

UNITED STATES 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 March 31, 2004

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 CORP.

(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)

YP.NET, INC.  
 (Former Name)

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

Yes  No   
 --- ---

APPLICABLE ONLY TO CORPORATE ISSUERS

The number of shares of the issuer's common equity outstanding as of May 11, 2004 was 48,874,302 shares of common stock, par value \$.001.

Transitional Small Business Disclosure Format (check one):

Yes  No   
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INDEX TO FORM 10-QSB FILING  
 FOR THE QUARTER ENDED MARCH 31, 2004

TABLE OF CONTENTS

PART I.  
 FINANCIAL INFORMATION

	Page
Item 1. Financial Statements	<C>
Consolidated Balance Sheet	
as of March 31, 2004 . . . . .	3
Consolidated Statements of Operations	
for the Three and Six Month Periods	
Ended March 31, 2004 and March 31, 2003. . . . .	4
Consolidated Statements of Cash Flows	
for the Six month periods ended March 31,	
2004 and March 31, 2003. . . . .	5
Notes to the Consolidated Financial Statements . . . . .	7
Item 2. Management's Discussion and Analysis . . . . .	19
Item 3. Controls and Procedures. . . . .	43

PART II  
OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K . . . . . 44

SIGNATURES  
</TABLE>

2

<TABLE>  
<CAPTION>  
PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

YP CORP.  
UNAUDITED CONSOLIDATED BALANCE SHEET  
AS OF MARCH 31, 2004

ASSETS:

CURRENT ASSETS

<u>&lt;S&gt;</u>	<u>&lt;C&gt;</u>
Cash and equivalents	\$ 2,242,002
Accounts receivable, net of allowance for doubtful accounts of \$5,193,394	13,231,132
Prepaid expenses and other current assets	306,815
Deferred tax asset	1,375,329
	-----
Total current assets	17,155,278

ACCOUNTS RECEIVABLE, long term portion, net of allowance for doubtful accounts of \$359,203	1,022,348
--	-----------

CUSTOMER ACQUISITION COSTS, net of accumulated amortization of \$2,297,854	3,745,788
--	-----------

PROPERTY AND EQUIPMENT, net	763,603
-----------------------------	---------

DEPOSITS AND OTHER ASSETS	113,310
---------------------------	---------

INTELLECTUAL PROPERTY- URL, net of accumulated amortization of \$2,100,460	3,432,638
--	-----------

ADVANCES TO AFFILIATES	5,003,962
	-----

TOTAL ASSETS	\$31,236,927
	=====

LIABILITIES AND STOCKHOLDERS' EQUITY:

CURRENT LIABILITIES:

Accounts payable	\$ 822,474
Accrued liabilities	1,994,232
Notes payable- current portion	115,868
Income taxes payable	4,155,425
	-----
Total current liabilities	7,087,999

DEFERRED INCOME TAXES	40,518
	-----

Total liabilities	7,128,517
	-----

STOCKHOLDERS' EQUITY:

Series E convertible preferred stock, \$.001 par value, 200,000 shares authorized, 131,840 issued and outstanding, liquidation preference \$39,552	11,206
Common stock, \$.001 par value, 100,000,000 shares authorized, 55,580,136 issued, 48,874,302 outstanding	48,874
Paid in capital	9,751,126
Deferred stock compensation	(4,032,024)
Treasury stock at cost	(690,306)
Retained earnings	19,019,534
	-----

Total stockholders' equity	24,108,410
	-----

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$31,236,927
	=====

<FN> See the accompanying notes to these unaudited financial statements

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3

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YP CORP.  
 UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS  
 FOR THE THREE AND SIX MONTH PERIODS ENDED MARCH 31, 2004 AND MARCH 31, 2003

	Three Months Ended March 31, 2004	Six Months Ended March 31, 2004	Three Months Ended March 31, 2003	Six Months Ended March 31, 2003
<S>	<C>	<C>	<C>	<C>
NET REVENUES	\$ 16,394,853	\$ 30,261,820	\$ 6,849,044	\$ 12,590,499
OPERATING EXPENSES:				
Cost of services	6,618,537	11,500,939	1,848,966	3,671,116
General and administrative expenses	3,134,522	5,925,265	1,666,108	3,042,186
Sales and marketing expenses	1,428,210	2,718,390	862,939	1,495,374
Depreciation and amortization	199,719	395,912	159,306	298,238
Total operating expenses	11,380,988	20,540,506	4,537,319	8,506,914
OPERATING INCOME	5,013,865	9,721,314	2,311,725	4,083,585
OTHER (INCOME) AND EXPENSES				
Interest (income) expense	(78,545)	(149,698)	(12,069)	(12,789)
Other (income) expense	(71,395)	(346,153)	(180,980)	(229,886)
Total other (income) expense	(149,940)	(495,851)	(193,049)	(242,675)
INCOME BEFORE INCOME TAXES	5,163,805	10,217,165	2,504,774	4,326,260
INCOME TAX PROVISION (BENEFIT)	1,815,206	3,583,881	999,853	1,728,447
NET INCOME	\$ 3,348,599	\$ 6,633,284	\$ 1,504,921	\$ 2,597,813
NET INCOME PER SHARE:				
Basic	\$ 0.07	\$ 0.14	\$ 0.03	\$ 0.06
Diluted	\$ 0.07	\$ 0.14	\$ 0.03	\$ 0.06
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:				
Basic	46,946,458	46,904,402	43,271,333	42,011,711
Diluted	48,145,140	47,640,118	43,271,333	42,011,711

See the accompanying notes to these unaudited financial statements

4

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YP CORP.  
 UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS  
 FOR THE SIX MONTH PERIODS ENDED MARCH 31, 2004 AND MARCH 31, 2003

	SIX MONTHS ENDED MARCH 31, 2004	SIX MONTHS ENDED MARCH 31, 2003
<S>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 6,633,284	\$ 2,597,813
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	395,912	298,238
Income recognized on forgiveness of debt	-	(45,362)
Loss on disposal of fixed assets	36,932	-
Amortization of deferred stock compensation	503,071	-
Deferred income taxes	37,962	155,176
Officers & consultants paid common stock	-	453,750
Common stock surrendered	-	(160,979)

Changes in assets and liabilities:		
Trade and other accounts receivable	(5,801,351)	(2,283,431)
Customer acquisition costs	(502,547)	(1,218,660)
Prepaid and other current assets	(152,539)	(113,628)
Other assets	35,000	52,096
Receivable from affiliate	-	(110,121)
Accounts payable	394,051	148,684
Accrued liabilities	(72,743)	(105,603)
Due to affiliates	-	14,017
Income taxes payable	1,466,113	1,573,273
	-----	-----
Net cash provided by operating activities	2,973,145	1,255,263
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Advances made to affiliates and related parties	(2,725,000)	(400,000)
Purchases of intellectual property	(151,863)	(6,761)
Purchases of equipment	(233,128)	(469,548)
	-----	-----
Net cash (used in) investing activities	(3,109,991)	(876,309)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from debt	-	147,000
Principal repayments on notes payable	-	(454,000)
	-----	-----
Net cash (used)/provided by financing activities	-	(307,000)
	-----	-----
(DECREASE) INCREASE IN CASH	(136,846)	71,954
CASH, BEGINNING OF PERIOD	2,378,848	767,108
	-----	-----
CASH, END OF PERIOD	\$ 2,242,002	\$ 839,062
	=====	=====

<FN>

See the accompanying notes to these unaudited financial statements

</TABLE>

5

YP CORP.

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE SIX MONTH PERIODS ENDED MARCH 31, 2004 AND MARCH 31, 2003, continued

SUPPLEMENTAL CASH FLOW INFORMATION:

<TABLE>

<CAPTION>

	Six month period ended March 31, 2004	Six month period ended March 31, 2003
	-----	-----
<S>	<C>	<C>
Interest Paid	\$ -	\$ 9,545
	=====	=====

<FN>

See the accompanying notes to these unaudited financial statements

</TABLE>

6

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTH PERIODS ENDED MARCH 31, 2004 AND MARCH 31, 2003

## 1. Basis of Presentation

The accompanying unaudited financial statements represent the consolidated financial position of YP Corp. f/k/a YP.Net, Inc. ("the Company") for the three and six month periods ended March 31, 2004, and March 31, 2003, which includes results of operations of the Company, Telco Billing, Inc. ("Telco") and Telco of Canada, Inc, its wholly owned subsidiaries, and statement of cash flows for the six month periods ended March 31, 2004 and March 31, 2003. These statements have been prepared in accordance with generally accepted accounting principles ("GAAP") for interim financial information. Accordingly, they do not include all the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments to these unaudited financial statements necessary for a fair presentation of the results for the interim period presented have been made.

## 2. Company Organization and Operations

YP Corp. f/k/a YP.Net, Inc., a Nevada corporation (the "Company," "we," "us," or "our"), is in the business of providing Internet-based Yellow Page advertising space on or through [www.Yellow-Page.Net](http://www.Yellow-Page.Net), [www.YP.Net](http://www.YP.Net) and [www.YP.com](http://www.YP.com). Subsequent

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to March 31, 2004, the Company changed its name from "YP. Net, Inc." to "YP Corp."

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

As our primary source of revenue, we offer a Mini-Webpage(TM) to businesses for a monthly fee. The Mini-Webpage(TM) provides a business with a priority placement listing over non-paying listings and is displayed in a bigger and bolder font at the beginning of, or in the first section of the user's search results - thus featuring our paying customers more prominently to user's of our website. In addition, our paying customers get a Mini-Webpage(TM) which includes a 40-word description of their business, their hours of operation and other useful information, a direct link to the paying customers website, (if they have one and it is provided by the advertiser), map, driving directions to the paying customers location and more. We market for advertisers for this Internet Advertising Package ("IAP"), under the name "Yellow-Page.Net, exclusively to businesses through a direct mail solicitation program. The solicitation includes a promotional incentive (i.e. generally a \$3.25 check) which, if cashed by the business, automatically signs the business up for the IAP service for an initial twelve month period with automatic renewals thereafter. This easy subscription process provides a written confirmation (i.e., the check) of the subscription by the newly subscribing business, which is verified by an independent third party (i.e., the paying customers depositing bank). To additionally insure the intention of sign-up, the Company then mails a written confirmation card to the newly subscribing business generally within 30 days from activation. The Company also provides a 120-day cancellation period whereby the subscribing business may cancel and receive a full refund of any amounts paid to the Company.

Each paying customer is billed monthly for that month's service, the vast majority of such monthly billings appear on the subscribing business's local phone bill. Management believes this ability to bill the paying customer through the paying customers phone bill is a significant competitive advantage for the

7

Company as few independent (not owned by a telephone company) yellow page companies are authorized to bill directly on the phone bill for services rendered.

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

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

In April 2004, we again amended our Articles of Incorporation to change our name to YP Corp.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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investments that are readily convertible to known amounts of cash and have original maturities of three months or less. At times cash deposits may exceed government insured limits. At March 31, 2004, cash deposits exceeded those insured limits by \$1,964,000.

Principles of Consolidation: The consolidated financial statements include the  
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accounts of the Company and its wholly owned subsidiaries, Telco Billing, Inc. and Telco of Canada, Inc. All significant intercompany accounts and transactions are eliminated.

Customer Acquisition Costs: These costs represent the direct response marketing

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costs that are incurred as the primary method by which customers subscribe to the Company's services. The Company purchases mailing lists and sends advertising materials to prospective subscribers from those lists. Customers subscribe to the services by positively responding to those advertising materials which serve as the contract for the subscription. The Company capitalizes and amortizes the costs of direct-response advertising on a straight-line basis over eighteen months, the estimated average period of retention for new customers. The Company capitalized costs of \$1,437,093 and \$2,721,862 and \$1,358,902 and \$2,342,712 during the three and six months ended March 31, 2004 and March 31, 2003, respectively. The Company amortized \$1,214,236 and \$2,280,100 and \$640,996 and 1,124,049 of total capitalized costs during the three and six months ended March 31, 2004 and March 31, 2003, 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 \$213,975 and \$438,291 and \$221,941 and \$377,322 for the three and six months ended March 31, 2004 and March 31, 2003, respectively.

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

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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

8

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 based on estimated future collections. The Company continuously reviews this estimate for reasonableness based on its collection experience.

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

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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

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

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

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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

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generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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

Stock-Based Compensation: Statements of Financial Accounting Standards No. 123,

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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."

Impairment of Long-lived Assets: The Company assesses long-lived assets for

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

9

Recently Issued Accounting Pronouncements: In July 2002, the FASB issued SFAS

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No. 146, "Accounting for Costs Associated With Exit or Disposal Activities". This Standard requires costs associated with exit or disposal activities to be recognized when they are incurred. The Company estimates the impact of adopting these new rules will not be material.

In October 2002, the FASB issued SFAS No. 147, "Acquisitions of Certain Financial Institutions." SFAS No. 147 is effective October 1, 2002. The adoption of SFAS No. 147 did not have a material effect on the Company's financial statements.

In April 2003, the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities," effective for contracts entered into or modified after June 30, 2003. This amendment clarifies when a contract meets the characteristics of a derivative, clarifies when a derivative contains a financing component and amends certain other existing pronouncements. The Company believes the adoption of SFAS No. 149 will not have a material effect on the Company's financial statements.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." SFAS No. 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. SFAS No. 150 requires the classification as a liability of any financial instruments with a mandatory redemption feature, an obligation to repurchase equity shares, or a conditional obligation based on the issuance of a variable number of its equity shares. The Company does not have any financial instruments with a mandatory redemption feature. The Company believes the adoption of SFAS No. 150 will not have a material effect on the Company's financial statements.

In November 2002, the FASB issued FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" (FIN 45). FIN 45 clarifies the requirements for a guarantor's accounting for and disclosure of certain guarantees issued and outstanding. The initial recognition and initial measurement provisions of FIN 45 are applicable to guarantees issued or modified after March 31, 2003. The disclosure requirements of FIN 45 are effective for financial statements for periods ending after December 15, 2002. The adoption of FIN 45 did not have a significant impact on the Company's financial statements. See Note 10.

In January 2003, the FASB issued FIN No. 46, "Consolidation of Variable Interest Entities" (FIN 46). FIN No. 46 states that companies that have exposure to the economic risks and potential rewards from another entity's assets and activities have a controlling financial interest in a variable interest entity and should consolidate the entity, despite the absence of clear control through a voting equity interest. The consolidation requirements apply to all variable interest entities created after January 31, 2003. For variable interest entities that existed prior to February 1, 2003, the consolidation requirements are effective for annual or interim periods beginning after June 15, 2003. Disclosure of significant variable interest entities is required in all financial statements issued after January 31, 2003, regardless of when the variable interest was created. The Company is presently reviewing arrangements to determine if any variable interest entities exist but does not anticipate the adoption of FIN 46 will have a significant impact on the Company's financial statements.

#### 4. 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 to the remittances for potentially uncollectible accounts. These dilution amounts will vary due to numerous factors and the Company may not be certain as to the actual amounts of dilution on any specific billing submittal until several months after that submittal. The Company estimates the amount of these charges and holdbacks based on historical experience and subsequent information received from the billing companies. The Company also estimates uncollectible account balances and provides an allowance for such estimates. The billing companies retain certain holdbacks that may not be collected by the Company for a period extending beyond one year. These balances have been classified as long-term assets in the accompanying balance sheet.

The Company experiences significant dilution of its gross billings by the billing companies. The Company negotiates collections with the billing companies on the basis of the contracted terms and historical experience. Holdbacks, fees, and other matters, which are determined by the LEC's and the billing companies, may affect the Company's cash flow. The Company processes its billings through two primary billing companies.

PaymentOne, Inc. f/k/a eBillit, Inc. ("PaymentOne") provides the majority of the Company's billings, collections, and related services. The net receivable due from PaymentOne at March 31, 2004 was \$10,265,000, net of an allowance for doubtful accounts of \$3,998,000. The net receivable from PaymentOne at March 31, 2004, represents approximately 72% of the Company's total net accounts receivable at March 31, 2004.

Subscription receivables that are directly billed by the Company are valued and reported at the estimated future collection amount. Determining the expected collections requires an estimation of both uncollectible accounts and refunds. Subscriptions receivable at March 31, 2004 was \$133,451, net of allowance for doubtful accounts of \$46,820.

Accounts receivable at March 31, 2004 is summarized as follows:

<TABLE>  
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	Current	Long-Term	Total
	-----	-----	-----
<S>	<C>	<C>	<C>
Gross accounts receivable	\$18,424,526	\$1,381,551	\$19,806,077
Allowance for doubtful accounts	5,193,394	359,203	5,552,597
	-----	-----	-----
	\$13,231,132	\$1,022,348	\$14,253,480
	=====	=====	=====

</TABLE>

Certain receivables have been classified as long-term because the Company's collection experience with those receivables has historically extended beyond one year.

#### 5. INTELLECTUAL PROPERTY AND OTHER INTANGIBLE ASSETS

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

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

the carrying of the asset. The Company

periodically analyzes the carrying value of this asset to determine if impairment has occurred. No such impairments were identified during the year ended September 30, 2003 or the six months ended March 31, 2004. The URL is amortized on an accelerated basis over the twenty-year term of the licensing agreement. Amortization expense on the URL was \$82,000 and \$164,000 for the three and six months ended March 31, 2004, respectively.

Additionally, the Company has capitalized costs of other intangible assets such as web site development costs and other URL's. These assets are recorded at cost net of accumulated amortization. At March 31, 2004, the net recorded balance was approximately \$414,000, net of accumulated amortization of approximately \$110,000. Amortization expense on these assets was approximately \$39,000 and \$68,000 for the three and six months ended March 31, 2004.

#### 6. PROVISION FOR INCOME TAXES

Deferred income taxes reflect the net tax effects of temporary differences



between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

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

<TABLE>  
<CAPTION>

	Three Months Ended March 31, 2004	Six Months Ended March 31, 2004	Three Months Ended March 31, 2003	Six Months Ended March 31, 2003
<S>	<C>	<C>	<C>	<C>
Current Provision	\$1,563,074	\$ 3,015,316	\$ 888,889	\$ 1,576,233
Deferred (Benefit) Provision	252,132	568,565	110,964	152,214
Net income tax provision	\$1,815,206	\$ 3,583,881	\$ 999,853	\$ 1,728,447

</TABLE>

During the year ended September 30, 2003, the Company expanded certain operations and revenue generating assets in Nevada where there are no corporate income taxes thereby reducing the statutory rate used for state income taxes.

At March 31, 2004, deferred income tax assets related to differences in book and tax bases of accounts receivable, direct marketing costs and intangible assets.

At March 31, 2004 deferred tax liabilities were comprised of differences in book and tax bases of customer acquisition costs and property and equipment respectively.

#### 7. NET INCOME PER SHARE

Net income per share is calculated using the weighted average number of shares of common stock outstanding during the three and six months ended March 31, 2004 and March 31, 2003, respectively. Preferred stock dividends are subtracted from the net income to determine the amount available to common shareholders. There were \$494 and \$989 in preferred stock dividends the three and six months ended March 31, 2004. Warrants to purchase 500,000 shares of common stock were included in the calculation for the three and six months ended and March 31, 2003. The exercise price of those warrants

12

was greater than the trading value of the common stock and therefore inclusion of such would be anti-dilutive. Also excluded from the calculation for the three and six months ended March 31, 2004 and 2003 were 131,840 shares of Series E Convertible Preferred Stock issued during the year ended September 30, 2002, which are considered anti-dilutive due to the cash payment required by the holders of the securities at the time of conversion. The dilutive effect of unvested restricted stock awards and certain warrants are included in the calculation of diluted earnings per share for the three and six month periods ended March 31, 2004. Excluded from the calculation of diluted earnings per share for the six month period ended March 31, 2004 are warrants to purchase 125,000 shares of common stock and unvested restricted stock awards totaling 240,000 shares. The securities are excluded from the calculation because their inclusion would be anti-dilutive.

The following presents the computation of basic and diluted loss per share from continuing operations for the three months and six months ended March 31, 2004:

<TABLE>  
<CAPTION>

	Three Months Ended March 31, 2004		Six Months Ended March 31, 2004		
	Income	Shares	Income	Shares	Per share
<S>	<C>	<C>	<C>	<C>	<C>
Net Income	\$3,348,599		\$ 6,633,284		
Preferred stock dividends	(494)		(989)		
Income available to common Stockholders	\$3,348,105		\$ 6,632,295		

BASIC EARNINGS PER SHARE:

Income available to common stockholders	\$3,348,105	46,946,458	\$ 0.07	\$ 6,632,295	46,904,402	\$ 0.14
Effect of dilutive securities						
Warrants		207,796	-		126,977	
Unvested restricted stock awards		990,886	-		608,739	
Preferred stock dividend	494			989		
DILUTED EARNINGS PER SHARE	\$3,348,599	48,145,140	\$ 0.07	\$ 6,633,284	47,640,118	\$ 0.14

</TABLE>

#### 8. 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.

13

The "Put" feature has been renegotiated and retired. As part of the renegotiated settlement, the Company provided a credit facility of up to \$20,000,000 to the former Telco shareholders, collateralized by the stock held by these shareholders, with interest at least 0.25 points higher than the Company's average cost of borrowing. Additional covenants warrant that no more than \$1,000,000 can be advanced at any point in time and no advances can be made in excess without allowing at least 30 days operating cash reserves or if the Company is in an uncured default with any of its lenders. At March 31, 2004, the Company had advanced approximately \$4,851,000 under this agreement. The former Telco shareholders have not made any interest or principal payments in the three months ended March 31, 2004.

In the three month period ended December 31, 2003, the Company and the former Telco shareholders agreed to amend the arrangement whereby the Company will be required to advance only an additional \$1,300,000 through April 2004 and the ability to draw on that facility will cease at that time. However, the Company made a commitment in connection with that amendment to begin paying dividends to all of its common stockholders in the fiscal year ended September 30, 2004.

##### Billing Service Agreements

The Company has entered into a customer billing service agreement with PaymentOne, Inc. f/k/a eBillit, Inc. ("PaymentOne"). PaymentOne 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, 2005, unless either party gives notice of termination 90 days prior to that renewal date. Under the agreement, PaymentOne bills, collects and remits the proceeds to Telco net of reserves for bad debts, billing adjustments, telephone company fees and PaymentOne fees. If either the Company's transaction volume decreases by 25% from the preceding month, or less than 75% of the traffic is billable to major telephone companies, PaymentOne may at its own discretion increase the reserves and holdbacks under this agreement. PaymentOne 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 PaymentOne. PaymentOne may at its own discretion increase the reserves and holdbacks under this agreement.

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

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

##### Other

The Company's Board of Directors has committed the Company to pay for the costs of defending a civil action filed against its CEO and Chairman. The action

involved a business that the CEO was formerly involved in. The Company and at least one officer had received subpoenas in connection with this matter and the Board believes that it is important to help resolve this matter as soon as possible. The Board action included the payment of legal and other fees for any other officers and directors that may have become involved in this civil action. During the three and six months ended March 31, 2004, the Company paid costs of approximately \$32,000 and \$56,000, respectively, on behalf of its CEO relative to this matter. The amounts expensed in the current period are presented as compensation expense within general and administrative expenses in the accompanying statement of operations for the three and six months ended March 31, 2004. The Company believes that all civil actions against the CEO related to

14

this matter have been dismissed or are being dismissed. However, additional legal costs will be incurred to address all matters in finalizing this issue and, at this time, the Company cannot estimate what additional costs may be incurred to continue covering the costs related to this matter, but all such costs shall be deemed to be additional compensation to the CEO.

The Company has entered into "Executive Consulting Agreements" with four entities controlled by four of the Company's officers individually. These agreements call for fees to be paid for the services provided by these individuals as officers of the Company as well as their respective staffs. These agreements are not personal service contracts of these officers individually. The agreements extend through 2007 and require annual performance bonuses that aggregate up to approximately \$320,000 depending upon available cash and meeting of certain performance criteria.

Subsequent to March 31, 2004, the Company entered into a \$1 million one year renewable revolving credit facility agreement with a lending institution. The terms of the agreement require interest only payments on the outstanding balance at the per annum rate of the one month LIBOR plus 3%. Outstanding advances are secured by all existing and acquired tangible and intangible assets of the Company located in the United States.

#### 9. RELATED PARTY TRANSACTIONS

During the three and six month periods ended March 31, 2004 and 2003, the Company entered into the related party transactions with Board members, officers and affiliated entities as described below:

##### Directors & Officers -----

Board of Director fees for the three and six month periods ended March 31, 2004 were \$40,000 and \$60,000, respectively. These amounts are included in the amounts discussed below.

The CEO, a Subsidiary Officer, a Subsidiary Officer and Corporate Secretary as well as the CFO are paid for their services and those of their respective staffs through separate entities controlled by these individuals who pre-date their association with the Company. The following describes the compensation paid to these entities.

##### Sunbelt Financial Concepts, Inc. -----

Sunbelt Financial Concepts, Inc. ("Sunbelt") provides the services of the Chairman and CEO and his staff to the Company.

Sunbelt provides the strategic and overall planning as well as the operations management to the Company. Sunbelt's team is experienced in all areas of management and administration.

During the three and six month periods ended March 31, 2004, the Company paid a total of approximately \$133,000 and \$289,000 to Sunbelt. In addition, during the three and six month periods ended March 31, 2004, the Company paid approximately \$32,000 and \$86,000 on behalf of the CEO to attorneys for legal fees incurred by Sunbelt related to the personal legal matters discussed in Note 8. Approximately \$625,000 of total amounts due Sunbelt remain accrued at March 31, 2004.

15

##### Advertising Management & Consulting Services, Inc. -----

Advertising Management & Consulting Services, Inc. ("AMCS") provides the services of a Subsidiary Officer, a Director of the Company, and his staff to the Company. AMCS is a marketing and advertising company experienced in designing Direct Marketing Pieces, insuring compliance with regulatory

authorities for those pieces and designing new products that can be mass marketed through the mail. AMCS' president is a director of the Company.

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

Total amount paid to this director and AMCS during the three and six month periods ended March 31, 2004 was approximately \$110,000 and \$297,000, respectively. At March 31, 2004, the total amount accrued to AMCS was approximately \$119,000.

Advanced Internet Marketing, Inc.  
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Advanced Internet Marketing, Inc. ("AIM") provides the services of a Subsidiary Officer, Corporate Secretary and a Director of the Company, and his staff to the Company.

The Company outsources the design and marketing of it's website on the World Wide Web to AIM. AIM's team of designers is experienced in all areas of web design and has created all of the Company's logos and images for branding.

The total amount paid to AIM during the three and six month periods ended March 31, 2004 was approximately \$67,000 and \$164,000, respectively. At March 31, 2004, the total amount accrued to AIM is approximately \$96,000.

MAR & Associates  
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The compensation for services of the Company's Chief Financial Officer are paid to MAR & Associates ("MAR"). The total amount paid to MAR and the CFO during the three and six month periods ended March 31, 2004 was approximately \$66,000 and \$147,000, respectively. At March 31, 2004, the total amount accrued to MAR was approximately \$29,000.

Other  
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The Company made additional advances to former Telco shareholders of \$2,725,000 and \$4,725,000 during the three and six month periods ended March 31, 2004. Interest earned on these advances was approximately \$82,000 and \$153,000 for the three and six month periods ended March 31, 2004.

Advances to affiliates are summarized as follows at March 31, 2004:

<TABLE> <CAPTION> <S>	<C>
Morris & Miller	\$3,511,108
Mathew & Markson	1,492,854
	-----
Total	\$5,003,962
	=====

</TABLE>

16

On December 22, 2003, the Company entered into an agreement with the former Telco shareholders that terminated the line of credit agreement effective April 9, 2004 (Note 8).

Simple.Net, Inc. ("SN")  
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The Company had contracted with Simple.Net, Inc. ("SN"), an internet service provider owned by a director of the Company, to provide internet dial-up and other services to its customers. SN had sold said services to the Company at below market rate prices from time to time. During the three and six month periods ended March 31, 2004, the Company recorded expense of approximately \$107,000 and \$422,000, respectively for said services. At March 31, 2004, \$37,000 net due to SN was accrued in accounts payable.

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

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

Technical Support fees are calculated by number of customer records of SN multiplied by a base cost of 60 cents.

For the three and six month periods ended March 31, 2004, the Company recorded other income of approximately \$66,000 and \$288,000, respectively, from SN for these services.

On December 29, 2003, we entered into a separation agreement with Simple.Net which becomes effective January 31, 2004. Under this agreement, Simple.Net will no longer provide any services to us, although the Separation Agreement provided for a 30-day extension until March 2, 2004.

#### 10. 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 March 31, 2004, the Company had bank balances exceeding those insured limits of \$899,000. Financial instruments that potentially subject the Company to concentrations of credit risk are primarily trade accounts receivable. The trade accounts receivable are due primarily from business customers over widespread geographical locations within the LEC billing areas across the United States. The Company historically has experienced significant dilution and customer credits due to billing difficulties and uncollectible trade accounts receivable. The Company estimates and provides an allowance for uncollectible accounts receivable. The handling and processing of cash receipts pertaining to trade accounts receivable is maintained primarily by two third party billing companies. The Company is dependent upon these billing companies for collection of its accounts receivable. As discussed in Note 4, the net receivable due from a single billing services provider at March 31, 2004 was \$10,265,000, net of an allowance for doubtful accounts of \$3,998,000. The net receivable from that billing services provider at March 31, 2004, represents approximately 72% of the Company's total net accounts receivable at March 31, 2004.

As discussed in Note 9, the Company has advanced a net amount of \$5,003,962 to an affiliate. That amount is receivable from the affiliate at March 31, 2004. The Company has a receivable for that amount

17

which earns interest at 8% and is payable in April 2007. The receivable is collateralized by shares of the Company's common stock held by the affiliate.

\* \* \* \* \*

18

#### ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS

For a description of our significant accounting policies and an understanding of the significant factors that influenced our performance during the three and six months ended March 31, 2004, this "Management's Discussion and Analysis" should be read in conjunction with the Consolidated Financial Statements, including the related notes, appearing in Item 1 of this Quarterly Report.

#### Forward-Looking Statements

This portion of this Quarterly Report on Form 10-QSB, includes statements that constitute "forward-looking statements." These forward-looking statements are often characterized by the terms "may," "believes," "projects," "expects," "or "anticipates," and do not reflect historical facts. Specific forward-looking statements contained in this portion of the Annual Report include, but are not limited to the Company's: (i) belief that the increase in ACH billing will continue and escalate; (ii) expectation that the recent increase in dilution will be reduced to more normal levels over the next few quarters; and (iii) anticipation that capital expenditures will not grow at the same rate in future fiscal periods compared to the prior fiscal year.

Forward-looking statements involve risks, uncertainties and other factors, which may cause our actual results, performance or achievements to be materially different from those expressed or implied by such forward-looking statements. Factors and risks that could affect our results and achievements and cause them to materially differ from those contained in the forward-looking statements include those identified in the section below titled "Certain Risk Factors Affecting Our Business," as well as other factors that we are currently unable to identify or quantify, but may exist in the future.

In addition, the foregoing factors may affect generally our business, results of operations and financial position. Forward-looking statements speak only as of the date the statement was made. We do not undertake and specifically decline any obligation to update any forward-looking statements.

## Business Summary

We use a business model similar to print Yellow Page publishers. We publish basic directory listings, free of charge, exclusively on the Internet. Like Yellow Page publishers, we generate virtually all of our revenues from those advertisers that desire increased exposure for their businesses by purchasing our Internet Advertising Package(TM), or IAP. Our basic listings contain the business name, address and phone number for almost 18 million U.S. businesses. We strive to maintain a listing for almost every business in America in this format.

To generate revenues, certain advertisers pay us a monthly fee for our IAP in the same manner that advertisers pay additional fees to traditional print Yellow Page providers for enhanced advertisement font, location or display. The IAP includes, Mini-Webpage(TM), map

19

directions, a toll-free calling feature, a link to the advertiser's own webpage and, at no additional charge, a priority or preferred placement on our website. The users of our website(s) are prospective IAP advertisers for our advertisers.

We also offer other ancillary services and products that currently account for less than 5% of our revenue. These ancillary services and products include website design and hosting, and dial-up Internet access.

## Sales and Marketing

We employ a direct mail marketing program to solicit our IAP advertisers. Currently, our direct mail marketing program includes a promotional incentive in the form of a \$3.25 activation check that a solicited business simply deposits with its bank to activate the service and become an IAP advertiser on a monthly basis. As a method of third-party verification, the potential IAP advertiser's bank verifies that the depositing party is in fact the solicited business. Upon notice of activation by the IAP advertiser's bank, we contact the business to confirm the order. Within 30 days of activation, we also send a confirmation card to the business. We offer a cancellation period of 120 days with a full refund. Our direct mail marketing program complies with and, in many instances, exceeds the United States Federal Trade Commission, or "FTC," requirements as established by an agreement between our company and the FTC.

## IAP advertisers

In September 2003, we revised the method by which we count our IAP advertisers. We now differentiate between "paying IAP advertisers" and "activated IAP advertisers." Paying IAP advertisers, as the name implies, are those advertisers that are actually currently paying for the IAP service. The terms activated IAP advertisers or activated advertisers are broader and more inclusive terms. They include those advertisers that are currently paying for the IAP service, as well as those advertisers that either have signed-up for the IAP service but have not yet been billed or have been billed but have not yet remitted to us their fees.

We believe that the new methodology is more accurate and can be more consistently applied to each period. We also believe that tracking and disclosing the numbers of our activated IAP advertisers, in addition to our paying IAP advertisers, provides greater clarity into our business by providing an indication or forecast of how many activated IAP advertisers may eventually become paying IAP advertisers. Our average retention rate for paying IAP advertisers is approximately 29 months, which, in turn, approaches the average operating life expectancy of 36 months for a small business in the U.S., according to the U.S. Small Business Administration.

## Methods of Billing

We bill most of our IAP advertisers on their local telephone bill through their Local Exchange Carrier, or "LEC." We are one of only a few independent Internet advertisers that are permitted to utilize this unique and cost-efficient method of billing. By billing our IAP advertisers on their local telephone bill, we believe we are able to realize a greater average rate of collection than direct invoice-billing. The amount and frequency of collections on invoice-billed IAP advertisers historically has been significantly lower than for IAP advertisers billed on

20

their monthly telephone bill. Accordingly, our revenues can be negatively impacted if the billing method used to bill a IAP advertiser converts from monthly telephone bill invoicing to direct invoicing.

We are not permitted to bill our IAP advertisers through Competitive Local Exchange Carriers, or CLECs. Recently, the CLEC's have been participating in

providing local telephone services to IAP advertisers at an increasing rate. 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, including Automated Clearing House, or ACH, which is direct debit from the IAP advertiser's bank account, and credit cards. ACH billing now accounts for approximately 12% of our total billings and has reduced our dependency on LEC billing. We expect this trend to continue and escalate.

#### Accounting Policies and Procedures

We bill our services monthly and recognize revenue for services billed in that month. We utilize outside billing companies, or billing aggregators, to transmit billing data, much of which is forwarded to the LECs for inclusion on the IAP advertiser's monthly local telephone bill. Because we have a 120-day cancellation policy on new advertiser sign-ups, we accrue for such refunds as a liability and net such anticipated refunds against revenue to report a net revenue number in our financial statements.

The billing aggregators and, subsequently, the LECs, filter all billings that we submit to them. We recognize as revenue and accounts receivable the net billings accepted by the LECs. The billing aggregators remit payments to us on the basis of cash that the billing aggregators ultimately receive from the LECs. The billing aggregators and LECs charge fees for their services, which generally are 3% to 7% each on a monthly basis. These fees, in turn, are netted against the gross accounts receivable balance. The billing aggregators and LECs also apply holdbacks to the remittances for potentially uncollectible accounts. These holdbacks and fees result in significant dilution to our gross billings and, therefore, may significantly affect our cash flow.

Due to the periods of time for which adjustments may be reported by the LECs and the billing aggregators, we estimate and accrue for dilution and fees reported subsequent to year-end for initial billings related to services provided for periods within the fiscal year. Dilution amounts will vary due to numerous factors. Accordingly, we may not be certain as to the actual amounts of dilution on any specific billing submittal until several months after that submittal. We estimate the amount of these fees and holdbacks based on historical experience and subsequent information received from the billing aggregators. We also estimate uncollectible account balances and provide an allowance for such estimates.

We process our billings through two primary billing aggregators—PaymentOne, Inc. and ACI Communications, Inc. PaymentOne provides the majority of our billings, collections, and related services. The receivable due from PaymentOne at March 31, 2004 was \$10,265,000, net of an allowance for doubtful accounts of \$3,998,000. The net receivable from PaymentOne at March 31, 2004 represented approximately 72% of our total net accounts receivable.

#### 21

With respect to our alternative billing methods, we recognize revenue for ACH billings when they are accepted. We recognize revenue for direct-invoice billings based on estimated future collections on such billings. We continuously review these estimates for reasonableness based on our collection experience.

Subscription receivables that result from direct-invoice billing are valued and reported at the estimated future collection amount. Determining the expected collections requires an estimation of both uncollectible accounts and refunds. The net subscriptions receivable at March 31, 2004 was \$133,451.

Our cost of services is comprised, primarily, of variable costs, including the following:

- allowances for bad debt, which are based upon historical experience and reevaluated monthly;
- billing fees, such as the fees charged by our billing aggregators and the Local Exchange Carriers;
- billing aggregator inquiry fees, which generally are 1% on a monthly basis;
- dilution resulting from fees and holdbacks due to items such as wrong telephone numbers and other indications of uncollectibility;
- Internet expenses, such as dial-up expenses; and
- direct mailer marketing costs and the amortization of such costs.

Our general and administrative expenses are comprised, primarily, of fixed costs, including compensation expenses, which generally equate to 5% to 10% of net. We recognize revenue for direct-invoice billings based on estimated future

collections on such billings. We continuously review these estimates for reasonableness based on our collection experience, revenue, as well as other expenses, such as lease payments, telephone, professional fees, and office supplies.

We expect to make progress on a number of initiative over the next six to twelve months, including the following:

- attempt to get listed on a national exchange or quotation system;
- add additional independent directors to our Board of Directors;
- establish of an audit committee that fully complies with the requirements of Sarbanes-Oxley and the exchanges;
- engage a national auditing firm;
- obtain broader, more sophisticated and more reliable research coverage;
- negotiate with our two largest shareholders, Morris & Miller, Ltd. and Mathew and Markson, Ltd. for an accelerated payment schedule on their existing outstanding

22

loans that have a balloon maturity April 2007. On April 29, 2004, we received their first negotiated accelerated payment on these outstanding loans in the amount of \$500,000; and

- roll out our national branding campaign through various mediums of advertisement, including, Internet, billboard, radio and cable television in select markets to be determined. We have recently engaged a marketing firm. We expect to use approximately \$2,000,000 on this campaign over the next twelve months. This may have a negative impact on our margins. However, to mitigate any adverse impact, management intends to attempt to incur these expenses gradually to be commensurate with anticipated increases in revenues resulting from the branding campaign.

#### Results Of Operations

Net revenue for the three-month period ended March 31, 2004, was \$16,394,853 compared to \$6,849,044 for the three-month period ended March 31, 2003, an increase of approximately 139%. For the six-month period ended March 31, 2004, net revenue was \$30,261,820 compared to \$12,590,499 for the six-month period ended March 31, 2003, an increase of approximately 140%. This increase in net revenue is primarily the result of two factors: (1) an increase in the number of our IAP advertisers and (2) an increase in our monthly pricing. These two factors are discussed further below.

Our activated IAP advertiser count increased to approximately 305,000 at March 31, 2004 compared to approximately 222,000 at March 31, 2003, an increase of approximately 37%. Our paying IAP advertiser count increased to approximately 265,000 at March 31, 2004 compared to approximately 151,000 at March 31, 2003, an increase of approximately 75%.

The increase in activated IAP advertisers described above equates to average monthly growth of 7,000 activated IAP advertisers for the three-month period ended March 31, 2004. This remains within our targeted net growth of 5,000 to 10,000 new activated IAP advertisers per month.

Relating to our price increases, in March 2003 we increased our monthly fees for the IAP product from \$17.95 to \$21.95 for new customers. At the same time, for existing customers, the monthly fee for the IAP product was increased to \$24.95 upon their first twelve-month anniversary of paying the \$17.95 service fee. In January 2004, we began charging new customers monthly fees of \$29.95 for the IAP product. In addition, in March 2004, the monthly fee on the IAP product for existing customers was increased to \$29.95 upon their first six-month anniversary of paying the previous fee.

Regarding our cost of services, between August 2003 and March 31, 2004, we converted 45,000 direct-invoice IAP advertisers, out of an approximate target of 70,000, to telephone billing. However, in the fiscal quarter ended March 31, 2004, we continue to experience short-term dilution and chargebacks resulting from those direct-invoice IAP advertisers that we were unable to convert to LEC billing. Dilution is generally attributable to IAP advertiser credits and other receivable write-downs, such as unbillable telephone numbers. It does not necessarily mean that we have lost a customer. We merely seek alternative billing methods for these

23



customers. This level of dilution has been higher in the quarter ended March 31, 2004 than in the prior quarter ended December 31, 2003 resulting in higher cost of services. However, we expect the dilution to be reduced to more normal levels over the next few quarters as this dilution runs its course through the billing system.

Cost of services for the three-month periods ended March 31, 2004 and March 31, 2003 were \$6,618,537 and \$1,848,966, respectively, an increase of approximately 258%. Cost of services for the six-month periods ended March 31, 2004 and March 31, 2003 were \$11,500,939 and \$3,671,116, respectively, an increase of approximately 213%.

Our cost of services as a percentage of net revenue was approximately 40% for the three months ended March 31, 2004 compared to approximately 27% for the same period in the prior fiscal year. Our cost of services as a percentage of net revenue was approximately 38% for the six months ended March 31, 2004 compared to approximately 29% for the same period in the prior fiscal year.

These increased costs of services resulted from the previously mentioned increased IAP advertiser counts, as well as increased dilution discussed above.

Amortization of direct marketing costs included in cost of sales is \$1,214,236 for the three months ended March 31, 2004 and \$640,996 for the prior-year period. Amortization of direct marketing costs included in cost of sales is \$2,280,100 for the six months ended March 31, 2004 and \$1,124,049 for the prior-year period.

Gross profits increased to \$9,776,316 for the three months ended March 31, 2004 from \$5,000,078 for the prior-year period, an increase of 96%. Gross margins decreased to approximately 60% of net revenues in the three months ended March 31, 2004 compared to approximately 73% of net revenues in the prior-year period. Gross profits increased to \$18,760,881 for the six months ended March 31, 2004 from \$8,919,383 for the prior-year period, an increase of 110%. Gross margins decreased to approximately 62% of net revenues in the six months ended March 31, 2004 compared to approximately 71% of net revenues in the prior-year period. The increase in our gross profits was due to increased revenues resulting from the previously mentioned increased IAP advertiser counts and price increases, offset by increased dilution discussed above.

Our general and administrative expense for the three-month periods ended March 31, 2004 and March 31, 2003 were \$3,134,522 and \$1,666,108, respectively, an increase of approximately 88%. Our general and administrative expense for the six-month periods ended March 31, 2004 and March 31, 2003 were \$5,925,265 and \$3,042,186, respectively, an increase of approximately 95%. These general and administrative expenses increased due to an increase in costs and employees relating to our growth in IAP advertisers, our Quality Assurance and Outbound marketing initiatives, as well as an increase in certain officers' compensation relating to employment contracts with such officers.

As a percentage of net revenue, general and administrative expenses were approximately 19% for the three months ended March 31, 2004 compared to 24% for the same period in 2003. As a percentage of net revenue, general and administrative expenses were approximately 20%

24

for the six months ended March 31, 2004 compared to 24% for the same period in 2003. The reduction in general and administrative expenses as a percentage of net revenue is the result of the leveraging of our fixed cost infrastructure over a larger IAP advertiser base.

Sales and marketing expenses for the three-month periods ended March 31, 2004 and March 31, 2003 were \$1,428,210 and \$862,939, respectively, an increase of approximately 66%. Sales and marketing expenses for the six-month periods ended March 31, 2004 and March 31, 2003 were \$2,718,390 and \$1,495,374, respectively, an increase of approximately 82%. The primary reason for the increase in sales and marketing is due to the re-institution of our marketing solicitation program and the implementation of new market strategies and modification of direct mail marketing pieces. Such marketing has resulted in the increase in IAP advertisers cited previously. We expect these sales and marketing costs to continue to increase as our marketing efforts increase and as we continue to roll out our branding campaign. We capitalize certain direct marketing expenses and amortize those costs over an 18-month period based on the analyzed IAP advertiser attrition rates.

As a percentage of net revenues, sales and marketing expenses were approximately 9% and 13% for the three-month periods ended March 31, 2004 and 2003, respectively. As a percentage of net revenues, sales and marketing expenses were approximately 9% and 12% for the six-month periods ended March 31, 2004 and 2003, respectively.

Depreciation and amortization primarily relates to the amortization of our intellectual property and depreciation of equipment. Amortization relating to

the capitalization of our direct mail marketing costs is included in cost of sales, as discussed previously.

Our depreciation and amortization expense was \$199,719 in the three months ended March 31, 2004 compared to \$159,306 for the three months ended March 31, 2003. Our depreciation and amortization expense was \$395,912 in the six months ended March 31, 2004 compared to \$298,238 for the six months ended March 31, 2003. Depreciation and amortization increased slightly in the current periods compared to the comparable periods in 2003 due to additional purchases of equipment relating to our upgrade in infrastructure in the information technology department, hardware purchased relating to our Quality Assurance and Outbound Marketing initiatives, and a result of our agreement to license the "YP.Com" Uniform Resource Locator ("URL") from OnRamp Access, Inc.

Regarding our other intellectual property, the cost of our "Yellow-Page.net" URL license was capitalized at \$5,000,000. This URL is amortized on an accelerated basis over the twenty-year term of the agreement. Amortization expense on this URL was \$82,000 and \$93,032 for the three-month periods ended March 31, 2004 and March 31, 2003, respectively. Amortization expense on this URL was \$164,000 and \$186,440 for the six-month periods ended March 31, 2004 and March 31, 2003, respectively. Annual amortization expense in future years related to the "Yellow-Page.net" URL is anticipated to be approximately \$250,000 to \$350,000. As a result of the significant equipment purchases relating to the previously-mentioned infrastructure additions, depreciation expense is expected to be greater in the third and fourth quarters of fiscal 2004 compared to the prior-year periods. However, we do not anticipate capital expenditures to grow at the same rate in future fiscal periods compared to the prior fiscal year.

25

Operating income for the three-month period ended March 31, 2004 was \$5,013,865 compared to \$2,311,725 in the prior-year period, an increase of approximately 117% of net revenue. Operating margins decreased to approximately 31% of net revenue from approximately 34% in the prior-year period. Operating income for the six-month period ended March 31, 2004 was \$9,721,314 compared to \$4,083,585 in the prior-year period, an increase of approximately 138%. Operating margins were approximately 32% of net revenue in both the current- and prior-year period. The increase in operating income is the result of the increased revenue discussed above. Operating margins remained steady in the comparative periods due to the leveraging of certain fixed expenses over a larger IAP advertiser base, offset by the short-term increase in dilution.

Interest income, net of interest expense, for the three-month periods ended March 31, 2004 was \$78,545. This compares to interest income, net of interest expense, of \$12,069 for the three months ended March 31, 2003. Interest income, net of interest expense, for the six-month periods ended March 31, 2004 was \$149,698. This compares to interest income, net of interest expense, of \$12,789 for the six months ended March 31, 2003. The increase in interest income, net of interest expense, primarily results from our increased average cash position resulting, in turn, from our increased profitability, as well as increased interest income resulting from the increase in advances to affiliates.

We recorded other income of \$71,395 and \$180,980, for the three-month periods ended March 31, 2004 and March 31, 2003, respectively. We recorded other income of \$346,153 and \$229,886, for the six-month periods ended March 31, 2004 and March 31, 2003, respectively. The primary components of other income in the three- and six-month periods ended March 31, 2004 is revenue of \$65,549 and \$287,326, respectively, received from Simple.Net, a related party, for IAP advertiser and technical services provided by the Company to Simple.Net. The primary component of other income in the three- and six-month periods ended March 31, 2003 was \$276,155 and \$0, respectively, received from Simple.Net, offset by a \$90,000 legal settlement in the three-month period ended March 31, 2003. Our agreement with Simple.Net was terminated as of January 2004, with an extension of payment and services through March 2004.

Net income before taxes for the three-month periods ended March 31, 2004 and March 31, 2003 was \$5,163,805 and \$2,504,774, respectively, an increase of approximately 106%. Pre-tax margins decreased to approximately 32% of net revenue in the current period compared to approximately 37% of net revenue in the prior-year period. The increase in pre-tax income is a result of those factors that resulted in the increase in operating income, offset by the decrease in total other income discussed above. Net income before taxes for the six-month periods ended March 31, 2004 and March 31, 2003 were \$10,217,165 and \$4,326,260, respectively, an increase of approximately 136%. Pre-tax margins were approximately 34% of net revenue in both the current- and prior-year period. The increase in pre-tax income is a result of those factors that resulted in the increase in operating income in addition to the increased interest income and other income discussed above.

The income tax provision was \$1,815,206 in the three months ended March 31, 2004 compared to \$999,853 in the prior-year period. The income tax provision was \$3,583,881 in the six months ended March 31, 2004 compared to \$1,728,447 in

the prior-year period. The increase

26

in the income tax provision is the result of our increased profitability in current-year periods compared to the previous year periods, as well as the fact that we were able to utilize our net operating loss carryforwards for the prior-year periods that were unavailable in the three- and six-month periods ended March 31, 2004.

Net income for the three-month periods ended March 31, 2004 and March 31, 2003 was \$3,348,599, or \$0.07 per diluted share, and \$1,504,921, or \$0.03 per diluted share, respectively, an increase in net income of approximately 123%. Net income as a percentage of net revenues for the three months ended March 31, 2004 was approximately 20%, compared to approximately 22% for the same prior-year period. Net income for the six-month periods ended March 31, 2004 and March 31, 2003 was \$6,633,284, or \$0.14 per diluted share, and \$2,597,813, or \$0.06 per diluted share, respectively, an increase in net income of over 155%. Net income as a percentage of net revenues for the six months ended March 31, 2004 was approximately 22% compared to approximately 21% for the same prior-year period.

#### Liquidity And Capital Resources

Net cash provided by operating activities for the six-month period ended March 31, 2004, was \$2,973,145 compared to \$1,255,263 for the six-month period ended March 31, 2003. The increase in cash generated from operations is primarily due to a significant increase in net income resulting from an increase in IAP advertisers, as well as an increase in income tax payable, offset by an increase in the accounts receivable balance from such growth and funds expended for mailings related to our direct marketing efforts.

Cash used in investing activities was \$3,109,991 for the six-month period ended March 31, 2004. The primary component of cash used in investing activities was advances to affiliates of \$2,725,000. All advances to affiliates have ceased as of April 9, 2004. In the six-month period ended March 31, 2003, cash used in investing activities was \$876,309, which consisted primarily of purchases of equipment of \$469,548 and lower advances to affiliates of \$400,000.

There was no cash used or provided by financing activities for the six-month period ended March 31, 2004, compared to cash used in financing activities of \$307,000 for the six-month period ended March 31, 2003. The cash used in financing activities represents total payments of \$454,000 to reduce the principal balances of our outstanding debt, offset by financing of \$147,000 under our trade acceptance draft program with AcTrade Financial Technologies, Ltd. ("AcTrade").

We had working capital of \$10,067,279 as of March 31, 2004, compared to \$4,035,589 as of March 31, 2003. The increase is due primarily to increases in cash of \$1,402,940, accounts receivable of \$7,567,420 offset by increases in accrued liabilities of \$1,916,048 and income taxes payable of \$2,095,909.

In the past, we borrowed under two credit facilities. These credit facilities are maintained primarily for safety and security back-up purposes as our cash flow generally is more than sufficient to maintain and grow our business. In April, 2004, we established a \$1,000,000 credit facility with Merrill Lynch Business Financial Services, Inc. This facility is for one year and is renewable. The applicable interest rate on borrowings, if any, will be a variable rate of 3%, plus

27

one-month LIBOR (as published in the Wall Street Journal). The facility required an annual line fee of \$10,000, payable whether or not we have drawn any funds on the line. We intend to terminate our existing credit facilities with Bank of the Southwest and AcTrade Financial Technologies, Ltd.

We still owe \$115,866 to Mathew & Markson Ltd. on a note related to the original acquisition of the "Yellow Page.net" URL.

As previously described, collections on accounts receivable are received primarily through the billing service aggregators under contract to administer this billing and collection process. The billing service aggregators 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 60 to 120 day period subsequent to the billing dates. Under our current agreement with our primary billing service provider, PaymentOne, cash is remitted to us on a sixty day timetable.

As of April 9, 2004, we terminated certain loan obligations that we owed to Morris & Miller, Ltd. and Mathew and Markson, Ltd., our two largest shareholders. Under this termination agreement, we were to make final advancements to these shareholders of approximately \$1,300,000. The aggregate

of all advances made by the Company to these shareholders is to be repaid to the Company at the end of three years, along with accrued interest. Subsequently, the shareholders have agreed to forego the final advancement of \$250,000 under this termination agreement. Additionally, on April 29, 2004, we received their first negotiated accelerated payment on these outstanding loans in the amount of \$500,000.

In connection with our termination of those loan obligations, we have begun paying a \$0.01 per share dividend each quarter, subject to available cash and compliance with applicable laws. The first dividend was paid on April 30, 2004 to holders of record on March 20, 2004.

#### Certain Risk Factors Affecting Our Business

Our business is subject to numerous risks, including those discussed below. If any of the events described in these risks occurs, our business, financial condition and results of operations could be seriously harmed.

#### Risks Related to Our Business

WE HAVE A RELATIVELY LIMITED OPERATING HISTORY UPON WHICH INVESTORS CAN EVALUATE THE LIKELIHOOD OF OUR SUCCESS.

We have been engaged in the Internet-based Yellow Pages industry through our subsidiary, Telco Billing, since 1997. As a result, an investor in our securities must consider the uncertainties, expenses, and difficulties frequently encountered by companies such as ours that are in the early stages of development. Investors should consider the likelihood of our future success to be highly speculative in light of our relatively limited operating history, as well as the challenges, limited resources, expenses, risks, and complications frequently encountered by similarly situated companies in the early stages of development, particularly companies in new

28

and rapidly evolving markets such as Internet Yellow Pages. To address these risks and to sustain profitability, we must, among other things:

- maintain and increase our base of advertisers;
- increase the number of users who visit our web sites for online directory services;
- implement and successfully execute our business and marketing strategy;
- continue to develop and upgrade our technology;
- continually update and improve our service offerings and features;
- provide superior IAP advertiser service;
- respond to industry and competitive developments;
- successfully manage our growth while controlling expenses; and
- attract, retain, and motivate qualified personnel.

We may not be successful in addressing these risks. If we are unable to do so, our business, prospects, financial condition, and results of operations would be materially and adversely affected.

OUR SUCCESS DEPENDS UPON OUR ABILITY TO ESTABLISH AND MAINTAIN RELATIONSHIPS WITH OUR ADVERTISERS.

Our ability to generate revenue depends upon our ability to maintain relationships with our existing advertisers, to attract new advertisers to sign up for revenue-generating services, and to generate traffic to our advertisers' websites. We primarily use direct marketing efforts to attract new advertisers. These direct marketing efforts may not produce satisfactory results in the future. We attempt to maintain relationships with our advertisers through IAP advertiser service and delivery of traffic to their businesses. An inability to either attract additional advertisers to use our service or to maintain relationships with our advertisers could have a material adverse effect on our business, prospects, financial condition, and results of operations.

IF WE DO NOT INTRODUCE NEW OR ENHANCED OFFERINGS TO OUR ADVERTISERS AND USERS, WE MAY BE UNABLE TO ATTRACT AND RETAIN THOSE ADVERTISERS AND USERS, WHICH WOULD SIGNIFICANTLY IMPEDE OUR ABILITY TO GENERATE REVENUE.

We will need to introduce new or enhanced products and services in order to attract and retain advertisers and users and remain competitive. Our industry has been characterized by rapid technological change, changes in advertiser and

user requirements and preferences, and frequent new product and service introductions embodying new technologies. These changes could render our technology, systems, and website obsolete. We may experience difficulties that could delay or prevent us from introducing new products and services. If we do not periodically enhance our existing products and services, develop new technologies that address our advertisers' and users' needs and preferences, or respond to emerging technological advances and industry standards and practices on a timely and cost-effective basis, our products and services may not be attractive to advertisers and users, which would significantly impede our

29

revenue growth. In addition, our reputation and our brand could be damaged if any new product or service introduction is not favorably received.

OUR REVENUE MAY DECLINE OVER TIME.

We have experienced a decrease in revenue from the Local Exchange Carriers (LEC) from the effects of the Competitive Local Exchange Carriers (CLEC) that are participating in providing local telephone services to IAP advertisers. We have begun to address this problem and we are implementing data filters to reduce the effects of the CLECs. 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 cannot provide any assurances that our efforts will be successful and may experience future decreases in revenue.

OUR QUARTERLY RESULTS OF OPERATIONS COULD FLUCTUATE DUE TO FACTORS OUTSIDE OF OUR CONTROL, WHICH MAY CAUSE CORRESPONDING FLUCTUATIONS IN THE PRICE OF OUR SECURITIES.

Our net sales may grow at a slower rate on a quarter-to-quarter basis than we have experienced in recent periods. Factors that could cause our results of operations to fluctuate in the future include the following:

- fluctuating demand for our services, which may depend on a number of factors including:
    - o changes in economic conditions and our IAP advertisers' profitability,
    - o varying IAP advertiser response rates to our direct marketing efforts,
    - o our ability to complete direct mailing solicitations on a timely basis each month,
    - o changes in our direct marketing efforts,
    - o IAP advertiser refunds or cancellations, and
    - o our ability to continue to bill IAP advertisers on their monthly telephone bills, ACH or credit card rather than through direct invoicing;
  - timing of new service or product introductions and market acceptance of new or enhanced versions of our services or products;
  - our ability to develop and implement new services and technologies in a timely fashion to meet market demand;
  - price competition or pricing changes by us or our competitors;
  - new product offerings or other actions by our competitors;
  - month-to-month variations in the billing and receipt of amounts from Local Exchange Carriers (LEC), such that billing and revenues may fall into the subsequent fiscal quarter;
  - the ability of our check processing service providers to continue to process and provide billing information regarding our solicitation checks;
- 30
- the amount and timing of expenditures for expansion of our operations, including the hiring of new employees, capital expenditures, and related costs;
  - technical difficulties or failures affecting our systems or the Internet in general;

- a decline in Internet traffic at our website;
- the cost of acquiring, and the availability of, information for our database of potential advertisers; and
- the fact that our expenses are only partially based on our expectations regarding future revenue and are largely fixed in nature, particularly in the short term.

The fluctuation of our quarterly operating results, as well as other factors, could cause the market price of our securities to fluctuate significantly in the future. Some of these factors include:

- the announcement of new IAP advertisers or strategic alliances or the loss of significant IAP advertisers or strategic alliances;
- announcements by our competitors;
- sales or purchases of our securities by officers, directors and insiders;
- government regulation;
- announcements regarding restructuring, borrowing arrangements, technological innovations, departures of key officers, directors or employees, or the introduction of new products;
- political or economic events and governmental actions affecting Internet operations or businesses; and
- general market conditions and other factors, including factors unrelated to our operating performance or that of our competitors.

Investors in our securities should be willing to incur the risk of such price fluctuations.

OUR ABILITY TO EFFICIENTLY PROCESS NEW ADVERTISER SIGN-UPS AND TO BILL OUR ADVERTISERS MONTHLY DEPENDS UPON OUR CHECK PROCESSING SERVICE PROVIDERS AND BILLING AGGREGATORS, RESPECTIVELY.

We currently use three check processing companies to provide us with advertiser information at the point of sign-up for our Internet Advertising Package. One of these processors has indicated that it will be outsourcing this function in the future. Therefore, we have refrained from sending new business to this check processor. Our ability to gather information to bill our advertisers at the point of sign-up could be adversely affected if one or more of these providers experiences a disruption in its operations or ceases to do business with us.

We also depend upon our billing aggregators to efficiently bill and collect monies from the Local Exchange Carriers (LEC) relating to the LEC's billing and collection of our monthly charges from advertisers. We currently have agreements with two billing aggregators. Any

31

disruption in our billing aggregators' ability to perform these functions could adversely affect our financial condition and results of operations.

THE LOSS OF OUR ABILITY TO BILL IAP ADVERTISERS THROUGH LOCAL EXCHANGE CARRIERS ON THE IAP ADVERTISERS' TELEPHONE BILLS WOULD ADVERSELY IMPACT OUR RESULTS OF OPERATIONS.

Our business model depends heavily upon our ability to bill advertisers on their telephone bills through their respective Local Exchange Carriers (LEC). The existence of the LECs is the result of Federal legislation. In the same manner, Congress could pass future legislation that obviates the existence of or the need for the LECs. Additionally, regulatory agencies could limit or prevent our ability to use the LECs to bill our advertisers. Finally, the introduction of and advancement of new technologies, such as WiFi technology or other wireless-related technologies, could render unnecessary the existence of fixed telecommunication lines, which, accordingly, would again obviate the need for and access to the LECs. Our inability to use the LECs to bill our advertisers through their monthly telephone bills would have a material adverse impact on our results of operations.

WE DEPEND UPON THIRD PARTIES TO PROVIDE CERTAIN SERVICES AND SOFTWARE, AND OUR BUSINESS MAY SUFFER IF THE RELATIONSHIPS UPON WHICH WE DEPEND FAIL TO PRODUCE THE EXPECTED BENEFITS OR ARE TERMINATED.

We currently outsource to third parties certain of the services that we provide, including the work of producing usable templates for and hosting of the QuickSites, website templates known as Ezsites, and wholesale Internet access.

These relationships may not provide us benefits that outweigh the costs of the relationships. If any strategic supplier demands a greater portion of revenue derived from the services it provides or increases charges for its services, we may decide to terminate or refuse to renew that relationship, even if it previously had been profitable or otherwise beneficial. If we lose a significant strategic supplier, we may be unable to replace that relationship with other strategic relationships with comparable revenue potential. The loss or termination of any strategic relationship with one of these third-party suppliers could significantly impair our ability to provide services to our advertisers and users.

We depend upon third-party software to operate certain of our services. The failure of this software to perform as expected would have a material adverse effect on our business. Additionally, although we believe that several alternative sources for this software are available, any failure to obtain and maintain the rights to use such software would have a material adverse effect on our business, prospects, financial condition and results of operations. We also depend upon third parties to provide services that allow us to connect to the Internet with sufficient capacity and bandwidth so that our business can function properly and our websites can handle current and anticipated traffic. Any restrictions or interruption in our connection to the Internet would have a material adverse effect on our business, prospects, financial condition, and results of operations.

32

THE MARKET FOR OUR SERVICES IS UNCERTAIN AND IS STILL EVOLVING.

Internet Yellow Pages services are evolving rapidly and are characterized by an increasing number of market entrants. Our future revenues and profits will depend substantially upon the widespread acceptance and the use of the Internet and other online services as an effective medium of commerce by merchants and consumers. Rapid growth in the use of and interest in the Internet may not continue on a lasting basis, which may negatively impact Internet-based businesses such as ours. In addition, advertisers and users may not adopt or continue to use Internet-based Yellow Pages services and other online services that we may offer in the future. The demand and market acceptance for recently introduced services generally is subject to a high level of uncertainty.

Most potential advertisers have only limited, if any, experience advertising on the Internet and have not devoted a significant portion of their advertising expenditures to Internet advertising. Advertisers may find Internet Yellow Pages advertising to be less effective for meeting their business needs than traditional methods of Yellow Pages or other advertising and marketing. Our business, prospects, financial condition or results of operations will be materially and adversely affected if potential advertisers do not adopt Internet Yellow Pages as an important component of their advertising expenditures.

WE MAY NOT BE ABLE TO SECURE ADDITIONAL CAPITAL TO EXPAND OUR OPERATIONS.

Although we currently have no material long-term needs for capital expenditures, we will likely be required to make increased capital expenditures to fund our anticipated growth of operations, infrastructure, and personnel. We currently anticipate that our cash on hand as of May 1, 2004, together with cash flows from operations, will be sufficient to meet our anticipated liquidity needs for working capital and capital expenditures over the next 12 months. In the future, however, we may seek additional capital through the issuance of debt or equity depending upon our results of operations, market conditions or unforeseen needs or opportunities. Our future liquidity and capital requirements will depend on numerous factors, including the following:

- the pace of expansion of our operations;
- our need to respond to competitive pressures; and
- future acquisitions of complementary products, technologies or businesses.

Our forecast of the period of time through which our financial resources will be adequate to support our operations is a forward-looking statement that involves risks and uncertainties and actual results could vary materially as a result of the factors described above. As we require additional capital resources, we may seek to sell additional equity or debt securities or draw on our existing bank line of credit. Debt financing must be repaid at maturity, regardless of whether or not we have sufficient cash resources available at that time to repay the debt. The sale of additional equity or convertible debt securities could result in additional dilution to existing stockholders. We cannot provide assurance that any financing arrangements will be available in amounts or on terms acceptable to us, if at all.

33

WE MUST MANAGE OUR GROWTH AND MAINTAIN PROCEDURES AND CONTROLS ON OUR BUSINESS.

We have rapidly and significantly expanded our operations and we anticipate further significant expansion to accommodate the expected growth in our IAP advertiser base and market opportunities. We have increased the number of our personnel from the inception of our operations to the present. This expansion has placed, and is expected to continue to place, a significant strain on our management and operational resources. As a result, we may not be able to effectively manage our resources, coordinate our efforts, supervise our personnel or otherwise successfully manage our resources. We have recently added a number of key managerial, technical, and operations personnel and we expect to add additional key personnel in the future. We also plan to continue to increase our personnel base. These additional personnel may further strain our management resources.

The rapid growth of our business could in the future strain our ability to meet IAP advertiser demands and manage our IAP advertiser relationships. This could result in the loss of IAP advertisers and harm our business reputation.

In order to manage the expected growth of our operations and personnel, we must continue maintaining and improving or replacing existing operational, accounting, and information systems, procedures, and controls. Further, we must manage effectively our relationships with our IAP advertisers, as well as other third parties necessary to our business. Our business could be adversely affected if we are unable to manage growth effectively.

WE DEPEND UPON OUR EXECUTIVE OFFICERS AND KEY PERSONNEL.

Our performance depends substantially on the performance of our executive officers and other key personnel. The success of our business in the future will depend on 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 personnel could have a material adverse effect on our business, results of operations or financial condition. We do not maintain key person life insurance on the lives of any of our executive officers or key personnel.

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. In addition, market conditions may require us to pay higher compensation to qualified management and technical personnel than we currently anticipate. Any inability to attract and retain qualified management and technical personnel in the future could have a material adverse effect on our business, prospects, financial condition, and results of operations.

OUR BUSINESS IS SUBJECT TO A STRICT REGULATORY ENVIRONMENT.

Existing laws and regulations and any future regulation may have a material adverse effect on our business. For example, we believe that our direct marketing programs meet or exceed existing requirements of the United States Federal Trade Commission (FTC). Any

34

changes to FTC requirements or changes in our direct or other marketing practices, however, could result in our marketing practices failing to comply with FTC regulations. As a result, we could be subject to substantial liability in the future, including fines and criminal penalties, preclusion from offering certain products or services, and the prevention or limitation of certain marketing practices.

WE FACE INTENSE COMPETITION, INCLUDING FROM COMPANIES WITH GREATER RESOURCES, WHICH COULD ADVERSELY AFFECT OUR GROWTH AND COULD LEAD TO DECREASED REVENUES.

Several companies, including Verizon, Yahoo and Microsoft, currently market Internet Yellow Pages services that directly compete with our services and products. We may not compete effectively with existing and potential competitors for several reasons, including the following:

- some competitors have longer operating histories and greater financial and other resources than we have and are in better financial condition than we are;
- some competitors have better name recognition, as well as larger, more established, and more extensive marketing, IAP advertiser service, and IAP advertiser support capabilities than we have;
- some competitors may supply a broader range of services, enabling them to serve more or all of their IAP advertisers' needs. This could limit our sales and strengthen our competitors' existing relationships with their IAP advertisers, including our current and potential IAP advertisers;



- some competitors may be able to better adapt to changing market conditions and IAP advertiser demand; and
- barriers to entry are not significant. As a result, other companies that are not currently involved in the Internet-based Yellow Pages advertising business may enter the market or develop technology that reduces the need for our services.

Increased competitive pressure could lead to reduced market share, as well as lower prices and reduced margins for our services. If we experience reductions in our revenue for any reason, our margins may continue to decline, which would adversely affect our results of operations. We cannot assure you that we will be able to compete successfully in the future.

WE MAY FACE RISKS AS WE EXPAND OUR BUSINESS INTO INTERNATIONAL MARKETS.

We currently are exploring opportunities to offer our services in other English-speaking countries. We have limited experience in developing and marketing our services internationally, and we may not be able to successfully execute our business model in markets outside the United States. We will face a number of risks inherent in doing business in international markets, including the following:

35

- international markets typically experience lower levels of Internet usage and Internet advertising than the United States, which could result in lower-than-expected demand for our services;
- unexpected changes in regulatory requirements;
- potentially adverse tax consequences;
- difficulties in staffing and managing foreign operations;
- changing economic conditions;
- exposures to different legal standards, particularly with respect to intellectual property and distribution of information over the Internet;
- burdens of complying with a variety of foreign laws; and
- fluctuations in currency exchange rates.

To the extent that international operations represent a significant portion of our business in the future, our business could suffer if any of these risks occur.

WE MAY BE UNABLE TO PROMOTE AND MAINTAIN OUR BRANDS.

We believe that establishing and maintaining the brand identities of our Internet Yellow Pages services is a critical aspect of attracting and expanding a base of advertisers and users. Promotion and enhancement of our brands will depend largely on our success in continuing to provide high quality service. If advertisers and users do not perceive our existing services to be of high quality, or if we introduce new services or enter into new business ventures that are not favorably received by advertisers and users, we will risk diluting our brand identities and decreasing their attractiveness to existing and potential IAP advertisers.

WE MAY NOT BE ABLE TO ADEQUATELY PROTECT OUR INTELLECTUAL PROPERTY RIGHTS.

Our success depends both on our internally developed technology and our third party technology. We rely on a variety of trademarks, service marks, and designs to promote our brand names and identity. We also rely on a combination of contractual provisions, confidentiality procedures, and trademark, copyright, trade secrecy, unfair competition, and other intellectual property laws to protect the proprietary aspects of our products and services. Legal standards relating to the validity, enforceability, and scope of the protection of certain intellectual property rights in Internet-related industries are uncertain and still evolving. The steps we take to protect our intellectual property rights may not be adequate to protect our intellectual property and may not prevent our competitors from gaining access to our intellectual property and proprietary information. In addition, we cannot provide assurance that courts will always uphold our intellectual property rights or enforce the contractual arrangements that we have entered into to protect our proprietary technology.

Third parties may infringe or misappropriate our copyrights, trademarks, service marks, trade dress, and other proprietary rights. Any such infringement or misappropriation could have a material adverse effect on our business, prospects, financial condition, and results of operations. In addition, the relationship between regulations governing domain names and laws

protecting trademarks and similar proprietary rights is unclear. We may be unable to prevent third parties from acquiring domain names that are similar to, infringe upon or otherwise decrease the value of our trademarks and other proprietary rights, which may result in the dilution of the brand identity of our services.

We may decide to initiate litigation in order to enforce our intellectual property rights, to protect our trade secrets, or to determine the validity and scope of our proprietary rights. Any such litigation could result in substantial expense, may reduce our profits, and may not adequately protect our intellectual property rights. In addition, we may be exposed to future litigation by third parties based on claims that our products or services infringe their intellectual property rights. Any such claim or litigation against us, whether or not successful, could result in substantial costs and harm our reputation. In addition, such claims or litigation could force us to do one or more of the following:

- cease selling or using any of our products that incorporate the challenged intellectual property, which would adversely affect our revenue;
- obtain a license from the holder of the intellectual property right alleged to have been infringed, which license may not be available on reasonable terms, if at all; and
- redesign or, in the case of trademark claims, rename our products or services to avoid infringing the intellectual property rights of third parties, which may not be possible and in any event could be costly and time-consuming.

Even if we were to prevail, such claims or litigation could be time-consuming and expensive to prosecute or defend, and could result in the diversion of our management's time and attention. These expenses and diversion of managerial resources could have a material adverse effect on our business, prospects, financial condition, and results of operations.

CURRENT CAPACITY CONSTRAINTS MAY REQUIRE US TO EXPAND OUR INFRASTRUCTURE AND IAP ADVERTISER SUPPORT CAPABILITIES.

Our ability to provide high-quality Internet Yellow Pages services largely depends upon the efficient and uninterrupted operation of our computer and communications systems. We may be required to expand our technology, infrastructure, and IAP advertiser support capabilities in order to accommodate any significant increases in the numbers of advertisers and users of our web sites. We may not be able to project accurately the rate or timing of increases, if any, in the use of our services or expand and upgrade our systems and infrastructure to accommodate these increases in a timely manner. If we do not expand and upgrade our infrastructure in a timely manner, we could experience temporary capacity constraints that may cause unanticipated system disruptions, slower response times, and lower levels of IAP advertiser service. Our inability to upgrade and expand our infrastructure and IAP advertiser support capabilities as required could impair the reputation of our brand and our services, reduce the volume of users able to access our website, and diminish the attractiveness of our service offerings to our advertisers.

Any expansion of our infrastructure may require us to make significant upfront expenditures for servers, routers, computer equipment, and additional Internet and intranet

equipment, as well as to increase bandwidth for Internet connectivity. Any such expansion or enhancement will need to be completed and integrated without system disruptions. An inability to expand our infrastructure or IAP advertiser service capabilities either internally or through third parties, if and when necessary, would materially adversely affect our business, prospects, financial condition, and results of operations.

#### Risks Related to the Internet

WE MAY NOT BE ABLE TO ADAPT AS THE INTERNET, INTERNET YELLOW PAGES SERVICES, AND IAP ADVERTISER DEMANDS CONTINUE TO EVOLVE.

Our failure to respond in a timely manner to changing market conditions or client requirements could have a material adverse effect on our business, prospects, financial condition, and results of operations. The Internet, e-commerce, and the Internet Yellow Pages industry are characterized by:

- rapid technological change;

- changes in advertiser and user requirements and preferences;
- frequent new product and service introductions embodying new technologies; and
- the emergence of new industry standards and practices that could render our existing service offerings, technology, and hardware and software infrastructure obsolete.

In order to compete successfully in the future, we must

- enhance our existing services and develop new services and technology that address the increasingly sophisticated and varied needs of our prospective or current IAP advertisers;
- license, develop or acquire technologies useful in our business on a timely basis; and
- respond to technological advances and emerging industry standards and practices on a cost-effective and timely basis.

OUR FUTURE SUCCESS WILL DEPEND ON CONTINUED GROWTH IN THE USE OF THE INTERNET.

Because Internet Yellow Pages is a new and rapidly evolving industry, the ultimate demand and market acceptance for our services will be subject to a high level of uncertainty. Significant issues concerning the commercial use of the Internet and online service technologies, including security, reliability, cost, ease of use, and quality of service, remain unresolved and may inhibit the growth of Internet business solutions that use these technologies. In addition, the Internet or other online services could lose their viability due to delays in the development or adoption of new standards and protocols required to handle increased levels of Internet activity, or due to increased governmental regulation. Our business, prospects, financial condition, and results of operations would be materially and adversely affected if the use of Internet Yellow Pages and other online services does not continue to grow or grows more slowly than we expect.

38

WE WILL BE REQUIRED TO KEEP PACE WITH RAPID TECHNOLOGICAL CHANGE IN THE INTERNET INDUSTRY.

In order to remain competitive, we will be required continually to enhance and improve the functionality and features of our existing services, which could require us to invest significant capital. If our competitors introduce new products and services embodying new technologies, or if new industry standards and practices emerge, our existing services, technologies, and systems may become obsolete. We may not have the funds or technical know-how to upgrade our services, technology, and systems. If we face material delays in introducing new services, products, and enhancements, our advertisers and users, may forego the use of our services and select those of our competitors, in which event our business, prospects, financial condition and results of operations could be materially and adversely affected.

REGULATION OF THE INTERNET MAY ADVERSELY AFFECT OUR BUSINESS.

Due to the increasing popularity and use of the Internet and online services such as online Yellow Pages, federal, state, local, and foreign governments may adopt laws and regulations, or amend existing laws and regulations, with respect to the Internet and other online services. These laws and regulations may affect issues such as user privacy, pricing, content, taxation, copyrights, distribution, and quality of products and services. The laws governing the Internet remain largely unsettled, even in areas where legislation has been enacted. It may take years to determine whether and how existing laws, such as those governing intellectual property, privacy, libel, and taxation, apply to the Internet and Internet advertising and directory services. In addition, the growth and development of the market for electronic commerce may prompt calls for more stringent consumer protection laws, both in the United States and abroad, that may impose additional burdens on companies conducting business over the Internet. Any new legislation could hinder the growth in use of the Internet generally or in our industry and could impose additional burdens on companies conducting business online, which could, in turn, decrease the demand for our services, increase our cost of doing business, or otherwise have a material adverse effect on our business, prospects, financial condition, and results of operations.

WE MAY NOT BE ABLE TO OBTAIN INTERNET DOMAIN NAMES THAT WE WOULD LIKE TO HAVE.

We believe that our existing Internet domain names are an extremely important part of our business. We may desire, or it may be necessary in the future, to use these or other domain names in the United States and abroad. Various Internet regulatory bodies regulate the acquisition and maintenance of domain names in the United States and other countries. These regulations are

subject to change. Governing bodies may establish additional top-level domains, appoint additional domain name registrars or modify the requirements for holding domain names. As a result, we may be unable to acquire or maintain relevant domain names in all countries in which we plan to conduct business in the future.

The extent to which laws protecting trademarks and similar proprietary rights will be extended to protect domain names currently is not clear. We therefore may be unable to prevent competitors from acquiring domain names that are similar to, infringe upon or otherwise decrease the value of our domain names, trademarks, trade names, and other proprietary rights. We cannot provide assurance that potential users and advertisers will not confuse our domain

39

names, trademarks, and trade names with other similar names and marks. If that confusion occurs, we may lose business to a competitor and some advertisers and users may have negative experiences with other companies that those advertisers and users erroneously associate with us. The inability to acquire and maintain domain names that we desire to use in our business, and the use of confusingly similar domain names by our competitors, could have a material adverse effect on our business, prospects, financial conditions, and results of operations in the future.

OUR BUSINESS COULD BE NEGATIVELY IMPACTED IF THE SECURITY OF THE INTERNET BECOMES COMPROMISED.

To the extent that our activities involve the storage and transmission of proprietary information about our advertisers or users, security breaches could damage our reputation and expose us to a risk of loss or litigation and possible liability. We may be required to expend significant capital and other resources to protect against security breaches or to minimize problems caused by security breaches. Our security measures may not prevent security breaches. Our failure to prevent these security breaches or a misappropriation of proprietary information may have a material adverse effect on our business, prospects, financial condition, and results of operations.

OUR TECHNICAL SYSTEMS COULD BE VULNERABLE TO ONLINE SECURITY RISKS, SERVICE INTERRUPTIONS OR DAMAGE TO OUR SYSTEMS.

Our systems and operations may be vulnerable to damage or interruption from fire, floods, power loss, telecommunications failures, break-ins, sabotage, computer viruses, penetration of our network by unauthorized computer users and "hackers," natural disaster, and similar events. Preventing, alleviating, or eliminating computer viruses and other service-related or security problems may require interruptions, delays or cessation of service. We may need to expend significant resources protecting against the threat of security breaches or alleviating potential or actual service interruptions. The occurrence of such unanticipated problems or security breaches could cause material interruptions or delays in our business, loss of data, or misappropriation of proprietary or IAP advertiser-related information or could render us unable to provide services to our IAP advertisers for an indeterminate length of time. The occurrence of any or all of these events could materially and adversely affect our business, prospects, financial condition, and results of operations.

IF WE ARE SUED FOR CONTENT DISTRIBUTED THROUGH, OR LINKED TO BY, OUR WEBSITE OR THOSE OF OUR ADVERTISERS, WE MAY BE REQUIRED TO SPEND SUBSTANTIAL RESOURCES TO DEFEND OURSELVES AND COULD BE REQUIRED TO PAY MONETARY DAMAGES.

We aggregate and distribute third-party data and other content over the Internet. In addition, third-party websites are accessible through our website or those of our advertisers. As a result, we could be subject to legal claims for defamation, negligence, intellectual property infringement, and product or service liability. Other claims may be based on errors or false or misleading information provided on or through our website or websites of our directory licensees. Other claims may be based on links to sexually explicit websites and sexually explicit advertisements. We may need to expend substantial resources to investigate and defend these

40

claims, regardless of whether we successfully defend against them. While we carry general business insurance, the amount of coverage we maintain may not be adequate. In addition, implementing measures to reduce our exposure to this liability may require us to spend substantial resources and limit the attractiveness of our content to users.

#### Risks Related to Our Securities

STOCK PRICES OF TECHNOLOGY COMPANIES HAVE DECLINED PRECIPITOUSLY AT TIMES IN THE PAST AND THE TRADING PRICE OF OUR COMMON STOCK IS LIKELY TO BE VOLATILE, WHICH COULD RESULT IN SUBSTANTIAL LOSSES TO INVESTORS.

The trading price of our common stock has risen significantly over the past twelve months and could continue to be volatile in response to factors including the following, many of which are beyond our control:

- decreased demand in the Internet services sector;
- variations in our operating results;
- announcements of technological innovations or new services by us or our competitors;
- changes in expectations of our future financial performance, including financial estimates by securities analysts and investors;
- our failure to meet analysts' expectations;
- changes in operating and stock price performance of other technology companies similar to us;
- conditions or trends in the technology industry;
- additions or departures of key personnel; and
- future sales of our common stock.

Domestic and international stock markets often experience significant price and volume fluctuations that are unrelated to the operating performance of companies with securities trading in those markets. These fluctuations, as well as political events, terrorist attacks, threatened or actual war, and general economic conditions unrelated to our performance, may adversely affect the price of our common stock. In the past, securities holders of other companies often have initiated securities class action litigation against those companies following periods of volatility in the market price of those companies' securities. If the market price of our stock fluctuates and our stockholders initiate this type of litigation, we could incur substantial costs and experience a diversion of our management's attention and resources, regardless of the outcome. This could materially and adversely affect our business, prospects, financial condition, and results of operations.

41

CERTAIN PROVISIONS OF NEVADA LAW AND IN OUR CHARTER MAY PREVENT OR DELAY A CHANGE OF CONTROL OF OUR COMPANY.

We are subject to the Nevada anti-takeover laws regulating corporate takeovers. These anti-takeover laws prevent Nevada corporations from engaging in a merger, consolidation, sales of its stock or assets, and certain other transactions with any stockholder, including all affiliates and associates of the stockholder, who owns 10% or more of the corporation's outstanding voting stock, for three years following the date that the stockholder acquired 10% or more of the corporation's voting stock except in certain situations. In addition, our amended and restated articles of incorporation and bylaws include a number of provisions that may deter or impede hostile takeovers or changes of control or management. These provisions include the following:

- our board is classified into three classes of directors as nearly equal in size as possible, with staggered three year-terms;
- the authority of our board to issue up to 5,000,000 shares of serial preferred stock and to determine the price, rights, preferences, and privileges of these shares, without stockholder approval;
- all stockholder actions must be effected at a duly called meeting of stockholders and not by written consent unless such action or proposal is first approved by our board of directors;
- special meetings of the stockholders may be called only by the Chairman of the Board, the Chief Executive Officer, or the President of our company; and
- cumulative voting is not allowed in the election of our directors.

These provisions of Nevada law and our articles and bylaws could prohibit or delay mergers or other takeover or change of control of our company and may discourage attempts by other companies to acquire us, even if such a transaction would be beneficial to our stockholders.

OUR COMMON STOCK MAY BE SUBJECT TO THE "PENNY STOCK" RULES AS PROMULGATED UNDER THE EXCHANGE ACT.

In the event that no exclusion from the definition of "penny stock" under the Exchange Act is available, then any broker engaging in a transaction in our common stock will be required to provide its IAP advertisers with a risk

disclosure document, disclosure of market quotations, if any, disclosure of the compensation of the broker-dealer and its sales person in the transaction, and monthly account statements showing the market values of our securities held in the IAP advertiser's accounts. The bid and offer quotation and compensation information must be provided prior to effecting the transaction and must be contained on the IAP advertiser's confirmation of sale. Certain brokers are less willing to engage in transactions involving "penny stocks" as a result of the additional disclosure requirements described above, which may make it more difficult for holders of our common stock to dispose of their shares.

42

ITEM 3 CONTROLS AND PROCEDURES

Disclosure controls and procedures are designed with an objective of ensuring that information required to be disclosed in our periodic reports filed with the Securities and Exchange Commission, such as this Quarterly Report on Form 10-QSB, is recorded, processed, summarized and reported within the time periods specified by the Securities and Exchange Commission. Disclosure controls are also designed with an objective of ensuring that such information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, in order to allow timely consideration regarding required disclosures.

The evaluation of our disclosure controls by our principal executive officer and principal financial officer included a review of the controls' objectives and design, the operation of the controls, and the effect of the controls on the information presented in this Quarterly Report. Our management, including our chief executive officer and chief financial officer, does not expect that disclosure controls can or will prevent or detect all errors and all fraud, if any. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Also, projections of any evaluation of the disclosure controls and procedures to future periods are subject to the risk that the disclosure controls and procedures may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Based on their review and evaluation as of a date within 45 days of the filing of this Form 10-QSB, and subject to the inherent limitations all as described above, our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) are effective as of the end of the period covered by this report. They are not aware of any significant changes in our disclosure controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

43

PART II - OTHER INFORMATION

Items 1-5 are not applicable and have been omitted.

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

(a) The following exhibits are either attached hereto or incorporated herein by reference as indicated:

<TABLE>  
<CAPTION>  
Exhibit  
Number Description  
-----  
<S> <C>  
3.1 Amended and Restated Articles of Incorporation  
  
3.2 Amended and Restated Bylaws  
  
14 Code of Ethics  
  
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  
</TABLE>

(b) The Registrant filed the following Current Reports on Form 8-K during the three-month period covered by this Quarterly Report:

- On January 8, 2004, the Company filed a Current Report on Form 8-K

attaching a letter from the Company's Chief Executive Officer to the Company's shareholders concerning the status of the Company.

- On January 9, 2004, the Company filed a Current Report on Form 8-K attaching a press release concerning possible manipulation of its stock price.
- On January 12, 2004, the Company filed a Current Report on Form 8-K attaching a press release concerning a lawsuit filed by the Company against Stocklemon.com.
- On January 14, 2004, the Company filed a Current Report on Form 8-K announcing an increase in its IAP advertiser counts.
- On February 9, 2004, the Company filed a Current Report on Form 8-K to disclose an Investor Fact Sheet.
- On March 3, 2004, the Company filed a Current Report on Form 8-K attaching a press release announcing the establishment of a Rule 10b5-1 purchase plan program.

44

- On March 11, 2004, the Company filed a Current Report on Form 8-K attaching the presentation by the Company at the Red Chip Investor Conference.
- On March 11, 2004, the Company filed a Current Report on Form 8-K attaching a press release announcing the initiation of a \$.01 per share dividend on its common stock to be paid on April 30, 2004.
- On March 11, 2004, the Company filed a Current Report on Form 8-K attaching a press release announcing the termination of its agreement with Simple.Net.
- On March 11, 2004, the Company filed a Current Report on Form 8-K attaching a press release announcing that it would be hosting a meeting with research analysts and investors on April 23, 2004.

45

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.

YP.CORP.

Dated: May 13, 2004

/s/ Angelo Tullo

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Angelo Tullo, Chairman of the Board and  
Chief Executive Officer (Principal  
Executive Officer)

Dated: May 13, 2004

/s/ David Iannini

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David Iannini, Chief Financial Officer  
(Principal Accounting Officer)

46

<TABLE>  
<CAPTION>

EXHIBIT INDEX

Exhibit Number	Description
<S>	<C>
3.1	Amended and Restated Articles of Incorporation
3.2	Amended and Restated Bylaws
14	Code of Ethics
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

</TABLE>





AMENDED AND RESTATED  
ARTICLES OF INCORPORATION  
OF  
YP.NET, INC.

YP.NET, INC. (the "Corporation"), a corporation organized and existing under the Nevada Revised Statutes ("NRS") of the State of Nevada does hereby certify:

- I. The Corporation, pursuant to the provisions of NRS 78.403, hereby adopts these Amended and Restated Articles of Incorporation (the "Restated Articles"), which accurately restate and integrate the Restated Articles of Incorporation filed on January 11, 1999 and all amendments thereto or Certificates of Designation filed thereafter that are in effect to date as permitted by NRS 78.385.
- II. Each amendment made by these Restated Articles has been effected in conformity with the provisions of the NRS. The Restated Articles and each amendment thereto were duly approved and adopted by unanimous written consent of the Corporation's Board of Directors on December 31, 2003. These Restated Articles and each amendment made hereunder were approved and adopted by the holders of at least a majority of the Corporation's issued and outstanding capital stock entitled to vote on such amendments at the Corporation's Annual Meeting of Stockholders held on April 2, 2004. The number of shares outstanding at the time of such adoption was 55,567,636 and the number of shares entitled to vote thereon was 49,985,802. The number of shares that voted to approve the amendments and these Restated Articles was 35,131,880, which was sufficient for approval.
- III. The original Articles of Incorporation and all amendments, restatements and supplements thereto are hereby superseded by these Restated Articles, which are as follows:

1. Name. The name of the corporation is YP Corp. (the "Corporation").  
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2. Capital Stock. The Corporation is authorized to issue two classes of  
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stock. One class of stock shall be Common Stock, par value, \$0.001. The second class of stock shall be Preferred Stock, par value \$0.001. This Corporation is authorized to issue 100,000,000 shares of Common Stock and 5,000,000 shares of Preferred Stock.

- 2.1. Common Stock. Each share of Common Stock issued and outstanding  
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shall be entitled to one vote on all matters. Shares of such Common Stock may be issued for such consideration and for such corporate purposes as the Board of Directors may from time to time determine. Fully paid shares of Common Stock of this Corporation shall not be liable to any further call or assessment. Dividends may be declared and paid on the Common Stock only out of funds legally available therefore. Upon the sale of substantially all of the stock or assets of the Corporation in a non-public transaction or dissolution, liquidation, or winding up of the Corporation, whether voluntary or involuntary, after all liquidation preferences payable to any series of Preferred Stock entitled thereto have been satisfied, the remaining net assets of the

Corporation shall be distributed to the holders of Common Stock and any similarly situated stockholders who are not entitled to any liquidation preference (or, if there be an insufficient amount to pay all such stockholders, then ratably among such holders).

- 2.2. Preferred Stock.  
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- (a) The Preferred Stock not so specifically designated may be designated in the future by action of the Board of Directors of the Corporation and otherwise in accordance with the applicable provisions of the NRS. The designated series of Preferred Stock shall have such powers, designations, preferences and relative, participating or optional or other special rights and qualifications, limitations or restrictions thereof as shall be expressed in the

resolution or resolutions providing for the issue of such stock adopted by the Corporation's Board of Directors and may be made dependent upon facts ascertainable outside such resolution or resolutions of the Board of Directors, provided that the manner in which such facts shall operate upon such powers, designations, preferences, rights and qualifications, limitations or restrictions of such class or series of stock is clearly and expressly set forth in the resolution or resolutions providing for the issuance of such stock by the Board of Directors.

(b) The shares of each class or series of the Preferred Stock may vary from the shares of any other class or series thereof in any respect. The Board of Directors may increase the number of shares of the Preferred Stock designated for any existing class or series by a resolution adding to such class or series authorized and unissued shares of the Preferred Stock not designated for any other class or series. The Board of Directors may decrease the number of shares of the Preferred Stock designated for any existing class or series of the Preferred Stock and the shares so subtracted shall become authorized, unissued and undesignated shares of the Preferred Stock.

3. Designation and Amount of Series E Convertible Preferred Stock. In accordance with the foregoing Section 2.2, the Corporation has authorized a series of Preferred Stock, which shall be designated as Series E Convertible Preferred Stock (the "Series E Preferred Convertible Stock"). The number of shares constituting the Series E Preferred Stock shall be 200,000, par value \$0.001. The Series E Preferred Stock has the voting powers, preferences, relative, participating, limitations, qualifications, optional and other special rights and the qualifications, limitations and restrictions thereof that are set forth below.

3.1. Dividends.

(a) The holders of outstanding shares of Series E Convertible Preferred Stock shall be equally entitled to receive preferential dividends in cash out of any funds of the Corporation legally available at the time for declaration of dividends, at the dividend rates applicable to each such series, as set forth herein, before any dividend or other distribution will be paid or declared and set apart for payment on any shares of any Common Stock, or other class of stock presently authorized or to be authorized (the Common Stock, and such other stock being hereinafter collectively the "Junior Stock") as follows: Series E Convertible Preferred Stock shall receive dividends at the rate of 5% per annum on the liquidation preference per shares, payable each March 31, June 30, September 30 and December 31, commencing with the first such date following the issuance of such stock. Dividends shall accumulate from the date of

issuance, until the first payment date, at which time all accumulated dividends and dividends from the date of issuance shall be paid if funds are legally available at such time. If funds are not legally available at such time, dividends shall continue to accumulate until they can be paid from legally available funds.

(b) The dividends on the Series E Convertible Preferred Stock at the rate provided above shall be cumulative whether or not earned so that, if at any time full cumulative dividends at the rate aforesaid on all shares of the Series E Convertible Preferred Stock then outstanding from the date from and after which dividends thereon are cumulative to the end of the quarterly dividend period next preceding such time shall not have been paid or declared and set apart for payment, or if the full dividend on all such outstanding Series E Convertible Preferred Stock for the then current dividend period shall not have been paid or declared and set apart for payment (but without interest thereon) before any sum shall be set apart for or applied by the Corporation or a subsidiary of the Corporation to the purchase, redemption or other acquisition of any shares of any other class of stock ranking on a parity with the Series E Convertible Preferred Stock ("Parity Stock") and before any dividend or other distribution shall be paid or declared and set apart for payment on any Junior Stock and before any sum shall be set aside for or applied to the purchase, redemption or other acquisition of Junior Stock.

(c) Dividends on all shares of the Series E Convertible Preferred Stock shall begin to accrue and be cumulative from and after the date

of issuance thereof. A dividend period shall be deemed to commence on the day following a quarterly dividend payment date herein specified and to end on the next succeeding quarterly dividend payment date herein specified.

3.2. Liquidation Preference. Upon the sale of substantially all of  
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the stock or assets of the Corporation in a non-public transaction or dissolution, liquidation, or winding up of the Corporation, whether voluntary or involuntary, the holders of the Series E Convertible Preferred Stock shall be entitled to receive out of the assets of the Corporation, before any distribution or payment is made upon the Common Stock or any other series or Preferred Stock, an amount in cash equal to \$.30 per share, plus any accrued but unpaid dividends (or, if there be an insufficient amount to pay all Series E Convertible Preferred Stockholders, then ratably among such holders).

3.3. Voting Rights. The holders of shares of Series E Convertible  
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Preferred Stock shall have no voting rights, except as required by law.

3.4. Conversion of Series E Convertible Preferred Stock.  
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(a) Holder's Right to Convert.

(i) Conversion. The record Holder of the Series E Convertible Preferred Stock shall be entitled, after two years from the initial issuance of the Series E Convertible Preferred Stock and from time to time thereafter, at the office of the Corporation or any transfer agent for the Series E Convertible Preferred Stock, to convert all or portions of the

Series E Convertible Preferred Stock held by such Holder, on a one for one basis into shares of the Common Stock, together with payment by the holder of \$.045 per converted share.

(ii) Mechanics of Conversion.

(1) In order to convert Series E Convertible Preferred Stock into full shares of Common Stock, the holder shall (i) transmit a facsimile copy of the fully executed notice of conversion in the form provided by the Corporation ("Notice of Conversion") to the Corporation, which notice shall specify the number of shares of Series E Convertible Preferred Stock to be converted, prior to midnight, New York City time (the "Conversion Notice Deadline"), on the date of conversion specified on the Notice of Conversion, and (ii) promptly surrender the original certificate or certificates therefor, duly endorsed, and deliver the original Notice of Conversion by either overnight courier or 2-day courier, to the office of the Corporation or of any transfer agent for the Series E Convertible Preferred Stock, together with payment by certified or bank check for \$.045 per converted share; provided, however, that the Corporation shall not be obligated to issue certificates evidencing such Series E Convertible Preferred Stock unless either the certificates evidencing such Series E Convertible Preferred Stock are delivered to the Corporation or its transfer agent as provided above or the Holder notifies the Corporation or its transfer agent that such certificates have been lost, stolen or destroyed. Upon receipt by the Corporation of evidence of the loss, theft, destruction or mutilation of the certificate or certificates ("Stock Certificates") representing shares of Series E Convertible Preferred Stock and (in the case of loss, theft or destruction) of indemnity or security reasonably satisfactory to the Corporation, and upon surrender and cancellation of the Stock Certificate(s), if mutilated, the Corporation shall execute and deliver new Stock Certificate(s) of like tenor and date. No fractional shares of Common Stock shall be issued upon conversion of the Series E Convertible Preferred Stock. In lieu of any fractional share to which the Holder would otherwise be entitled, the Corporation shall pay cash to such Holder in an amount equal to such fraction multiplied by the value of the Common Stock as determined in good faith by the Corporation's Board of Directors. In the case of a dispute as to the calculation of the Conversion Price, the Corporation's calculation shall be deemed conclusive absent manifest error.

(2) The Corporation shall issue and deliver at the address of the Holder on the books of the Corporation (i) a certificate or certificates for the number of shares of Common Stock equal to the Conversion Number for the shares of Series E Convertible Preferred Stock being so converted

and (ii) a certificate representing the balance of the shares of Series E Convertible Preferred Stock not so converted, if any. The date on which conversion occurs (the "Date of Conversion") shall be deemed to be the date set forth in such Notice of Conversion, provided that the copy of the Notice of Conversion is faxed to the Corporation before midnight, New York City time, on the Date of Conversion. The person or persons entitled to receive the shares of Common Stock issuable upon such conversion shall be treated for all purposes as the record holder or holders of such shares of Common Stock on such date.

(b) Adjustment to Conversion.

(i) If, prior to the conversion of all Series E Convertible Preferred Stock, there shall be any merger, consolidation, exchange of shares, recapitalization,

reorganization or other similar event, as a result of which shares of Common Stock of the Corporation shall be changed into the same or a different number of shares of the same or another class or classes of stock or securities of the Corporation or another entity, then the holders of Series E Convertible Preferred Stock shall thereafter have the right to purchase and receive upon conversion of Series E Convertible Preferred Stock, upon the basis and upon the terms and conditions specified herein and in lieu of the shares of Common Stock immediately theretofore issuable upon conversion, such shares of stock and/or securities as may be issued or payable with respect to or in exchange for the number of shares of Common Stock immediately theretofore purchasable and receivable upon the conversion of Series E Convertible Preferred Stock held by such holders had such merger, consolidation, exchange of shares, recapitalization or reorganization not taken place, and in any such case, appropriate provisions shall be made with respect to the rights and interests of the Holders of the Series E Convertible Preferred Stock to the end that the provisions hereof (including, without limitation, provisions for adjustment of the number of shares issuable upon conversion of the Series E Convertible Preferred Stock otherwise set forth in this Section (b)) shall thereafter be applicable, as nearly as may be practicable, in relation to any shares of stock or securities thereafter deliverable upon the exercise hereof. The Corporation shall not effect any transaction described herein unless the resulting successor or acquiring entity (if not the Corporation) assumes by written instrument the obligation to deliver to the holders of the Series E Convertible Preferred Stock such shares of stock and/or securities as, in accordance with the foregoing provisions, the holders of the Series E Convertible Preferred Stock may be entitled to purchase.

(ii) If any adjustment under this section would create a fractional share of Common Stock or a right to acquire a fractional share of Common Stock, such fractional shares shall be disregarded, and the number of shares of Common Stock issuable upon conversion shall be the next higher number of shares.

4. Perpetual Existence. The existence of the Corporation will be  
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perpetual.

5. Board of Directors. The affairs of the Corporation shall be governed  
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by a Board of Directors. Subject to any rights to elect directors ("Preferred Stock Directors") granted to the holders of any series of Preferred Stock as set forth in the Certificate of Designation for such series or class of Preferred Stock, the number of persons to serve on the Board of Directors, and the number of directors in each class of directors, shall be fixed as set forth in the Bylaws and such number may be increased or decreased from time to time in such manner as provided by the Bylaws, but the number of directors shall never be less than three. Directors of the Corporation need not be residents of the State of Nevada and need not own shares of the Corporation's stock.

5.1. Classified Board.  
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(a) Other than with respect to any Preferred Stock Directors, the Board of Directors shall be divided into three classes as nearly equal in number as possible (each, a "Class"), known as Class I, Class II and Class III. Directors of Class I first chosen at the annual meeting of stockholders held in 2004 shall hold office until the third annual meeting of the stockholders

following their election, such annual meeting of the stockholders to be held in 2007; directors of Class II first chosen at the annual meeting of stockholders held in 2004 shall hold office until the second annual meeting following their election, such annual meeting of the

stockholders to be held in 2006; and directors of Class III first chosen at the annual meeting of stockholders held in 2004 shall hold office until the first annual meeting following their election, such annual meeting of the stockholders to be held in 2005. At each annual meeting of stockholders beginning with the annual meeting of stockholders held in 2005, directors chosen to succeed those whose terms then expire shall be elected for a term of office expiring at the third succeeding annual meeting of stockholders after their election. Other than with respect to any Preferred Stock Directors, when the number of directors is changed, any newly created directorships or any decreases in directorships shall be so apportioned among the classes as to make all classes as nearly equal in number as possible. When the number of directors is increased by the Board of Directors (other than as a result of the establishment of any Preferred Stock Directors) and the resultant vacancies are filled by the Board of Directors, such additional directors shall serve only until the next annual meeting of stockholders, at which time they shall be subject to election and classification by the stockholders. In the event that any director is elected by the Board of Directors to fill a vacancy that occurs as a result of the death, resignation, or removal of another director, such director shall hold office until the annual meeting of stockholders at which the director who died, resigned, or was removed would have been required, in the regular order of business, to stand for re-election, even though such term may thereby extend beyond the next annual meeting of stockholders. Each director who is elected as provided in this Section 5 shall serve until his or her successor is duly elected and qualifies.

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(b) Notwithstanding any other provision of these Amended and Restated Articles of Incorporation or the Bylaws of the Corporation, any director or all the directors of a single class (but not the entire Board of Directors) of the Corporation may be removed, at any time, but only for cause and only by the affirmative vote of the holders of at least 66 2/3% of the voting power of the outstanding shares of capital stock of the Corporation entitled to vote generally in the election of directors (considered for this purpose as one class) cast at a meeting of the stockholders called for that purpose. Notwithstanding the foregoing, whenever the holders of any one or more series of preferred stock of the Corporation shall have the right, voting separately as a class, to elect one or more directors of the Corporation, the preceding provisions of this Article 5 shall not apply with respect to the director or directors elected by such holders of preferred stock.

6. Action by Written Consent. No action that is required or permitted to  
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be taken by the stockholders of the Corporation at any annual or special meeting of stockholders may be effected by written consent of stockholders in lieu of a meeting of stockholders, unless the action to be effected by written consent of stockholders and the taking of such action by such written consent have expressly been approved in advance by the Board of Directors of the Corporation.

7. Cumulative Voting. There shall be no cumulative voting by  
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stockholders of any class or series in the election of directors of the Corporation.

8. Distributions to Stockholders. Except as set forth in these Amended  
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and Restated Articles or the Certificate of Designations for any series or class of Preferred Stock, the Board of Directors of the Corporation may, from time to time, distribute to its stockholders a portion of its assets in cash or property, whether or not the distribution, after giving it effect, would cause the Corporation's total assets to be less than the sum of the total liabilities plus the amount that would be needed, if dissolution were to occur at the time of distribution, to satisfy the

preferential rights upon dissolution of stockholders whose preferential rights are superior to those receiving the distribution. The Board of Directors may base a determination that a distribution is permitted hereunder on (i) financial statements prepared on the basis of accounting practices that are reasonable

under the circumstances; (ii) a fair valuation, including, but not limited to, unrealized appreciation and depreciation; or (iii) any other method that is reasonable in the circumstances.

9. Director and Officer Liability. A director and officer of the  
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Corporation shall not be personally liable to the Corporation or its stockholders for damages for breach of fiduciary duty as a director or officer, except for liability (i) for acts or omissions that involve intentional misconduct, fraud or a knowing violation of law, or (ii) for authorizing any distribution in violation of Section 78.300 of the NRS. If the NRS is amended after approval by the stockholders of this Article to authorize corporate action further eliminating the personal liability of directors or officers, then the liability of a director or officer of the Corporation shall be eliminated or limited to the fullest extent permitted by the NRS, as so amended. Any repeal or modification of the foregoing paragraph by the stockholders of the Corporation shall not adversely affect any right or protection of a director or officer of the Corporation existing at the time of such repeal or modification. No amendment to the NRS that further limits the acts, omissions or transactions for which elimination or limitation of liability is permitted shall affect the liability of a director or officer for any act, omission or transaction which occurs prior to the effective date of such amendment.

10. Indemnification. The Corporation shall, to the fullest extent  
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permitted by Section 78.75 of the NRS, as the same may be amended, supplemented or replaced from time to time, indemnify any and all persons whom it shall have power to indemnify under said section from and against any and all of the expenses, liabilities or other matters referred to in or covered by said section, and the indemnification provided for herein shall not be deemed exclusive of any other rights to which those indemnified may be entitled under any Bylaw, agreement, vote of stockholders or disinterested directors or otherwise, both as to action in his official capacity and as to action in another capacity while holding such office, and shall continue as to a person who has ceased to be a director, officer, employee or agent and shall inure to the benefit of the heirs, executors and administrators of such a person. Pursuant to said Section 78.751 of the NRS, the expenses of officers and directors incurred in defending a civil or criminal action, suit or proceeding must be paid by the Corporation as they are incurred and in advance of the final disposition of the action, suit or proceeding, upon receipt of an undertaking by or on behalf of the director or officer to repay the amount if it is ultimately determined by a court of competent jurisdiction that he is not entitled to be indemnified by the Corporation.

11. Amendment of Articles of Incorporation. Subject to the provisions  
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hereof, the Corporation reserves the right to repeal, alter, amend or rescind any provision contained in these Restated Articles in the manner now or hereafter prescribed by law, and all rights conferred on stockholders herein are granted subject to this reservation. Notwithstanding the foregoing at any time and from time to time, the provisions set forth in Article 5 (Classified Board) and Article 6 (Action by Written Consent) may be repealed, altered, amended or rescinded in any respect only if the same is approved by the affirmative vote of the holders of not less than 66 2/3% of the voting power of the outstanding shares of capital stock of the Corporation entitled to vote generally in the election of directors (considered for this purpose as a single class) cast at a

meeting of the stockholders called for that purpose (provided that notice of such proposed adoption, repeal, alteration, amendment or rescission is included in the notice of such meeting).

IN WITNESS WHEREOF, the undersigned President and Chief Executive Officer has executed these Restated Articles as of April 7, 2004.

YP.NET, INC., a Nevada corporation

/s/ Angelo Tullo  
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Angelo Tullo  
President and Chief Executive Office



AMENDED AND RESTATED BYLAWS OF  
YP CORP.  
a Nevada Corporation

ARTICLE I

OFFICES

1.1. REGISTERED OFFICE. The registered office of the Corporation in the State of Nevada shall be in a county and city of the State of Nevada designated by the Board of Directors in accordance with applicable law.

1.2. OTHER OFFICES. The Corporation also may have offices at such other places both within and without the State of Nevada as the Board of Directors may from time to time determine or the business of the Corporation may require.

ARTICLE II

STOCKHOLDERS

2.1 STOCKHOLDER MEETINGS.

(a) TIME AND PLACE OF MEETINGS. Meetings of the stockholders shall be held at such times and places, either within or without the State of Nevada, as may from time to time be fixed by the Board of Directors and stated in the notices or waivers of notice of such meetings.

(b) ANNUAL MEETING. Annual meetings of stockholders shall be held at such date and time as the Board of Directors shall determine. At the annual meeting, stockholders shall elect a board of directors by plurality vote and transact such other business as properly may be brought before the annual meeting in accordance with Section 2.7 of this Article II.

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(c) SPECIAL MEETINGS. Special meetings of the stockholders of the Corporation may be called for any purpose or purposes at any time only by the Chairman of the Board, the Chief Executive Officer or the President. Business transacted at any special meeting of the stockholders shall be limited to the purposes stated in the notice of such meeting.

(d) NOTICE OF MEETINGS. Except as otherwise provided by law, the Articles of Incorporation or these Bylaws, written notice of each meeting of the stockholders shall be given not less than ten days nor more than sixty days before the date of such meeting to each stockholder entitled to vote thereat, directed to such stockholder's address as it appears upon the stock ledger of the Corporation, such notice to specify the place, date, hour and purpose or purposes of such meeting. If mailed, such notice shall be deemed to be given when deposited in

the United States mail, postage prepaid, addressed to the stockholder at his address as it appears on the stock ledger of the Corporation. When a meeting of the stockholders is adjourned to another time and/or place, notice need not be given of such adjourned meeting if the time and place are announced at the meeting of the stockholders at which the adjournment is taken, unless the adjournment is for more than thirty days or unless after the adjournment a new record date is fixed for such adjourned meeting, in which event a notice of such adjourned meeting shall be given to each stockholder of record entitled to vote thereat. Notice of the time, place and purpose of any meeting of the stockholders may be waived in writing either before or after such meeting and will be waived by any stockholder by such stockholder's attendance thereat in person or by proxy. Any stockholder so waiving notice of such a meeting shall be bound by the proceedings of any such meeting in all respects as if due notice thereof had been given.

(e) QUORUM. Except as otherwise required by law, the Articles of Incorporation or these Bylaws, the holders of not less than a majority of the shares entitled to vote at any meeting of the stockholders, present in person or by proxy, shall constitute a quorum and the affirmative vote of the majority of



such quorum shall be deemed the act of the stockholders. If a quorum shall fail to attend any meeting of the stockholders, the presiding officer of such meeting may adjourn such meeting from time to time to another place, date or time, without notice other than announcement at such meeting, until a quorum is present or represented. At such adjourned meeting at which a quorum is present or represented, any business may be transacted that might have been transacted at the meeting of the stockholders as originally noticed. The foregoing notwithstanding, if a notice of any adjourned special meeting of the stockholders is sent to all stockholders entitled to vote thereat, which states that such adjourned special meeting will be held with those present in person or by proxy constituting a quorum, then, except as otherwise required by law, those present at such adjourned special meeting of the stockholders shall constitute a quorum and all matters shall be determined by a majority of the votes cast at such special meeting.

2.2. DETERMINATION OF STOCKHOLDERS ENTITLED TO NOTICE AND TO VOTE. To determine the stockholders entitled to notice of any meeting of the stockholders or to vote thereat, the Board of Directors may fix in advance a record date as provided in Article II, Section 2.8 of these Bylaws, or if no record date is

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fixed by the Board of Directors, a record date shall be determined as provided by law.

2.3. VOTING.

(a) Except as otherwise required by law, the Articles of Incorporation or these Bylaws, each stockholder present in person or by proxy at a meeting of the stockholders shall be entitled to one vote for each full share of stock registered in the name of such stockholder at the time fixed by the Board of Directors or by law at the record date of the determination of stockholders entitled to vote at such meeting.

(b) Every stockholder entitled to vote at a meeting of the stockholders may do so either (i) in person or (ii) by one or more agents authorized by a written proxy executed by the person or such stockholder's duly authorized agent, whether by manual signature, typewriting, telegraphic transmission or otherwise as permitted by law. No proxy shall be voted on after three years from its date, unless the proxy provides for a longer period.

(c) Voting may be by voice or by ballot as the presiding officer of the meeting of the stockholders shall determine. On a vote by ballot, each ballot shall be signed by the stockholder voting, or by such stockholder's proxy, and shall state the number of shares voted.

(d) Shares of the Corporation held by another corporation may be voted by such corporation's officer, agent or proxy as its bylaws may prescribe, or in absence of such bylaw provision, by any other person designated by resolution of its Board of Directors, and such officer, agent or other person so designated may vote such corporation's shares in this Corporation in person or by proxy appointed by him.

(e) Shares held by an administrator, executor, guardian or conservator may be voted by such representative, either in person or by proxy, without a transfer of such shares into his name. Shares standing in the name of a trustee, other than a trustee in bankruptcy, may be voted by such representative, either in person or by proxy, but no such trustee shall be entitled to vote shares held by him without a transfer of such shares into his name.

(f) Shares standing in the name of a receiver, trustee in bankruptcy, or assignee for the benefit of creditors may be voted by such representative, either in person or by proxy. Shares held by or under the control of such a receiver or trustee may be voted by such receiver or trustee, either in person or by proxy, without the transfer thereof into his name if authority so to do be contained in an appropriate order of the court by which such receiver or trustee was appointed.

(g) A stockholder whose shares are pledged shall be entitled to vote such shares until the shares have been transferred into the name of the pledgee, and thereafter the pledgee shall be entitled to vote the shares so transferred.

(h) If shares stand in the names of two or more persons, whether fiduciaries, members of a partnership, joint tenants, tenants in common, tenants

by community property or otherwise, or if two or more persons have the same fiduciary relationship respecting the same shares, unless the Corporation is given written notice to the contrary and is furnished with a copy of the instrument or order appointing them or creating the relationship wherein it is so provided, their acts with respect to voting shall have the following effect: (1) If only one votes, his act binds; (2) If more than one votes, the act of the majority so voting binds all; and (3) If more than one votes, but the vote is evenly split on any particular matter, each fraction may vote the shares in question proportionally.

(i) Shares standing in the name of a married woman but not also standing in the name of her husband with such a designation of mutual relationship on the certificate, may be voted and all rights incident thereto may be exercised in the same manner as if she were unmarried.

(j) Shares of its own stock belonging to the Corporation or to another corporation, if a majority of the shares entitled to vote in the elections of directors of such other corporation is held, directly or indirectly, by the Corporation, shall neither be entitled to vote nor counted for quorum purposes. Nothing in this Section shall be construed as limiting the right of the Corporation to vote its own stock held by it in a fiduciary capacity.

(k) In advance of or at any meeting of the stockholders, the Chairman of the Board may appoint one or more persons as inspectors of election (the "Inspectors") to act at such meeting. Such Inspectors shall take charge of the ballots at such meeting. After the balloting on any question, the Inspectors shall count the ballots cast and make a written report to the secretary of such meeting of the results. Subject to the direction of the Chairman of the Board, the duties of such Inspectors may further include without limitation: determining the number of shares outstanding and the voting power of each; the shares represented at the meeting; the existence of a quorum; the authenticity, validity, and effect of proxies; receiving votes, ballots, or consents; hearing and determining all challenges and questions in any way arising in connection with the right to vote; counting and tabulating all votes of consents and determining when the polls shall close; determining the result; and doing such acts as may be proper to conduct the election or vote with fairness to all stockholders. An Inspector need not be a stockholder of the Corporation and any officer of the Corporation may be an Inspector on any question other than a vote for or against such officer's election to any position with the Corporation or any other questions in which such officer may be directly interested. If there are three or more Inspectors, the determination, report or certificate of a majority of such Inspectors shall be effective as if unanimously made by all Inspectors.

2.4. LIST OF STOCKHOLDERS. The officer who has charge of the stock ledger of the Corporation shall prepare and make available, at least 10 days or such other period of time as may be required by Federal, State or other jurisdictional body whose rules and regulations govern the allotted time before every meeting of stockholders, a complete list of the stockholders entitled to vote thereat, arranged in either alphabetical order or by zip code, showing the address of and the number of shares registered in the names of each such stockholder. Such list shall be open to the examination of any stockholder, for any purpose germane to such meeting, either at a place within the city where such meeting is to be held and which place shall be specified in the notice of such meeting, or, if not so specified, at the place where such meeting is to be held. The list also shall be produced and kept at the time and place of the meeting of the stockholders during the whole time thereof, and may be inspected by any stockholder who is present.

#### 2.5. ACTION BY WRITTEN CONSENT OF STOCKHOLDERS.

(a) Subject to restrictions imposed by the Corporation's Articles of Incorporation or by applicable law, any action required or permitted to be taken at any annual or special meeting of the stockholders may be taken without a meeting, without prior notice and without a vote, if a consent or consents in writing, setting forth the action so taken, shall be signed by the holders of outstanding stock having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted and shall be delivered to the Corporation's Secretary. Prompt notice of the taking of the Corporate action without a meeting by less than unanimous written consent shall, to the extent required by law, be given to those stockholders who have not consented in

writing and who, if the action had been taken at a meeting, would have been entitled to notice of the meeting if the record date for such meeting had been the date that written consents signed by a sufficient number of holders to take the action were delivered to the Corporation.

(b) The Board of Directors may fix a record date for the determination of stockholders entitled to consent to corporate action in writing without a meeting, which record

date shall not precede the date upon which the resolution fixing the record date is adopted by the Board of Directors, and which date shall not be more than 10 days after the date upon which the resolution fixing the record date is adopted by the Board of Directors. If no record date is set, the record date shall be the first date on which a signed written consent setting forth the action taken or proposed to be taken is delivered to the Secretary of the Corporation.

2.6. CONDUCT OF MEETINGS. The Chairman of the Board shall have full and complete authority to determine the agenda, to set the procedures and order the conduct of meetings, all as deemed appropriate by such person in his sole discretion with due regard to the orderly conduct of business.

2.7. ACTION AT MEETINGS OF STOCKHOLDERS.

(a) No business may be transacted at an annual meeting of stockholders, other than business that is either (i) specified in the notice of meeting (or any supplement thereto) given by or at the direction of the Board of Directors, (ii) otherwise properly brought before the annual meeting by or at the direction of the Board of Directors or (iii) otherwise properly brought before the annual meeting by any stockholder of the Corporation (A) who is a stockholder of record on the date of the giving of the notice provided for in this Section

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2.7 and on the record date for the determination of stockholders entitled to  
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vote at such annual meeting and (B) who complies with the notice procedures set forth in this Section 2.7.  
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(b) In addition to any other applicable requirements, for business properly to be brought before an annual meeting by a stockholder, such stockholder must have given timely notice thereof in proper written form to the Chairman of the Board, if any, the Chief Executive Officer, President, or the Secretary of the Corporation.

(c) To be timely, a stockholder's notice that includes a proposal for the Corporation's annual meeting must be received at the principal executive offices of the Corporation not less than 120 days before the date of the Corporation's proxy statement released to stockholders in connection with the previous year's annual meeting; provided, however, that in the event the Corporation did

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not hold an annual meeting the previous year or if the date of this year's annual meeting has been changed by more than 30 days from the date of the previous year's meeting, then the deadline is a reasonable time before the Corporation begins to print and mail its proxy materials. For a stockholder's notice that includes a proposal for a meeting of stockholders other than a regularly scheduled annual meeting, the deadline is a reasonable time before the Corporation begins to print and mail its proxy materials. Notwithstanding any of the provisions contained herein, any notice that includes a proposal that seeks action by the Corporation's stockholders at any meeting will comply with the guidelines established by Regulation 14A of the Securities Exchange Act of 1934, as amended; to the extent such regulation is then applicable to the Corporation.

(d) To be in proper written form, a stockholder's notice must set forth, as to each matter such stockholder proposes to bring before the annual meeting, (i) a brief description of the business desired to be brought before the annual meeting and the reasons for conducting such business at the annual meeting, (ii) the name and record address of such stockholder, (iii) the class or series and number of shares of capital stock of the Corporation that are owned

beneficially or of record by such stockholder, (iv) a description of all arrangements or understandings between such stockholder and any other person or persons (including their names) in connection with the proposal of such business

by such stockholder and any material interest of such stockholder in such business and (v) a representation that such stockholder intends to appear in person or by proxy at the annual meeting to bring such business before the meeting.

(e) No business shall be conducted at the annual meeting of stockholders except business brought before the annual meeting in accordance with the procedures set forth in this Section 2.7; provided, however, that, once business

has been brought properly before the annual meeting in accordance with such procedures, nothing in this Section 2.7 may be deemed to preclude discussion by

any stockholder of any such business. If the Chairman of an annual meeting determines that business was not brought properly before the annual meeting in accordance with the foregoing procedures, the chairman will declare to the meeting that the business was not brought properly before the meeting and such business will not be transacted.

(f) Whenever all parties entitled to vote at any meeting consent either by a writing on the records of the meeting or filed with the Secretary, or by presence at such meeting and oral consent entered on the minutes, or by taking part in the deliberations at such meeting without objection, the doings of such meetings shall be as valid as if had at a meeting regularly called and noticed, and at such meeting any business may be transacted, which is not excepted from the written consent or to the consideration of which no objection for want of notice is made at the time, and if any meeting be irregular for want of notice or of such consent, provided a quorum was present at such meeting, the proceedings of said meeting may be ratified and approved and rendered likewise valid and the irregularity or defect therein waived by a writing signed by all parties having the right to vote at such meeting; and such consent or approval of stockholders may be by proxy or attorney, but all such proxies and powers of attorney must be in writing.

(g) Whenever any notice whatever is required to be given under the provisions of Nevada law, of the Articles of Incorporation or of these Bylaws, a waiver thereof in writing, signed by the person or persons entitled to said notice, whether before or after the time stated therein, shall be deemed equivalent thereto.

## 2.8. RECORD DATE.

(a) In order that the Corporation may determine the stockholders entitled to notice of or to vote at any meeting of the stockholders or any adjournment thereof, or entitled to receive payment of any dividend or other distribution or allotment of any rights or entitlement to exercise any rights in respect of any change, conversion or exchange of stock or for the purpose of any other lawful action, the Board of Directors may fix, in advance, a record date, which shall not be more than sixty nor less than ten days prior to the date of such meeting. If not fixed by the Board of Directors, the record date shall be determined as provided by law.

(b) A determination of stockholders of record entitled to notice of or to vote at a meeting of the stockholders shall apply to any adjournments of the meeting, unless the Board of Directors fixes a new record date for the adjourned meeting.

(c) Holders of stock on the record date are entitled to notice and to vote or to receive the dividend, distribution or allotment of rights or to exercise the rights, as the case may be, notwithstanding any transfer of the shares set forth in the stock ledger of the Corporation after the record date, except as otherwise provided by agreement or by law, the Articles of Incorporation or these Bylaws.

2.9. INFORMALITIES AND IRREGULARITIES. All informalities or irregularities in any call or notice of a meeting of the stockholders or in the areas of credentials, proxies, quorums, voting and similar matters, will be deemed waived if no objection is made at the meeting.

## ARTICLE III

### BOARD OF DIRECTORS

3.1. GENERAL POWERS. Unless otherwise restricted by law, the Articles of Incorporation or these Bylaws as to action which shall be authorized or approved by the stockholders, and subject to the duties of directors as prescribed by these Bylaws, all corporate powers shall be exercised by or under the authority of, and the business and affairs of the Corporation shall be controlled by, the Board of Directors. The Board of Directors may delegate the management of the day-to-day operation of the business of the Corporation to a management company or other person, provided that the business and affairs of the Corporation will be managed, and all corporate powers shall be exercised, under the ultimate direction and responsibility of the Board of Directors.

3.2. ELECTION OF DIRECTORS.

(a) NUMBER, QUALIFICATION AND TERM OF OFFICE. The exact number of directors of the Corporation shall not be less than three or more than nine. The authorized number of directors may from time to time be increased or decreased by resolution of the directors of the Corporation amending this provision of the Bylaws in compliance with Section 8.5 of Article VIII. No reduction of the

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authorized number of directors shall have the effect of removing any director prior to the expiration of his or her term in office. Except as otherwise provided in this Section 3.2, each director elected shall hold office until his

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successor is elected and qualified. The Board of Directors shall be and is divided into three classes: Class I, Class II and Class III. The number of directors in any class shall not exceed the number of directors in any other class by more than one.

(b) RESIGNATION. Any director may resign from the Board of Directors at any time by giving written notice to the Secretary of the Corporation. Any such resignation shall take effect at the time specified therein, or if the time when such resignation shall become effective shall not be so specified, then such resignation shall take effect immediately upon its receipt by the Secretary; and, unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

(c) VACANCIES. Vacancies and new directorships resulting from an increase in the authorized number of directors may be filled by a majority of the directors then in office, though less than a quorum, or by the sole remaining director. If no directors are in office, an election

may be held as provided by statute. A director elected to fill a vacancy shall be elected for the unexpired term of his or her predecessor in office. A directorship to be filled by reason of an increase in the number of directors may be filled by the Board of Directors for a term of office continuing only until the next annual meeting or the next election of one or more directors by the stockholders at a special meeting of stockholders called for that purpose. Any director may be removed from office only in accordance with the Articles of Incorporation.

3.3 MEETINGS OF THE BOARD OF DIRECTORS.

(a) REGULAR MEETINGS. Regular meetings of the Board of Directors shall be held without notice at such time and place as shall from time to time be determined by the Board of Directors:

(i) at such times as the Board of Directors shall from time to time by resolution determine; and

(ii) one half-hour prior to any special meeting of the stockholders and immediately following the adjournment of any annual or special meeting of the stockholders.

(b) SPECIAL MEETINGS.

(i) Special meetings of the Board of Directors may be called by the Chairman of the Board, the Chief Executive Officer or the President, and will be called by the Secretary at the written request of two or more directors. Notice of the time and place of special meetings of the Board of Directors shall be given by the Secretary or an Assistant Secretary of the Corporation, or by any other officer authorized by the Board of Directors. Such notice shall be given to each director personally or by mail,

messenger, telephone, telegraph or electronic mail at such director's business, residence or electronic address. Notice by mail shall be deposited in the United States mail, postage prepaid, not later than the fifth day prior to the date fixed for such special meeting. Notice by telephone, telegraph or electronic mail shall be sent, and notice given personally or by messenger shall be delivered, at least twenty-four hours prior to the time set for such special meeting. Notice of a special meeting of the Board of Directors need not contain a statement of the purpose of such special meeting.

(ii) Whenever all parties entitled to vote at any meeting consent either by a writing on the records of the meeting or filed with the Secretary, or by presence at such meeting and oral consent entered on the minutes, or by taking part in the deliberations at such meeting without objection, the doings of such meetings shall be as valid as if they had occurred at a meeting regularly called and noticed, and at such meeting any business may be transacted, which is not excepted from the written consent or to the consideration of which no objection for want of notice is made at the time, and if any meeting be irregular for want of notice or of such consent, provided a quorum was present at such meeting, the proceedings of said meeting may be ratified and approved and rendered likewise valid and the irregularity or defect therein waived by a writing signed by all

parties having the right to vote at such meeting; and such consent or approval of directors may be by proxy or attorney, but all such proxies and powers of attorney must be in writing.

(iii) Whenever any notice whatsoever is required to be given under the provisions of Nevada law, of the Articles of Incorporation or of these Bylaws, a waiver thereof in writing, signed by the person or persons entitled to said notice, whether before or after the time stated therein, shall be deemed equivalent thereto.

(c) ADJOURNED MEETINGS. A majority of directors present at any regular or special meeting of the Board of Directors or any committee thereof, whether or not constituting a quorum, may adjourn any meeting from time to time until a quorum is present or otherwise, however, notice of the time and place of holding any adjourned meeting shall be required as provided in Section 3.3(b) of these  
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Bylaws.

(d) PLACE OF MEETINGS. Meetings of the Board of Directors, both regular and special, may be held either within or without the State of Nevada.

(e) PARTICIPATION BY TELEPHONE. Members of the Board of Directors or any committee may participate in any meeting of the Board of Directors or committee through the use of conference telephone or similar communications equipment, so long as all members participating in such meeting can hear one another, and such participation shall constitute presence in person at such meeting.

(f) QUORUM. At all meetings of the Board of Directors or any committee thereof, a majority of the total number of directors of the entire then authorized Board of Directors or such committee shall constitute a quorum for the transaction of business and the act of a majority of the directors present at any such meeting at which there is a quorum shall be the act of the Board of Directors or any committee, except as may be otherwise specifically prohibited by law, the Articles of Incorporation or these Bylaws. A meeting of the Board of Directors or any committee at which a quorum initially is present may continue to transact business notwithstanding the withdrawal of directors so long as any action is approved by at least a majority of the required quorum for such meeting. Any action of a majority, although not at a regularly called meeting, and the record thereof, if assented to in writing by all of the other member of the Board of Directors, shall be as valid and effective in all respects as if passed by the Board of Directors in a regular meeting.

(g) WAIVER OF NOTICE. The transactions of any meeting of the Board of Directors or any committee, however called and noticed or wherever held, shall be as valid as though had at a meeting duly held after regular call and notice, if a quorum be present and if, either before or after the meeting, each of the directors not present signs a written waiver of notice, or a consent to hold such meeting, or an approval of the minutes thereof. All such waivers, consents or approvals shall be filed with the corporate records or made a part of the

minutes of the meeting.

3.5. ACTION WITHOUT MEETING. Any action required or permitted to be taken by the Board of Directors at any meeting or at any meeting of a committee may be taken without a

meeting if all members of the Board of Directors or such committee consent in writing and the writing or writings are filed with the minutes of the proceedings of the Board of Directors or such committee.

3.6. COMPENSATION OF DIRECTOR. Unless otherwise restricted by law, the Articles of Incorporation or these Bylaws, the Board of Directors shall have the authority to fix the compensation of directors. The directors may be paid their expenses, if any, of attendance at each meeting of the Board of Directors and may be paid a fixed sum for attendance at each meeting of the Board of Directors or a stated salary as a director. No such payment shall preclude any director from serving the Corporation in any other capacity and receiving compensation therefor. Members of committees of the Board of Directors may be allowed like compensation for attending committee meetings.

3.7. COMMITTEES OF THE BOARD.

(a) EXECUTIVE COMMITTEE. The Board of Directors may, by resolution adopted by a majority of the whole Board, name two or more of its members and General Counsel, or such other legal advisor as it deems appropriate, as an Executive Committee. Such Executive Committee will have and may exercise the powers of the Board of Directors in the management of the business and affairs of the Corporation while the Board is not in session, subject to such limitations as may be included in the Board's resolution; provided, however, that such Executive Committee shall not have the authority of the Board of Directors in reference to the following matters: (1) the submission to stockholders of any action that requires the authorization or approval under applicable law; (2) the filling of vacancies on the Board of Directors or in any committee of the Board of Directors; (3) the amendment or repeal of these Bylaws, or the adoption of new bylaws; and (4) the fixing of compensation of Directors for serving on the Board or on any Committee of the Board of Directors. A majority of those named to the Executive Committee will constitute a quorum and the Committee may at any time act by the written consent of a quorum thereof, although not formally convened.

(b) OTHER COMMITTEES. The Board of Directors may from time to time, by resolution adopted by a majority of the whole Board, appoint other standing or temporary Committees consisting of at least one current member of the Board of Directors, and such other individuals as the Board of Directors may determine. These Committees will be vested with such powers as the Board may include in its resolution; provided, however, that such Committees shall be restricted in their

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authority that all actions taken are subject to review and ratification by the Executive Committee and the Board of Directors. A majority of those named to any such Committees will constitute a quorum and the Committee may at any time act by the written consent of a quorum thereof, although not formally convened.

(c) MINUTES OF MEETINGS. Each committee shall keep regular minutes of its meetings and report the same to the Board of Directors when required.

3.8. INTERESTED DIRECTORS. In addition to the statutory and corporate common law of Nevada, no contract or transaction between the Corporation and one or more of its directors or officers, or between the Corporation and any other corporation, partnership, association, or other organization in which one or more of its directors or officers are directors or officers, or have a

financial interest, shall be void or voidable solely for this reason, or solely because the director or officer is present at or participates in the meeting of the Board of Directors or committee thereof, which authorizes the contract or transaction, or solely because his, her or their votes are counted for such purpose if (i) the material facts as to his, her or their relationship or interest and as to the contract or transaction are disclosed or are known to the Board of Directors in good faith authorizes the contract or transaction by the affirmative votes of a majority of the disinterested directors, even though the disinterested directors be less than a quorum; or (ii) the material facts as to his, her or their relationship or interest and as to the contract or transaction

are disclosed or are known to the stockholders entitled to vote thereon, and the contract or transaction is specifically approved in good faith by vote of the stockholders; or (iii) the contract or transaction is fair as to the Corporation as of the time it is authorized, approved or ratified, by the Board of Directors, a committee thereof or the stockholders. Interested directors may be counted in determining the presence of a quorum at a meeting of the Board of Directors or of the duly appointed Executive Committee, which authorizes the contract or transaction.

## ARTICLE IV

### OFFICERS

#### 4.1. OFFICERS.

(a) NUMBER. The officers of the Corporation shall be chosen by the Board of Directors and will include a Chairman of the Board of Directors (who must be a director as chosen by the Board of Directors), a President, Secretary and a Treasurer and may include Chief Officers and any number of Vice-Presidents. The Board of Directors also may appoint one or more Assistant Secretaries or Assistant Treasurers and such other officers and agents with such powers and duties as it shall deem necessary. Any Vice President may be given such specific designation as may be determined from time to time by the Board of Directors. Any number of offices may be held by the same person, unless otherwise restricted by law, the Articles of Incorporation or these Bylaws. The Board of Directors may delegate to any other officer of the Corporation the power to choose such other officers and to prescribe their respective duties and powers.

(b) ELECTION AND TERM OF OFFICE. The officers shall be elected annually by the Board of Directors at its regular meeting following the annual meeting of the stockholders and each officer shall hold office until the next annual election of officers and until such officer's successor is elected and qualified, or until such officer's death, resignation or removal. Any officer may be removed at any time, with or without cause, by a vote of the majority of the whole Board of Directors or by an officer upon whom such power of removal may be conferred by the Board of Directors. Any vacancy occurring in any office may be filled by the Board of Directors.

(c) SALARIES. The salaries of all officers of the Corporation shall be fixed by the Board of Directors or a committee thereof from time to time.

4.2. CHAIRMAN OF THE BOARD OF DIRECTORS. The Board of Directors will elect a Chairman to serve as a Non-Executive Officer of the Corporation. The Chairman will preside at

all meetings of the Board of Directors and be vested with such other powers and duties as the Board may from time to time delegate to him.

4.3. CHIEF OFFICERS. The Board of Directors may elect a Chief Executive Officer, a Chief Financial Officer and a Chief Operating Officer. The Chief Executive Officer shall be the presiding officer over all business affairs of the Corporation, subject only to the direction of the Board of Directors. The Chief Financial Officer of the Corporation shall be the presiding officer over the financial affairs of the Corporation, subject only to the direction of the Board of Directors and the Chief Executive Officer. The Chief Operating Officer of the Corporation shall be the presiding officer over the operational affairs of the Corporation, subject only to the direction of the Board of Directors and the Chief Executive Officer. Except as may otherwise be specifically provided in a resolution of the Board of Directors, the Chief Officers will be proper officers to sign on behalf of the Corporation any deed, bill of sale, assignment, option, mortgage, pledge, note, bond, evidence of indebtedness, application, consent (to service of process or otherwise), agreement, indenture or other instrument of any significant importance to the Corporation.

4.4. PRESIDENT. The President, absent the election of a Chief Executive Officer, will supervise the business and affairs of the Corporation and the performance by all of its other officers, excluding Chief Officers, of their respective duties, subject to the control of the Board of Directors. Absent the election of a Chief Executive Officer by the Board of Directors, the President will be the Chief Executive Officer of the Corporation. Except as may otherwise be specifically provided in a resolution of the Board of Directors, the President will be a proper officer to sign on behalf of the Corporation any deed, bill of



sale, assignment, option, mortgage, pledge, note, bond, evidence of indebtedness, application, consent (to service of process or otherwise), agreement, indenture or other instrument of any significant importance to the Corporation. The President may represent the Corporation at any meeting of the stockholders of any other Corporation in which this Corporation then holds shares, and may vote this Corporation's shares in such other corporation in person or by proxy appointed by him, provided that the Board of Directors may from time to time confer the foregoing authority upon any other person or persons. The President may designate any Vice President to perform any acts, on behalf of the Corporation, in his place.

4.5. VICE PRESIDENTS. One or more Vice Presidents may be elected by the Board of Directors each of whom (in the order designated by the Board) will be vested with all of the powers and charged with all of the duties (including those herein before specifically set forth) of the President in the event of his absence or disability. Each Vice President will perform such other duties as may from time to time be delegated or assigned to him/her by the Board of Directors, Chief Executive Officer, Chief Operating Officer or the President, in that order.

4.6. SECRETARY AND ASSISTANT SECRETARIES. The Secretary will keep the minutes of meetings of the stockholders, Board of Directors and any Committee, and all unanimous written consents of the stockholders, Board of Directors and any Committee of the Corporation, see that all notices are duly given in accordance with the provisions of these Bylaws or as required by applicable law, be custodian of the corporate seal and corporate records, and, in general, perform all duties incident to his office. Except as may otherwise be specifically provided in a resolution of the Board of Directors, the Secretary and each Assistant Secretary

will be a proper officer to take charge of the Corporation's stock ledger, and to compile the voting record, and to impress the Corporation's Seal on any instrument signed by a duly authorized or empowered officer, and to attest to the same.

4.7. TREASURER AND ASSISTANT TREASURERS. The Treasurer, absent the election of a Chief Financial Officer, shall serve as the Chief Financial Officer and will maintain the financial records of the Corporation and supervise all Corporate reporting with any and all government agencies. The Treasurer will keep full and accurate accounts of receipts and disbursements in books belonging to the Corporation, and will cause all money and other valuable effects to be deposited in the name and to the credit of the Corporation in such depositories, subject to withdrawal in such manner as may be designated by the Board of Directors and the Chief Executive Officer. The Treasurer will render to the Chief Executive Officer, President and to the Directors (at the regular meetings of the Board or whenever they may require), an account of all his transactions, as Treasurer, and of the financial condition of the Corporation.

## ARTICLE V

### INDEMNIFICATION AND INSURANCE

5.1. RIGHT TO INDEMNIFICATION. Subject to the terms and conditions of this Article V, each officer or director of the Corporation who was or is made a party or witness or is threatened to be made a party or witness to or is otherwise involved in any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (hereinafter a "proceeding"), by reason of the fact that he is or was a director or officer of the Corporation or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation or of a partnership, joint venture, trust or other enterprise, including service with respect to employee benefit plans (hereinafter an "indemnitee"), whether the basis of such proceeding is alleged action or inaction in an official capacity while serving as a director, officer, employee or agent, shall be indemnified and held harmless by the Corporation to the fullest extent authorized by the general corporate law of Nevada as set forth in Section 78 et. seq. of the Nevada Revised Statutes ("NRS"), as the same exists or may hereafter be amended (but, in the case of any such amendment, only to the extent that such amendment permits the Corporation to provide broader indemnification rights than such law permitted the Corporation to provide prior to such amendment), against all expense, liability and loss (including attorney's fees, judgments, fines, ERISA excise taxes or penalties and amounts paid in settlement) reasonably

incurred or suffered by such indemnitee who has ceased to be a director, officer, employee or agent and shall inure to the benefit of the indemnitee's heirs, executors and administrators; provided, however, that, except as provided in Article V hereof with respect to proceedings to enforce rights to indemnification, the Corporation shall indemnify any such indemnitee in connection with a proceeding (or part thereof) initiated by such indemnitee only if such proceeding (or part thereof) was authorized by the Board of Directors of the Corporation. The right to indemnification conferred in this Section shall include the right to be paid by the Corporation the expenses incurred in defending any such proceeding in advance of its final disposition (hereinafter an "advancement of expenses"); provided, however, that if the GCL requires an

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advancement of expenses incurred by an indemnitee, such advancement of expenses shall be made only upon delivery to the Corporation of an undertaking in the form then required by the GCL (if any), by

or on behalf of such indemnitee, with respect to the repayment of amounts so advanced (hereinafter an "undertaking").

5.2. RIGHT TO INDEMNITEE TO BRING SUIT. If a claim under Section 5.1 of this

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Article V is not paid in full by the Corporation within sixty days after a written claim has been received by the Corporation, except in the case of a claim for an advancement of expenses, in which case the applicable period shall be twenty days, the indemnitee may at any time thereafter bring suit against the Corporation to recover the unpaid amount of the claim. If successful in whole or in part in any such suit or in a suit brought by the Corporation to recover an advancement of expenses pursuant to the terms of an undertaking, the indemnitee shall be entitled to be paid also the expenses of prosecuting or defending such suit. In (i) any suit brought by the indemnitee to enforce a right to indemnification hereunder (but not in a suit brought by the indemnitee to enforce a right to an advancement of expenses) it shall be a defense that, and (ii) any suit by the Corporation to recover an advancement of expenses pursuant to the terms of an undertaking the Corporation shall be entitled to recover such expenses upon a final adjudication that, the indemnitee has not met the applicable standard of conduct set forth in the GCL. Neither the failure of the Corporation (including the Board of Directors, independent legal counsel, or its stockholders) to have made a determination prior to the commencement of such suit that indemnification of the indemnitee is proper in the circumstances because the indemnitee has met the applicable standard of conduct set forth in the GCL, nor an actual determination by the Corporation (including its Board of Directors, independent legal counsel or its stockholders) that the indemnitee has not met such applicable standard of conduct, shall create a presumption that the indemnitee has not met the applicable standard of conduct or, in the case of such suit brought by the indemnitee, be a defense to such suit. In any suit brought by the indemnitee to enforce a right hereunder, or by the Corporation to recover an advancement of expenses pursuant to the terms of an undertaking, the burden of proving that the indemnitee is not entitled to be indemnified or to such advancement of expenses under this Section or otherwise shall be on the Corporation.

5.3. SPECIFIC LIMITATIONS ON INDEMNIFICATION. Notwithstanding anything in this Article to the contrary, the Corporation shall not be obligated to make any payment to any indemnitee with respect to any proceeding (i) to the extent that payment is actually made to the indemnitee under any insurance policy, or is made to indemnitee by the Corporation or an affiliate thereof otherwise than pursuant to this Article, (ii) for any expense, liability or loss in connection with a proceeding settled without the Corporation's written consent, which consent, however, shall not be unreasonably withheld, (iii) for an accounting of profits made from the purchase or sale by the indemnitee of securities of the Corporation within the meaning of Section 16(b) of the Securities Exchange Act of 1934, as amended, or similar provisions of any state statutory or common law, (iv) where the indemnitee acted in bad faith or with gross negligence, or (v) where prohibited by applicable law.

5.4. CONTRACT. The provisions of this Article shall be deemed to be a contract between the Corporation and each director and officer who serves in such capacity at any time while such Section is in effect, and any repeal or modification thereof shall not affect any rights or obligations then existing with respect to any state of facts then or theretofore existing or any action, suit or proceeding theretofore or thereafter based in whole or in part upon any such state of facts.

5.5. PARTIAL INDEMNITY. If the indemnitee is entitled under any provision of this Article to indemnification by the Corporation for some or a portion of the expenses, liabilities or losses incurred in connection with a proceeding but not, however, for the entire amount thereof, the Corporation shall nevertheless indemnify the indemnitee for the portion thereof to which the indemnitee is entitled. Moreover, notwithstanding any other provision of this Article, to the extent that the indemnitee has been successful on the merits or otherwise in defense of any or all claims relating in whole or in part to a proceeding or in defense of any issue or matter therein, including dismissal without prejudice, the indemnitee shall be indemnified against all loss, expense and liability incurred in connection with the portion of the proceeding with respect to which indemnitee was successful on the merits or otherwise.

5.6. NON-EXCLUSIVITY OF RIGHTS. The rights to indemnification and to the advancement of expenses conferred in this Article shall not be exclusive of any other right which any person may have or hereafter acquire under any statute, the Articles of Incorporation, these Bylaws, agreement, vote of stockholders or disinterested directors or otherwise.

5.7. INSURANCE. The Corporation may maintain insurance, at its expense, to protect itself and any director, officer, employee or agent of the Corporation or another corporation, partnership, joint venture, trust or other enterprise against any expense, liability or loss, whether or not the Corporation would have the power to indemnify such person against such expense, liability or loss under the GCL.

5.8. INDEMNIFICATION OF EMPLOYEES AND AGENTS OF THE CORPORATION. The Corporation may, to the extent authorized from time to time by the Board of Directors, grant rights to indemnification and to the advancement of expenses, to any employee or agent of the Corporation to the fullest extent of the provisions of this Article with respect to the indemnification and advancement of expenses of directors and officers of the Corporation, or to such lesser extent as may be determined by the Board of Directors.

5.9. NOTICE BY INDEMNITEE AND DEFENSE OF CLAIM. The indemnitee shall promptly notify the Corporation in writing upon being served with any summons, citation, subpoena, complaint, indictment, information or other document relating to any matter, whether civil, criminal, administrative or investigative, but the omission so to notify the Corporation will not relieve it from any liability which it may have to the indemnitee if such omission does not prejudice the Corporation's rights. If such omission does prejudice the Corporation's rights, the Corporation will be relieved from liability only to the extent of such prejudice; nor will such omission relieve the Corporation from any liability which it may have to the indemnitee otherwise than under this Article V. With respect to any proceedings as to which the indemnitee notifies the Corporation of the commencement thereof:

(a) The Corporation will be entitled to participate therein at its own expense; and

(b) The Corporation will be entitled to assume the defense thereof, with counsel reasonably satisfactory to the indemnitee; provided, however, that the Corporation shall not be entitled to assume the defense of any proceeding (and this Section 5.9 shall be inapplicable to such proceeding) if the indemnitee

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shall have reasonably concluded that there may be a conflict of interest between the Corporation and the indemnitee with respect to such proceeding. After

notice from the Corporation to the indemnitee of its election to assume the defense thereof, the Corporation will not be liable to the indemnitee under this Article V for any expenses subsequently incurred by the indemnitee in connection with the defense thereof, other than reasonable costs of investigation or as otherwise provided below. The indemnitee shall have the right to employ his own counsel in such proceeding but the fees and expenses of such counsel incurred after notice from the Corporation of its assumption of the defense thereof shall be at the expense of the indemnitee unless:

(i) The employment of counsel by the indemnitee has been authorized by the Corporation in writing; or

(ii) The Corporation shall not have employed counsel to assume the defense in such proceeding or shall not have assumed such defense and be acting in connection therewith with reasonable diligence; in each of which cases the fees and expenses of such counsel shall be at the expense of the Corporation.

(c) The Corporation shall not settle any proceeding in any manner which would impose any penalty or limitation on the indemnitee without the indemnitee's written consent; provided, however, that the indemnitee will not unreasonably withhold his consent to any proposed settlement.

## ARTICLE VI

### CERTIFICATES FOR SHARES AND THEIR TRANSFER

6.1. CERTIFICATES FOR SHARES. Unless otherwise provided by a resolution of the Board of Directors, the shares of the Corporation shall be represented by a certificate. The certificates of stock of the Corporation shall be numbered and shall be entered in the stock ledger of the Corporation as they are issued. They shall exhibit the holder's name and number of shares and shall be signed by or in the name of the Corporation by (a) the Chief Executive Officer, or the President and (b) the Secretary or any Assistant Secretary. Any or all of the signatures on a certificate may be by facsimile. In case any officer of the Corporation, transfer agent or registrar who has signed, or whose facsimile signature has been placed upon such certificate, shall have ceased to be such officer, transfer agent or registrar before such certificate is issued, such certificate may nevertheless be issued by the Corporation with the same effect as if he were such officer, transfer agent or registrar at the date of issuance.

### 6.2. CLASSES OF STOCK.

(a) If the Corporation shall be authorized to issue more than one class of stock or more than one series of any class, the powers, designations, preferences and relative participating, optional or other special rights of each class of stock or series thereof and the qualification, limitations, or restrictions of such preferences or rights shall be set forth in full or summarized on the face or back of the certificate that the Corporation shall issue to represent such class or series of

stock; provided, that, except as otherwise provided in Section 78.195(5) of the Nevada Revised Statutes in lieu of the foregoing requirements, there may be set forth on the face or back of the certificate that the Corporation shall issue to represent such class or series of stock, a statement that the Corporation will furnish without charge to each stockholder who so requests the powers, designations, preferences and relative participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences or rights.

(b) Within a reasonable time after the issuance or transfer of uncertified stock, the Corporation shall send to the registered owner thereof a written notice containing the information required to be set forth or stated on certificates pursuant to applicable law (including Sections 78.195, 78.205, 78.235 and 78.242 of the Nevada Revised Statutes) or a statement that the Corporation will furnish without charge to each stockholder who so requests the powers, designations, preferences and relative participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences or rights.

6.3. TRANSFER. Subject to applicable federal and state securities laws, upon surrender to the Corporation or the transfer agent of the Corporation of a certificate for shares duly endorsed or accompanied by proper evidence of succession, assignation or authority to transfer, it shall be the duty of the Corporation to issue a new certificate to the person entitled thereto, cancel the old certificate and record the transaction upon its stock ledger. Upon receipt of proper transfer instructions from the registered owner of uncertified shares, such uncertified shares shall be canceled, issuance of new equivalent uncertified shares or certified shares shall be made to the person entitled thereto and the transaction shall be recorded upon the stock ledger of the Corporation.

6.4. RECORD OWNER. The Corporation shall be entitled to treat the holder of record of any share or shares of stock as the holder in fact thereof, and,

accordingly, shall not be bound to recognize any equitable or other claim to or interest in such share on the part of any other person, whether or not it shall have express or other notice thereof, save as expressly provided by the laws of the State of Nevada.

6.5. LOST CERTIFICATES. The Board of Directors may direct a new certificate or certificates or uncertified shares to be issued in place of any certificate or certificates theretofore issued by the Corporation alleged to have been lost, stolen or destroyed, upon the making of an affidavit of that fact by the person claiming the certificate of stock to be lost, stolen or destroyed. When authorizing such issue of a new certificate or certificates or uncertified shares, the Board of Directors may, in its discretion and as a condition precedent to the issuance thereof, require the owner of such lost, stolen or destroyed certificate or certificates, or his legal representative, to advertise the same in such manner as the Board of Directors shall require to give the Corporation a bond in such sum as it may direct as indemnity against any claim that may be made against the Corporation with respect to the certificate alleged to have been lost stolen or destroyed.

6.6. DIVIDENDS. In the event a dividend is declared, the stock transfer books will not be closed but a record date will be fixed by the Board of Directors, and only stockholders of record on that date shall be entitled to the dividend.

## ARTICLE VII

### EMERGENCY PROVISIONS

7.1. GENERAL. THE PROVISIONS OF THIS ARTICLE VII WILL BE OPERATIVE ONLY DURING A NATIONAL EMERGENCY DECLARED BY THE PRESIDENT OF THE UNITED STATES OR THE PERSON PERFORMING THE PRESIDENT'S FUNCTIONS, OR IN THE EVENT OF A NUCLEAR, ATOMIC, OR OTHER ATTACK ON THE UNITED STATES OR A DISASTER MAKING IT IMPOSSIBLE OR IMPRACTICABLE FOR THE CORPORATION TO CONDUCT ITS BUSINESS WITHOUT RECOURSE TO THE PROVISIONS OF THIS ARTICLE VII. Said provisions in such event shall override all other Bylaws of this Corporation in conflict with any provisions of this Article VII, and shall remain operative so long as it remains impossible or impracticable to continue the business of the Corporation otherwise, but thereafter shall be inoperative; provided that all actions taken in good faith pursuant to such provisions shall thereafter remain in full force and effect unless and until revoked by action taken in accordance with the provisions of the Bylaws (other than those contained in this Article VII).

7.2. UNAVAILABLE DIRECTORS. All Directors of the Corporation who are not available to perform their duties as Directors by reason of physical or mental incapacity or for any other reason or who are unwilling to perform their duties or whose whereabouts are unknown shall automatically cease to be Directors, with like effect as if such persons had resigned as Directors, so long as such unavailability continues.

7.3. AUTHORIZED NUMBER OF DIRECTORS. The authorized number of Directors shall be the number of Directors remaining after eliminating those who have ceased to be Directors pursuant to Section 7.2 hereof, or the minimum number required by  
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law, whichever number is greater, until such time as the vacancy created thereby can be filled, or the applicable provisions of these Bylaws can be amended to reflect such change.

7.4. QUORUM. The number of Directors necessary to constitute a quorum shall be one-third of the authorized number of Directors as specified in the foregoing Section 7.3, or such other minimum number as, pursuant to the law or lawful  
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decree then in force, it is possible for the Bylaws of a Corporation to specify.

7.5. CREATION OF EMERGENCY COMMITTEE. In the event the number of Directors remaining after eliminating those who have ceased to be Directors pursuant to Section 7.2 of this Article VII is less than the minimum number of authorized  
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Directors required by law, then until the appointment of additional Directors to make up such required minimum, all the powers and authorities, which the Board could by law delegate, including all powers and authorities which the Board could delegate to a committee, shall be automatically vested in an emergency committee (the "Emergency Committee"), and the Emergency Committee shall thereafter manage the affairs of the Corporation pursuant to such powers and

authorities and shall have all such other powers and authorities as may by law or lawful decree be conferred on any person or body of persons during a period of emergency.

7.6. CONSTITUTION OF EMERGENCY COMMITTEE. The Emergency Committee shall consist of all the Directors remaining after eliminating those who have ceased to be Directors pursuant to Section 7.2 of this Article VII, provided that such

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remaining Directors are not less than three in number (unless such lesser number would otherwise be permissible under applicable law if no emergency existed). In the event such remaining Directors are less than three in number (and such number is not otherwise permitted under applicable law), then the Emergency Committee shall consist of three persons, who shall be the remaining Director or Directors plus either one or two officers or employees of the Corporation, as the remaining Director or Directors may in writing designate. If there is no remaining Director, the Emergency Committee shall consist of the three most senior officers of the Corporation who are available to serve, and if and to the extent such officers are not available, the most senior employees of the Corporation. Seniority shall be determined in accordance with any designation of seniority in the minutes of the proceedings of the Board, and in the absence of such designation, shall be determined by the highest rate of remuneration. In the event that there are no remaining Directors and no officers or employees of the Corporation available, the Emergency Committee shall consist of three persons designated in writing by the Shareholder owning the largest number of shares of record as of the date of the last record date.

7.7. POWERS OF EMERGENCY COMMITTEE. The Emergency Committee, once appointed, shall govern its own procedures and shall have power to increase the number of members thereof beyond the original number, and in the event of a vacancy or vacancies therein, arising at any time, the remaining member or members of the Emergency Committee shall have the power to fill such vacancy or vacancies. In the event at any time after its appointment, all members of the Emergency Committee shall die or resign or become unavailable to act for any reason whatsoever, a new Emergency Committee shall be appointed in accordance with the foregoing provisions of this Article VII.

7.8. DIRECTORS BECOMING AVAILABLE. Any person who has ceased to be a Director pursuant to the provisions of Section 7.2 of this Article VII and who thereafter

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becomes available to serve as a Director shall automatically become a member of the Emergency Committee.

7.9. ELECTION OF BOARD OF DIRECTORS. The Emergency Committee shall, as soon after its appointment as is practicable, take all requisite action to secure the election of a board of directors, and upon such election all the powers and authorities of the Emergency Committee shall be vested therein, and the Emergency Committee shall thereafter cease.

7.10. TERMINATION OF EMERGENCY COMMITTEE. In the event, after the appointment of an Emergency Committee, a sufficient number of persons who ceased to be Directors pursuant to Section 7.2 of this Article VII become available to serve

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as Directors, so that if they had not ceased to be Directors as aforesaid, there would be enough Directors to constitute the minimum number of Directors required by law, then all such persons shall automatically be deemed to be reappointed as Directors, the powers and authorities of the Emergency Committee shall again be vested in the Board, and the Emergency Committee shall thereafter cease.

## ARTICLE VIII

### MISCELLANEOUS

8.1. EXECUTION OF INSTRUMENTS. The Board of Directors may, in its discretion, determine the method and designate the signatory officer or officers, or other persons, to execute any corporate instrument or document or to sign the corporate name without limitation, except where otherwise provided by law, the Articles of Incorporation or these Bylaws. Such designation may be general or confined to specific instances.

8.2. VOTING OF SECURITIES OWNED BY THE CORPORATION. All stock and other securities of other corporations held by the Corporation shall be voted, and all

proxies with respect thereto shall be executed, by the person so authorized by resolution of the Board of Directors, or, in the absence of such authorization, by the Chairman of the Board.

8.3. CORPORATE SEAL. A corporate seal shall not be requisite to the validity of any instrument executed by or on behalf of the Corporation.

8.4. CONSTRUCTION AND DEFINITIONS. Unless the context requires otherwise the general provisions, rules of construction and definitions in the Nevada Revised Statutes and the Articles of Incorporation shall govern the construction of these Bylaws.

8.5. AMENDMENTS. These Bylaws may be altered, amended or repealed by a majority vote of the Board of Directors or the stockholders.

8.6. DESCRIPTIVE HEADINGS. The descriptive headings of the paragraphs of these Bylaws are inserted for convenience only and shall not control or affect the meaning or construction of any provision hereof.

8.7. REFERENCE THERETO. Any reference herein made to the Corporation's Articles will be deemed to refer to its Articles of Incorporation and all Amendments thereto as at any given time on file with the Nevada Secretary of State, together with any and all certificates theretofore filed by the Corporation with the Nevada Secretary of State pursuant to applicable law.

8.8. SENIORITY THEREOF. The Articles will in all respects be considered senior and superior to these Bylaws, with any inconsistency to be resolved in favor of the Articles, and with these Bylaws to be deemed automatically amended from time to time to eliminate any such inconsistency which may then exist.

8.9. NUMBER AND GENDER. Whenever used herein, the singular number shall include the plural and the singular, and the use of any gender shall be applicable to all genders.

CERTIFICATE OF ADOPTION

The undersigned Secretary of the Corporation hereby certifies that the foregoing Amended and Restated Bylaws of YP.Net, Inc., a Nevada corporation (the "Corporation"), constitute the Bylaws of said Corporation, duly adopted and approved, pursuant to a resolution of the Board of Directors.

December 31, 2003

/s/ DeVal Johnson

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DeVal Johnson, Corporate Secretary

## YP CORP.

## CODE OF BUSINESS CONDUCT AND ETHICS

Adopted December 31, 2003

## 1. INTRODUCTION

This Code of Business Conduct and Ethics ("CODE") has been adopted by the Board of Directors of YP Corp. (the "COMPANY") and summarizes the standards that must guide our actions. While covering a wide range of business practices and procedures, these standards cannot and do not cover every issue that may arise, or every situation where ethical decisions must be made, but rather set forth key guiding principles that represent the Company's policies and establish conditions for employment at the Company.

We must strive to foster a culture of honesty and accountability. Our commitment to the highest level of ethical conduct should be reflected in all of the Company's business activities including, but not limited to, relationships with employees, IAP advertisers, suppliers, competitors, the government and the public, including the Company's shareholders. All of the Company's employees, officers and directors must conduct themselves according to the language and spirit of this Code and seek to avoid even the appearance of improper behavior.

Even well intentioned actions that violate the law or this Code may result in negative consequences for the Company and for the individuals involved. For Company personnel, such consequences may result in corrective and/or disciplinary action, which may include termination of employment or service and/or dismissal and removal from office. If you are in a situation that you believe may violate or lead to a violation of this Code, follow the guidelines described in Section 15 of this Code.

## 2. COMPLIANCE WITH LAWS, RULES AND REGULATIONS

The Company is strongly committed to conducting its business affairs with honesty and integrity and in full compliance with all laws, rules and regulations in the cities and states in which we operate. No employee, officer or director of the Company shall commit an illegal or unethical act or instruct others to do so, for any reason.

If you believe that any practice raises questions as to compliance with this Code or applicable law, rule or regulation or if you otherwise have questions regarding any law, rule or regulation, please contact the Company's Chief Executive Officer.

## 3. TRADING ON INSIDE INFORMATION

Employees who have access to confidential information are not permitted to use or share that information for stock trading purposes or for any other purpose except the conduct of our business. All non-public information about the Company should be considered confidential information. To use non-public information for personal financial benefit or to "tip" others who

might make an investment decision on the basis of this information is not only unethical but also illegal. If you have any questions, please consult your supervisor or the Company's Chief Executive Officer.

## 4. PROTECTION OF CONFIDENTIAL PROPRIETARY INFORMATION

Confidential proprietary information generated and gathered in our business is a valuable Company asset.

Protecting this information plays a vital role in the Company's continued growth and ability to compete, and all confidential proprietary information should be maintained in strict confidence, except when disclosure is authorized by the Company or required by law.

Confidential proprietary information includes all non-public information that might be useful to competitors or that could be harmful to the Company or



its IAP advertisers or suppliers if disclosed. Confidential information also includes intellectual property such as trade secrets, patents, trademarks and copyrights, as well as business research and new product plans, objectives and strategies, records, databases, salary and benefits data, employee medical information, IAP advertiser, employee and suppliers lists and any unpublished financial or pricing information must also be protected. It also includes information received from third parties, such as suppliers and IAP advertisers, and entrusted to us on a confidential basis.

Unauthorized use or distribution of confidential or proprietary information violates Company policy and could be illegal. Such use or distribution could result in negative consequences for both the Company and the individuals involved, including potential legal and disciplinary actions. We respect the property rights of other companies and their proprietary information and require our employees, officers and directors to observe such rights.

Your obligation to protect the Company's proprietary and confidential information continues even after you leave the Company, and you must return all proprietary and confidential information in your possession upon leaving the Company.

## 5. CONFLICTS OF INTEREST

The Company's employees, officers and directors have an obligation to act in the best interest of the Company. All employees, officers and directors should endeavor to avoid situations that present a potential or actual conflict between their interest and the interest of the Company.

A "conflict of interest" occurs when a person's private interest interferes in any way, or even appears to interfere, with the interest of the Company, including its subsidiaries and affiliates. A conflict of interest can arise when an employee, officer or director takes an action or has an interest that may make it difficult for him or her to perform his or her work objectively and effectively. Conflicts of interest may also arise when an employee, officer or director (or his or her family members) receives improper personal benefits as a result of the employee's, officer's or director's position at the Company.

Although it would not be possible to describe every situation in which a conflict of interest may arise, the following are examples of situations which may constitute a conflict of interest:

- working, in any capacity, for a competitor, IAP advertiser or supplier while employed by the Company;
- accepting gifts of more than modest value or receiving personal discounts or other benefits as a result of your position at the Company from a competitor, IAP advertiser or supplier;
- competing with the Company for the purchase or sale of property, services or other interests;
- having an interest in a transaction involving the Company, a IAP advertiser or supplier (not including routine investments in publicly traded companies);
- receiving a loan or guarantee of an obligation as a result of your position with the Company, other than permitted loans or guarantees by the Company that are properly documented and made pursuant to established policies; and
- directing business to a supplier owned or managed by, or which employs, a relative or friend.

Situations involving a conflict of interest may not always be obvious or easy to resolve. Employees should report actions that may involve a conflict of interest to their supervisor or the Company's Chief Executive Officer.

In order to avoid conflicts of interests, all senior officers and directors must disclose to the Company's Chief Executive Officer any material transaction or relationship that reasonably could be expected to give rise to such a conflict, and the Company's Chief Executive Officer shall notify the Board of Directors of any such disclosure. Conflicts of interests involving the Company's

Chief Executive Officer shall be disclosed to the Company's Board of Directors. Employees, officers and directors who knowingly fail to disclose conflicts of interest are subject to disciplinary action, including dismissal or removal from office.

#### 6. PROTECTION AND PROPER USE OF COMPANY ASSETS

Protecting Company assets against loss, theft or other misuse are the responsibility of every employee, officer and director. Loss, theft, misuse and waste of Company assets directly impact our profitability. Any such loss, misuse, waste or suspected theft should be reported to a manager/supervisor or the Company's Chief Executive Officer. The sole purpose of the Company's equipment, inventory and supplies is the conduct of our business. They may only be used for Company business consistent with Company guidelines, though incidental personal use may be permitted.

#### 7. CORPORATE OPPORTUNITIES

Employees, officers and directors are prohibited from taking for themselves business opportunities that arise or are discovered through the use of corporate property, information or position. No employee, officer or director may use corporate property, information or position for personal gain, and no employee, officer or director may compete with the Company directly or indirectly. Competing with the Company may involve engaging in the same line of business as the Company or any situation where the employee, officer or director takes away from Company opportunities for sales or purchases of products, services or interests. Employees, officers and directors owe a duty to the Company to advance its legitimate interests when the opportunity to do so arises.

#### 8. FAIR DEALING

Each employee, officer and director of the Company should endeavor to deal fairly with IAP advertisers, suppliers, competitors, shareholders, the public and one another at all times and in accordance with ethical business practices. No one should take unfair advantage of anyone through manipulation, concealment, abuse of privileged information, misrepresentation of material facts or any other unfair dealing practice. No payment in any form shall be made directly or indirectly to or for anyone for the purpose of obtaining or retaining business or obtaining any other favorable action. The Company and the employee, officer or director involved may be subject to disciplinary action as well as potential civil or criminal liability for violation of this policy.

Occasional business gifts to and entertainment of non-government employees in connection with business discussions or the development of business relationships are generally deemed appropriate in the conduct of the Company's business. However, these gifts should be given infrequently and their value should be modest. Gifts or entertainment in any form that would likely result in a feeling or expectation of personal obligation should not be extended or accepted.

Practices that are acceptable in commercial business environments may be against the law or the policies governing federal, state or local government employees. Therefore, no gifts or business entertainment of any kind may be given to any government employee without the prior approval of the Company's Chief Executive Officer.

The Foreign Corrupt Practices Act ("FCPA") prohibits giving anything of value directly or indirectly to any "foreign official" for the purpose of obtaining or retaining business. When in doubt as to whether a contemplated payment or gift may violate the FCPA, contact the Company's Chief Executive Officer before taking any action.

#### 9. QUALITY OF PUBLIC DISCLOSURES

The Company has a responsibility to communicate effectively with shareholders so that they are provided with full and accurate information, in all material respects, about the financial condition and results of operations of the Company. The Company's Chief Executive Officer and all senior financial officers are responsible for full, fair, accurate, timely and understandable disclosure in periodic reports required to be filed by the Company with the Securities and

Exchange Commission. For purposes of this Code, "senior financial officers" means the Company's principal financial officer, the Company's principal accounting officer or controller and other persons performing similar functions for the Company. Accordingly it is the responsibility of the Company's Chief Executive Officer and each senior financial officer promptly to bring to the attention of the Audit Committee of the Board of Directors any material information of which he or she may become aware that affects the disclosures made by the Company in its public filings or otherwise assist the Audit Committee in fulfilling its responsibilities.

The Company's Chief Executive Officer and each senior financial officer shall promptly bring to the attention of the Audit Committee or the Board of Directors any information concerning (a) significant deficiencies in the design or operation of internal controls which could adversely affect the Company's ability to record, process, summarize and report financial data or (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's financial reporting, disclosures or internal controls.

The Company's Chief Executive Officer and each senior financial officer shall promptly bring to the attention of the Audit Committee any information concerning evidence of a material violation of the securities or other laws, rules or regulations applicable to the Company and the operation of its business, by the Company or any agent thereof.

#### 10. COMPLIANCE WITH ANTITRUST LAWS

The antitrust laws prohibit agreements among competitors on such matters as prices, terms of sale to IAP advertisers and allocating markets or IAP advertisers. Antitrust laws can be very complex, and violations may subject the Company and its employees to criminal sanctions, including fines, jail time and civil liability. If you have any questions, consult the Company's Chief Executive Officer.

#### 11. POLITICAL CONTRIBUTIONS AND ACTIVITIES

Any political contributions made by or on behalf of the Company and any solicitations for political contributions of any kind must be lawful and in compliance with the Company's policies. This policy applies solely to the use of Company assets and is not intended to discourage or prevent individual employees, officers or directors from making political contributions or engaging in political activities on their own behalf. No one may be reimbursed directly or indirectly by the Company for personal political contributions.

#### 12. ENVIRONMENT, HEALTH AND SAFETY

The Company is committed to conducting its business in compliance with all applicable environmental and workplace health and safety laws and regulations. The Company strives to provide a safe and healthy work environment for our employees and to avoid adverse impact and injury to the environment and communities in which we conduct our business. Achieving this goal is the responsibility of all officers, directors and employees. Violence and threatening behavior are not permitted. Employees should report to work in condition to perform their duties, free from the influence of illegal drugs or alcohol.

#### 13. EQUAL OPPORTUNITY, NON-DISCRIMINATION AND FAIR EMPLOYMENT

The Company's policies for recruitment, advancement and retention of employees forbid discrimination on the basis of any criteria prohibited by law, including but not limited to race, sex and age. The Company's policies are designed to ensure that employees are treated, and treat each other, fairly and with respect and dignity. In keeping with this objective, conduct involving discrimination or harassment of others will not be tolerated.

#### 14. REPORTING ANY ILLEGAL OR UNETHICAL BEHAVIOR

Situations which may involve a violation of ethics, laws or this Code may not always be clear and may require difficult judgment. Employees are encouraged to discuss any questions they may have with supervisors, managers or other appropriate personnel when in doubt about the best course of action in a

particular situation.

Employees should promptly report any concerns about violations of laws, rules, regulations or this Code to the Company's Chief Executive Officer, or, in the case of accounting, disclosures, internal accounting controls or auditing matters, the Audit Committee or the Board of Directors. If concerns or complaints require confidentiality, including keeping an identity anonymous, we will endeavor to protect this confidentiality, subject to applicable law, regulation or legal proceedings.

The Company will not tolerate any kind of retaliation for reports or complaints regarding misconduct that were made in good faith. Open communication of issues and concerns by all employees without fear of retribution or retaliation is vital to the successful implementation of this Code. You are required to cooperate in internal investigations of misconduct and unethical behavior.

#### 15. COMPLIANCE PROCEDURES

The Company recognizes the need for this Code to be applied equally to everyone it covers. The Company's Chief Executive Officer will have primary authority and responsibility for the enforcement of this Code, subject to the supervision of the Board of Directors, or, in the case of accounting, internal accounting controls or auditing matters, the Audit Committee or the Board of Directors, and the Company will devote the necessary resources to enable the Company's Chief Executive Officer to establish such procedures as may be reasonably necessary to create a culture of accountability and facilitate compliance with the Code. Questions concerning this Code should be directed to the Company's Chief Executive Officer.

#### 16. WAIVERS AND AMENDMENTS

Any waivers of the provisions in this Code for the Company's executive officers, senior financial officers or directors may be granted only by the Board of Directors and will be promptly disclosed as required by applicable law and regulations. Any waivers of this Code for other employees may be granted only by the Company's Chief Executive Officer and must be in writing to be effective. Amendments to this Code must be approved by the Board of Directors, and amendments of the provisions in this Code applicable to the Company's Chief Executive

Officer and senior financial officers also will be promptly disclosed as required by applicable law and regulations.

CERTIFICATIONS PURSUANT TO SECTION 302 OF SARBANES-OXLEY

I, Angelo Tullo, Chairman and Chief Executive Officer of YP Corp., certify that:

1. I have reviewed this Quarterly Report on Form 10-QSB of YP Corp.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The small business issuer's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the small business issuer and have;

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the small business issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Evaluated the effectiveness of the small business issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c) Disclosed in this report any change in the small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting; and

5. The small business issuer's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting to the small business issuer's auditors and the audit committee of small business issuer's board of directors (or persons performing the equivalent function);

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the small business issuer's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the small business issuer's internal control over financial reporting.

Date: May 13, 2004

/s/ Angelo Tullo

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Angelo Tullo  
Chairman and Chief Executive Officer  
(Principal Executive Officer)

I, David Iannini, Chief Financial Officer of YP Corp., certify that:

1. I have reviewed this Quarterly Report on Form 10-QSB of YP Corp.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The small business issuer's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the small business issuer and have;

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the small business issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Evaluated the effectiveness of the small business issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c) Disclosed in this report any change in the small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting; and

5. The small business issuer's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting to the small business issuer's auditors and the audit committee of small business issuer's board of directors (or persons performing the equivalent function);

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the small business issuer's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the small business issuer's internal control over financial reporting.

Date: May 13, 2004

/s/ David Iannini

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David Iannini  
Chief Financial Officer  
(Principal Financial Officer)

CERTIFICATION OF THE  
PRINCIPAL EXECUTIVE OFFICER AND PRINCIPAL FINANCIAL OFFICER  
PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, Angelo Tullo, the CEO of YP Corp., certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of YP Corp. on Form 10-QSB for the quarter ended March 31, 2004 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Annual Report on Form 10-KSB fairly presents in all material respects the financial condition and results of operations of YP.Net, Inc.

Date: May 13, 2004                    /s/ Angelo Tullo  
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Angelo Tullo  
Chairman and Chief Executive Officer

I, David Iannini, the CEO of YP Corp., certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of YP Corp. on Form 10-QSB for the quarter ended March 31, 2004 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Annual Report on Form 10-KSB fairly presents in all material respects the financial condition and results of operations of YP.Net, Inc.

Date: May 13, 2004                    /s/ David Iannini  
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David Iannini  
Chief Financial Officer