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. The stock issued to BJM Consulting, Inc. is restricted common shares under 144 rules with a one-year restriction. The stock has been recorded at 90% of average bid and ask price as of January 11, 2001.

On June 26, 2000 the Federal Trade Commission ("FTC") filed a complaint against the Company and other defendants alleging that the Company and other defendants were engaged in deceptive advertising practices and sought a preliminary injunctive and the appointment of a receiver business and to freeze all our 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 with the FTC, resulting in dismissal of the receiver and termination of the asset freeze. Subsequently, we have met with the FTC and anticipate a final settlement of the matter to be negotiated. The legal fees and litigation related to the FTC allegation have adversely affected our profitability and caused our marketing efforts to be greatly curtailed. We have entered into a Stipulated Final Judgement and Order For Permanent Injunction and other Equitable Relief with the FTC. We are waiting final signature from the Honorable Stephen M. McNamee and at that time the order will become permanent. The company has never admitted liability. The order, in the opinion of management, should not materially and adversely effect the Company's business.

ITEM 2. CHANGES IN SECURITIES

In January 11, 2001 YP.Net issued 500,000 common shares to BJM Consulting, Inc. as payment for completion of specific services rendered. In a separate agreement that resolved a dispute between the parties BJM Consulting, Inc, agreed to return all of the pervious shares received for work not completed in the amount of 500,000 common shares. (Refer to Part II, Item 1 "Legal Proceedings") The shares were issued in reliance on the exemption from registration provided by Section 4(2) of the Securities Act of 1933.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

EXHIBITS

10.1 S.G. Martin Securities LLC

REPORTS ON FORM 8-K

No reports on Form 8-K were filed during the three months ended March 31, 2001.

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: March 15, 2001 By /s/ Angelo Tullo

Angelo Tullo, Chairman of the Board

SE G. MARTIN SECURITIES LLC

March 9, 2001

Mr. Angelo Tulle
Chairman
YP.NET, INC.
4840 East Jasmine Street, Suite 105
Mesa, Arizona 85205

Dear Mr. Tullo:

This will confirm the arrangements, terms and conditions pursuant to which S.G. Martin Securities LLC ("Advisor") has been retained to serve as an investment banker to YP.NET, INC. (the "Company") for a one (l}year period commencing on the date hereof, subject to the termination provisions set forth in Paragraph 2 hereof. For good and valuable consideration, the sufficiency of which is hereby acknowledged, the undersigned hereby agree to the following terms and conditions:

1. Duties of Advisor. Advisor shall, as more fully set forth below in
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this Paragraph 1, assist the Company in formulating, initiating and implementing the Company's strategic business and capital formation plans and programs. Without limiting the generality of the foregoing, Advisor agrees to:

(a) undertake, in conjunction with the Company, an evaluation and analysis of the business operations; strategic business plan; corporate, capital and shareholder structures; management (and together with the Company's Board of Directors, "Management"); financial condition; prospects; and capital requirements of the Company;

(b) assist the Company in its presentation to the brokerage community and the introduction to security firms and brokers other than S.C Martin;

(c) assist in preparation and filing of Form 15C2-ll;

(d) develop the capital formation strategy and program necessary to fund and facilitate the Company's strategic plan and, assist the Company in effectuating the specific financing, business combination, or series of transactions (Individually the "Transaction" and together the "Transactions")determined pursuant to discussions between the Company and Advisor; and

(e) be available on request, on appropriate notice, to meet with the Company's Management and/or Board of Directors to discuss, as appropriate, the Company's strategic plan and a Transaction.

The services described in Paragraph 1 may be rendered by Advisor without any direct supervision by the Company and at such time and place in such manner (whether by conference, telephone, letter or otherwise) as Advisor may reasonably determine.

2. Term. The term of Advisor's engagement hereunder shall extend for up
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to twelve (12) months commencing on the date hereof (the "Term"), however; can be terminated by either party upon 60 days written notice.

3. Compensation and Expense Reimbursement.

(a) A non-refundable retainer of $12,500.00 and 25,000 shares of common stock payable and issued to S.G. Martin Securities no later than 10 days after the execution of this Agreement;

(b) $5,000.00 per month due on the first of each month, commencing from the 1st month proceeding the execution of this Agreement and continuing monthly thereafter, for the term of this Agreement with the final 2~ month's payments to be deducted from the retainer;

(c) A warrant, to vest quarterly during the term of this Agreement, to purchase 50,000 shares of common stock of the Company at an exercise price of $0.50 per share. (All warrants issued to S.G. Martin Securities pursuant to the terms of this Agreement shall be exercisable for a period of five (5) years and have demand and piggy-back registration rights). As approved by the Board; and

(d) Advisor shall be promptly reimbursed for all reasonable out-of-pocket expenses incurred in connection with its engagement hereunder not to exceed $500.00 without prior approval.

4. No Agency Authority. The Advisor shall have and shall not hold itself out as having any authority to act as agent for the Company or bid it in any way.

5. Company's Responsibilities, Representations and Warranties.

In connection with S.G. Martin Securities engagement, the Company will furnish S.G. Martin Securities with any information concerning the Company that S.C Martin Securities reasonable deems appropriate and will provide S.G. Martin Securities with access to the Company's officers, directors, accountants, counsel and other advisors. The Company represents and warrants to S.G. Martin Securities that all such information concerning the Company, does not and will not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein not misleading in light of the circumstances under which such statements are made. The Company represents and warrants to S.G. Martin Securities that any financial projections or forecasts provided to S.G. Martin Securities are "forward looking statements" as that term is used in Section 21E of the Securities Exchange Commission Act of 1934 and represent the best currently available estimates by the management of the Company of the future financial performance by the Company (or its business) and are based upon reasonable assumptions. The Company acknowledges and agrees that S.G. Martin Securities will be using and relying upon such information supplied by the Company and its officers, agents and others and upon any other publicly available information concerning the Company without any independent investigation or verification thereof or independent appraisal by S.G. Martin Securities of the Company or its business or assets; and

6. Available Time. Advisor shall make available such time as it, in its reasonable discretion, shall deem appropriate for the performance of its obligations under this Agreement.

7. Relationship. Nothing herein shall constitute Advisor as an employee or agent of the Company, except to such extent as might hereinafter be agreed upon in writing for a particular purpose. Except as might hereinafter be expressly agreed, Advisor shall not have the authority to obligate or commit the Company in any manner whatsoever.

8. Confidentiality Relating to this Agreement. Neither the Company nor Advisor shall disclose (except to its partners, accountants and attorneys), without specific consent from the other party, any

information relating to this Agreement or any Transactions contemplated hereby, including without limitation, the existence of this Agreement.

9. Assignment. This agreement shall not be assignable by any party except to successors to all or substantially all of the business of either party for any reason whatsoever without the prior written consent of the other party, which consent may not be unreasonably withheld by the party whose consent Is required.

10. Amendment. This Agreement may not be amended or modified except in writing signed by both parties.

11. Governing Law. This Agreement shall be deemed to have been made and delivered in New York City, and both this agreement and the transactions contemplated hereby shall be governed as to validity, interpretation, construction, effect, and in all other respects by the internal laws of the State of New York.

Advisor is delighted to accept this engagement and looks forward to working with you on this assignment. Please confirm that the foregoing correctly sets forth our agreement by signing this enclosed duplicate of this letter in the space provided and returning it, whereupon this letter shall constitute a binding agreement as of the date first above written.

Very truly yours,

S.G. MARTIN SECURITIES LLC
By:

Stephen J. Drescher
Director of Corporate Finance

AGREED AND ACCEPTED AS OF
THE DATE FIRST ABOVE WRITTEN:

YP.NET, INC.

By:____
Angelo Tullo Chairman