UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended December 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 Registrant as Specified in Its Charter)

Nevada (State or Other Jurisdiction of Incorporation or Organization)	**85-0206668** (IRS Employer Identification No.)
4840 East Jasmine St. Suite 105 **Mesa, Arizona** (Address of Principal Executive Offices)	**85205** (Zip Code)

(480) 654-9646

(Registrant’s Telephone Number, Including Area Code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 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 ☐

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☑

APPLICABLE ONLY TO CORPORATE ISSUERS

The number of shares of the issuer’s common equity outstanding as of February 1, 2005 was 50,986,302 shares of common stock, par value $.001.

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FOR THE QUARTER ENDED DECEMBER 31, 2004

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ITEM 1. FINANCIAL STATEMENTS

YP CORP. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET

	December 31, 2004 (unaudited)	September 30, 2004
Assets		
Cash and equivalents	$ 6,155,684	$ 3,576,529
Accounts receivable, net of allowance for doubtful accounts of $1,865,961 and $3,400,575	6,373,196	8,362,283
Prepaid expenses and other current assets	1,040,774	822,919
Income tax refund receivable	1,091,505	1,239,436
Deferred tax asset	63,833	352,379
Total current assets	14,724,992	14,353,546
Accounts receivable, long term portion, net of allowance for doubtful accounts of $167,573 and $269,662	1,989,709	2,075,334
Customer acquisition costs, net of accumulated amortization of $3,913,243 and $3,600,146	3,505,973	4,482,173
Property and equipment, net	639,109	725,936
Deposits and other assets	285,859	239,060
Intangible assets, net of accumulated amortization of $2,646,533 and $2,446,403	3,126,146	3,326,274
Advances to affiliates	3,973,928	3,894,862
Total assets	$ 28,245,716	$ 29,097,185
Liabilities and Stockholders' Equity		
Accounts payable	$ 694,485	$ 1,210,364
Accrued liabilities	391,331	542,481
Notes payable- current portion	115,868	115,868
Total current liabilities	1,201,684	1,868,713
Deferred income taxes	716,231	1,116,314
Total liabilities	1,917,915	2,985,027
Commitments and contingencies	-	-
Series E convertible preferred stock, $.001 par value, 200,000 shares authorized, 128,340 issued and outstanding, liquidation preference $38,502	10,909	10,909
Common stock, $.001 par value, 100,000,000 shares authorized, 50,152,802 and 50,071,302 issued and outstanding	50,153	50,071
Paid in capital	10,095,944	11,375,384
Deferred stock compensation	(4,296,404)	(5,742,814)
Retained earnings	20,467,199	20,418,608
Total stockholders' equity	26,327,801	26,112,158
Total liabilities and stockholders' equity	$ 28,245,716	$ 29,097,185

See accompanying notes to consolidated financial statements.

YP CORP. AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENT OF OPERATIONS

	Three Months ended December 31,	
	2004	**2003**
Net revenues	$ 6,190,155	$ 13,839,967
Cost of services	1,134,584	4,882,402
Gross profit	5,055,571	8,957,565
Operating expenses:		
General and administrative expenses	3,384,851	2,763,743
Sales and marketing expenses	1,610,493	1,290,180
Depreciation and amortization	295,687	196,193
Total operating expenses	5,291,031	4,250,116
Operating income (loss)	(235,460)	4,707,449
Other income (expense):		
Interest expense and other financing costs	(4,163)	-
Interest income	85,112	71,153
Other income	86,365	274,758
Total other income (expense)	167,314	345,911
Income (loss) before income taxes and cumulative effect of accounting change	(68,146)	5,053,360
Income tax benefit (provision)	17,370	(1,768,675)
Income (loss) before cumulative effect of accounting change	(50,776)	3,284,685
Cumulative effect of accounting change (net of income taxes of $53,764 in 2004)	99,848	-
Net income	$ 49,072	$ 3,284,685
Net income (loss) per common share:		
Basic:		
Income (loss) applicable to common stock before cumulative effect of accounting change	$ (0.00)	$ 0.07
Cumulative effect of accounting change	$ 0.00	$ -
Net income applicable to common stock	$ 0.00	$ 0.07
Diluted:		
Income (loss) applicable to common stock before cumulative effect of accounting change	$ (0.00)	$ 0.07
Cumulative effect of accounting change	$ 0.00	$ -
Net income applicable to common stock	$ 0.00	$ 0.07
Weighted average common shares outstanding:		
Basic	46,572,106	46,595,302
Diluted	46,572,106	46,694,879

See accompanying notes to consolidated financial statements.

YP CORP. AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENT OF CASH FLOWS

	Three Months Ended December 31,	
	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 49,072	$ 3,284,685
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	295,687	196,193
Amortization of deferred stock compensation	201,164	226,779
Issuance of common stock as compensation for services	119,500	-
Cumulative effect of accounting change	(99,848)	-
Deferred income taxes	(165,301)	229,928
Provision for uncollectible accounts	(156,301)	-
Changes in assets and liabilities:		
Accounts receivable	2,231,013	(2,646,424)
Customer acquisition costs	976,200	(331,388)
Prepaid and other current assets	(217,855)	(335,528)
Deposits and other assets	(46,799)	(36,256)
Accounts payable	(515,879)	(54,281)
Accrued liabilities	(151,150)	(146,729)
Income taxes payable	147,931	538,747
Advances to affiliates (accrued interest)	(79,066)	(58,718)
Net cash provided by operating activities	2,588,368	867,008
CASH FLOWS FROM INVESTING ACTIVITIES:		
Advances made to affiliates and related parties	-	(2,000,000)
Purchases of equipment	(8,732)	(89,698)
Net cash used for investing activities	(8,732)	(2,089,698)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Series E preferred stock dividends	(481)	-
Net cash used for financing activities	(481)	-
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,579,155	(1,222,690)
CASH AND CASH EQUIVALENTS, beginning of period	3,576,529	2,378,848
CASH AND CASH EQUIVALENTS, end of period	$ 6,155,684	$ 1,156,158

YP CORP. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION AND BASIS OF PRESENTATION

The accompanying consolidated financial statements include the accounts of YP Corp., a Nevada Corporation, and its wholly owned subsidiaries (collectively the "Company"), an Internet-based provider of yellow page directories and advertising space on or through www.YP.com, www.YP.net and www.Yellow-Page.net. All material intercompany accounts and transactions have been eliminated.

The accompanying unaudited financial statements as of December 31, 2004 and for the three months ended December 31, 2004 and 2003 respectively, have been prepared in accordance with generally accepted accounting principles for interim financial information. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for audited financial statements. In the opinion of the Company's management, the interim information includes all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the results for the interim periods. The footnote disclosures related to the interim financial information included herein are also unaudited. Such financial information should be read in conjunction with the consolidated financial statements and related notes thereto as of September 30, 2004 and for the year then ended included in the Company's annual report on Form 10-KSB for the year ended September 30, 2004.

All amounts, except share and per share amounts, are rounded to the nearest thousand dollars.

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Significant estimates and assumptions have been used by management in conjunction with establishing allowances for customer refunds, non-paying customers, dilution and fees, analyzing the recoverability of the carrying amount of intangible assets, estimating amortization periods for direct response advertising costs, estimating forfeitures of restricted stock and evaluating the recoverability of deferred tax assets. Actual results could differ from these estimates. Certain prior period amounts have been revised to conform to the current period presentation. These changes had no impact on previously reported net income or stockholders' equity.

2. ACCOUNTING CHANGES

Effective October 1, 2004, the Company changed its method of accounting for forfeitures of restricted stock granted to employees, executives and consultants. Prior to this date, the Company recognized forfeitures as they occurred. Upon occurrence, the Company reversed the previously recognized expense associated with such grant. Effective October 1, 2004, the Company changed to an expense recognition method that is based on an estimate of the number of shares for which the service is expected to be rendered. The Company believes that this is a preferable method as it provides less volatility in expense recognition. Additionally, while both methods of accounting for forfeitures are acceptable under current guidance, the implementation of FAS 123R (effective during the Company's fourth quarter of fiscal 2005) will no longer permit companies to recognize forfeitures as they occur. See Note 8. As this new guidance will require the Company to change its method of accounting for restricted stock forfeitures, the Company has decided to adopt such change as of the beginning of its fiscal year. The Company is not adopting the provisions of FAS 123R prior to its effective date. Rather, the Company is changing its accounting for forfeitures under the allowed options prescribed in FAS 123.

The impact of this change for periods prior to October 1, 2004 was an increase to income of $100,000 (less than $0.01 per share), net of taxes of $54,000, and has been reflected as a cumulative effect of a change in accounting principle in the Company's consolidated statement of operations for the three months ended December 31, 2004. Because stock grants are now recorded net of estimated forfeitures, the cumulative effect of this change also reduced Additional Paid in Capital and Deferred Compensation by $1,013,000 and $1,166,000, respectively, at October 1, 2004. The effect of the change during the three months ended December 31, 2004 was to decrease the net loss by $31,000, net of income taxes of $16,000.

The estimated pro forma effects of the accounting change on the Company's results of operations for the three months ended December 31, 2003 are as follows:

	Three Months Ended December 31, 2003
As reported:	
Net income	3,285,000
Basic net income per share	0.07
Diluted net income per share	0.07
Pro forma amounts reflecting the accounting change applied retroactively:	
Net income	3,322,000
Basic net income per share	0.07
Diluted net income per share	0.07
Weighted average common shares outstanding:	
Basic	46,595,302
Diluted	46,694,879

3. BALANCE SHEET INFORMATION

Balance sheet information is as follows:

	December 31, 2004		
	Current	Long-Term	Total
Gross accounts receivable	$ 8,239,000	$ 2,158,000	$ 10,397,000
Allowance for doubtful accounts	(1,866,000)	(168,000)	(2,034,000)
Net	$ 6,373,000	$ 1,990,000	$ 8,363,000

	September 30, 2004		
	Current	Long-Term	Total
Gross accounts receivable	$ 11,763,000	$ 2,345,000	$ 14,108,000
Allowance for doubtful accounts	(3,401,000)	(270,000)	(3,671,000)
Net	$ 8,362,000	$ 2,075,000	$ 10,437,000

Components of allowance for doubtful accounts are as follows:

	December 31, 2004	September 30, 2004
Allowance for dilution and fees on amounts due from billing aggregators	$ 1,726,000	$ 2,978,000
Allowance for customer refunds	308,000	638,000
Other allowances	-	55,000
	$ 2,034,000	$ 3,671,000

Property and equipment consists of the following:

	December 31, 2004	September 30, 2004
Leasehold improvements	$ 439,000	$ 439,000
Furnishings and fixtures	298,000	298,000
Office and computer equipment	1,002,000	993,000
Total	1,739,000	1,730,000
Less accumulated depreciation	(1,100,000)	(1,004,000)
Property and equipment, net	$ 639,000	$ 726,000

4. COMMITMENTS AND CONTINGENCIES

At December 31, 2004, future minimum annual lease payments under operating lease agreements for fiscal years ended September 30 are as follows:

Remainder of Fiscal 2005	$	284,000
Fiscal 2006		326,000
Fiscal 2007		19,000
Fiscal 2008		-
Fiscal 2009		-
Thereafter		-
Total	$	629,000

Commitments to Investment Banking Firm

On October 8, 2004, pursuant to the terms of a Letter Agreement with Jefferies & Company, Inc. the Company issued a total of 925,000 shares of common stock to Jefferies. These shares were issued in lieu of cash fees for Jefferies' investment banking services. These shares were not issued under the Company's 2003 Stock Plan. Of the total shares issued to Jefferies, 100,000 shares were issued without restrictions on transfer other than those imposed by Rule 144 under the Securities Act of 1933, as amended. The remaining 825,000 shares were issued pursuant to a Restricted Stock Agreement. Accordingly, these shares remain subject to restrictions on transfer and sale, which lapse in accordance with a vesting schedule depending on the achievement of certain performance goals.

In accordance with the provisions of EITF Topic D-90, *Grantor Balance Sheet Presentation of Unvested, Forfeitable Equity Instruments Granted to a Nonemployee,* because the Company has a right to receive future services in exchange for unvested, forfeitable equity instruments, the 825,000 shares are treated as unissued for accounting purposes until such time that the performance goals are achieved. However, they are entitled to voting rights and payment of dividends when declared and paid.

Commitments to Stockholders

As part of the December 2003 agreement between the Company and two of its largest stockholders, Morris & Miller, Ltd. and Mathew & Markson, Ltd., the Company terminated all prior obligations to make advances to these stockholders. Accrued interest on outstanding balances are reflected in the Due from Affiliates line item of the accompanying balance sheet.

As part of this agreement, the Company agreed to pay recurring quarterly dividends of not less than $0.01 per share to all of our common stockholders, subject to applicable law and certain restrictions with respect to the Company's liquidity. The quarterly dividend associated with the first quarter of fiscal 2005 was declared and paid in January 2005 and, therefore, was not accounted for in the three months ended December 31, 2004.

Termination Agreements with Related Parties

Prior to fiscal 2004, the Company entered into Executive Consulting Agreements with four entities, each of which was controlled by one of the Company's four executive officers. During the fiscal year ended September 30, 2004, the Company terminated the Executive Consulting Agreements with the entities controlled by its former CEO, former Executive Vice President of Marketing, and former CFO. In the case of the former CEO, the Company will pay Sunbelt Financial Concepts, Inc. $960,000 over two years in lieu of the amounts due under the original contract, which called for approximately $2.6 million in payments over three years. In the case of the former Executive Vice President of Marketing, the Company will pay Advertising Management & Consulting Services, Inc. $697,000 over two years in lieu of the amounts due under the original contract, which called for approximately $1.9 million in payments over three years. In the case of the former CFO, the Company will pay MAR & Associates, Inc. $120,000 over six months in lieu of the amounts due under the original contract, which called for approximately $750,000 in payments over three years. With respect to these agreements, approximately $1,360,000 of the settlement payments described above will be allocated to non-compete agreements, as paid, based on values determined by an independent third party valuation firm. The non-compete agreements extend for six years. The balance of the payments will be expensed as incurred as two of the agreements call for ongoing services to be provided over a two-year period. See Note 6.

During the three months ended December 31, 2004, the Company terminated the remaining Executive Consulting Agreement with Advance Internet Marketing, an entity controlled by DeVal Johnson, a director and former Executive Vice President. Under the terms of this termination agreement, the Company will pay $368,000 over an 18-month period of time. Approximately $281,000 of this amount will be allocated to non-compete agreements, as paid. See Note 6.

5. NET INCOME (LOSS) PER SHARE

Net income (loss) per share is calculated using the weighted average number of shares of common stock outstanding during the year. Preferred stock dividends are subtracted from the net income to determine the amount available to common stockholders. As the Company incurred a net loss before cumulative effect of accounting change for the three months ended December 31, 2004, all dilutive securities have been excluded from the calculation of net income per share as the effects are anti-dilutive. Warrants to purchase 500,000 shares of common stock and 1,563,000 shares of restricted stock were excluded from the calculation of net income per share for the three months ended December 31, 2003 as the impact of those instruments were anti-dilutive.

The following table presents the computation of basic and diluted income per share :

	Three Months Ended December 31,	
	2004	**2003**
Income (loss) before cumulative effect of accounting change	$ (51,000)	$ 3,285,000
Less: preferred stock dividends	-	-
Income (loss) applicable to common stock before cumulative effect of accounting change	(51,000)	3,285,000
Cumulative effect of accounting change	100,000	-
Net income applicable to common stock	$ 49,000	$ 3,285,000
Basic weighted average common shares outstanding	46,572,106	46,595,302
Add incremental shares for:		
Unvested restricted stock	-	335
Series E convertible preferred stock	-	99,242
Diluted weighted average common shares outstanding	46,572,106	46,694,879
Net income per share:		
Basic:		
Income (loss) applicable to common stock before cumulative effect of accounting change	$ (0.00)	$ 0.07
Cumulative effect of accounting change	$ 0.00	$ -
Net income applicable to common stock	$ 0.00	$ 0.07
Diluted:		
Income (loss) applicable to common stock before cumulative effect of accounting change	$ (0.00)	$ 0.07
Cumulative effect of accounting change	$ 0.00	$ -
Net income applicable to common stock	$ 0.00	$ 0.07

6. RELATED PARTY TRANSACTIONS

During the three months ended December 31, 2004, the Company entered into the related party transactions with current and former board members, officers and affiliated entities as described below.

Directors & Officers

Cash paid to directors as fees for service for the three months ended December 31, 2004 was $40,000. These amounts are included in the amounts discussed below.

As described in Note 4, the former CEO, CFO, Executive Vice President and Corporate Secretary provided their services and those of their respective staffs through separate entities controlled by these individuals. All of these contracts were terminated prior to December 31, 2004. The following describes the compensation paid to these entities during the three months ended December 31, 2004.

Sunbelt Financial Concepts, Inc.

Sunbelt Financial Concepts, Inc. provided the services of the Chairman and CEO and his staff to the Company, as well as the strategic and overall planning and operations management and administration for the Company. Sunbelt's president was the Company's CEO and Chairman until May 28, 2004.

During the three months ended December 31, 2004, the Company paid a total of approximately $173,000 to Sunbelt. At December 31, 2004, approximately $603,000 remains payable under the termination agreement with Sunbelt.

Advertising Management & Consulting Services, Inc.

Advertising Management & Consulting Services, Inc., or AMCS, provided the Company with the services of Executive Vice President and Director through its officers and employees. AMCS' president was Executive Vice President of Marketing and a director of the Company until June 9, 2004.

During the three months ended December 31, 2004, the Company paid a total of approximately $142,000 to AMCS. At December 31, 2004, approximately $403,000 remains payable under the termination agreement with AMCS.

Advanced Internet Marketing, Inc.

Advanced Internet Marketing, Inc., or AIM, provided the Company with the services of a subsidiary officer, Corporate Secretary and a Director through its officers and employees. The Company outsourced the design and marketing of its website on the World Wide Web to AIM.

During the three months ended December 31, 2004, the Company paid a total of approximately $67,000 to AIM. At December 31, 2004, approximately $303,000 remains payable under the termination agreement with AIM.

MAR & Associates

The compensation for services of the Company's Chief Financial Officer was paid to MAR & Associates ("MAR"). MAR's president was our CFO until June 21, 2004.

During the three months ended December 31, 2004, the Company paid a total of approximately $61,000 to MAR. At December 31, 2004, approximately $20,000 remains payable under the termination agreement with MAR.

7. CONCENTRATION OF CREDIT RISK

The Company maintains cash balances at banks in Arizona and Nevada. Accounts are insured by the Federal Deposit Insurance Corporation up to $100,000. At December 31, 2004, the Company had bank balances exceeding those insured limits of $5,938,000

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 net receivable due from a single billing services provider at December 31, 2004 was $7,141,000, net of an allowance for doubtful accounts of $783,000. The net receivable from that billing services provider at December 31, 2004, represents approximately 85% of the Company's total net accounts receivable at December 31, 2004.

8. RECENT ACCOUNTING PRONOUNCEMENTS

In December 2004, the Financial Accounting Standards Board ("FASB") issued SFAS No. 123R, "Share-Based Payment" ("SFAS 123R"). Under this new standard, companies will no longer be able to account for share-based compensation transactions using the intrinsic method in accordance with APB 25. Instead, companies will be required to account for such transactions using a fair-value method and to recognize the expense over the service period. This new standard also changes the way in which companies account for forfeitures of share-based compensation instruments. SFAS 123R will be effective for periods beginning after June 15, 2005 and allows for several alternative transition methods. In light of this upcoming change, the Company decided to change its method of accounting for forfeitures of restricted stock, under current GAAP rules effective October 1, 2004. See Note 2. The Company expects to adopt the provisions of SFAS 123R in the fourth quarter of fiscal 2005 on a prospective basis and does not expect this to have a material effect on its financial condition or results of operations.

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

For a description of our significant accounting policies and an understanding of the significant factors that influenced our performance during the three months ended December 31, 2004, this "Management's Discussion and Analysis of Financial Condition and Results of Operations" should be read in conjunction with the Consolidated Financial Statements, including the related notes, appearing in Item 1 of this Quarterly Report, as well as the Company's Annual Report on Form 10-KSB for the year ended September 30, 2004.

Forward-Looking Statements

This portion of this Quarterly Report on Form 10-Q, 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 Quarterly Report include, but are not limited to the Company's (i) assertion that there is an expectation of tremendous growth in online advertising; (ii) expectation that its adoption of the provisions of SFAS 123R in the fourth quarter of fiscal 2005 on a prospective basis will not have a material effect on its financial condition or results of operations; (iii) expectation that the negative effects of the LEC policy changes will decline during the second half of fiscal 2005; (iv) expectation that its net paying customer count will increase; (v) expectation that its new direct mail campaigns will attract additional paying customers in the second quarter of fiscal 2005; (vi) expectation that its revenues and profitability will improve in the second quarter of fiscal 2005 as compared to the first quarter of fiscal 2005; (vii) expectation that near-term revenues may continue to decline; (viii) expectation that cost of services will continue to decrease as the Company converts additional customers from LEC billing to alternative means such as ACH billing; (ix) expectation that the trend of decreased dilution will continue; (x) expectation that sales and marketing costs will continue to increase as the Company's marketing efforts increase and as it continues to roll out its branding campaign; and (xi) general anticipation that its current marketing and billing efforts will result in an increase in paying customers during the second quarter of fiscal 2005.

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 titled "Risk Factors," as well as other factors that we are currently unable to identify or quantify, but that 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.

Executive Overview

This section presents summary information regarding our industry and operating trends only. For further information regarding the events summarized herein, you should read "Management's Discussion and Analysis of Financial Condition and Results of Operations" in its entirety.

Industry Overview

The Kelsey Group has published the following market information regarding the growth of the online and print Yellow Pages advertising revenue market. While print advertising is expected to be largely flat in the next five years, the Kelsey Group expects online advertising to experience tremendous growth, as evidenced by an estimated 29% annual growth rate from 2003 to 2008.

Advertising Revenue
(in Billions)

	2003	Market Share	2008	% Growth Per Year	Market Share
Print	$15.0	97.0%	$15.3	0.4%	90.0%
Online	$ 0.45	3.0%	$ 1.6	29.0%	10.0%
Total	$15.45	100.0%	$16.9	1.2%	100.0%

Source: Kelsey Group, September 2004

Business and Company Overview

We use a business model similar to print Yellow Pages publishers. We publish basic directory listings on the Internet free of charge. Our basic listings contain the business name, address and telephone number for over 17 million U.S. businesses. We strive to maintain a listing for almost every business in America in this format.

We generate revenues from advertisers that desire increased exposure for their businesses. As described below, advertisers pay us monthly fees in the same manner that advertisers pay additional fees to traditional print Yellow Pages providers for enhanced advertisement font, location or display. The users of our website are prospective customers for our advertisers, as well as the other businesses for which we publish basic listings.

Our primary product is our Internet Advertising Package™, or IAP. Under this package, advertisers pay for additional exposure by purchasing a Mini-WebPage™. In order to provide search traffic to our advertiser's Mini-WebPage, we elevate the advertiser to a preferred listing status, at no additional charge. We also provide our IAP advertisers with enhanced presentation and additional unique products, such as larger font, bolded business name, map directions, ease of communication between our advertisers and users of our website, a link to the advertiser's webpage, as well as other benefits.

Recent Developments

Historically, we have been highly dependent on our ability to bill our IAP advertisers directly through their monthly telephone bill. We refer to this method as LEC billing. During the fourth quarter of fiscal 2004, changes in LEC billing practices and an increasing presence of Competitive Local Exchange Carriers, or CLECs, reduced the effectiveness of the Local Exchange Carriers, or LECs, as an efficient and cost-effective means of billing our customers.

Several LECs changed their internal policies regarding the use of activation checks as an acceptable letter of authorization that allows us to bill our products and services directly on our advertisers' local telephone bill. These LECs have required additional confirmation procedures to allow new customers to be billed and are requiring us to reconfirm our existing customer base before allowing such customers to be billed. Additionally, CLECs have been participating in providing local telephone services to IAP advertisers at an increasing rate. We are not permitted to bill our IAP advertisers through CLECs at the present time although we are exploring billing channels that would provide for CLEC billing. If an advertiser changes their telephone carrier from a LEC to a CLEC, we must change the advertiser's billing method to an alternative billing method.

To address the LEC internal policy changes and the billing problems posed by CLECs, we began accelerating our conversion of a substantial amount of our customers to automated clearing house, or ACH, billing in the fourth quarter of fiscal 2004, and we continue to transition customers to ACH billing. ACH billing is less expensive, has a faster collection time than LEC billing and presents minimal dilution. However, it is time-consuming and labor-intensive to convert customers from one billing channel to another and can result in missed billings or customer cancellations. In situations where we cannot bill a customer via LEC billing or ACH billing, or in instances where the customer requests that we bill them directly, we utilize direct invoices. Direct billing has a higher percentage of uncollectible accounts than other billing methods and, therefore, is our least attractive billing option.

The following represents the breakdown of net billings by channel during the first quarter of fiscal 2005:

	Q1 2005	Q4 2004
LEC billing	49%	67%
ACH billing	42%	30%
Direct billing	9%	3%

Because the announcement of the change in LEC billing practices came suddenly and unexpectedly in the fourth quarter of 2004, we were not able to transition all impacted customers to ACH billing in a timely fashion. Accordingly, we have not been able to bill all of our customers for services performed during the fourth quarter of fiscal 2004 and the first quarter of fiscal 2005. With respect to certain customers, it is unlikely that this revenue will ever be effectively billed and collected. We currently are in the process of determining an effective means of billing these customers for future service and expect that the negative effects of this change on future revenues will decline during the second half of fiscal 2005.

As further discussed in Results of Operations below, our paying customer base has declined by 51.6% in the past quarter. While some of this decline is attributable to permanent customer loss, a larger portion is attributable to:

- customers that are not currently being billed due to the changes previously described;

- customers that are billed via direct bill methods but are not counted in our paying customer base as they have not demonstrated a sufficient payment history to be considered a paying customer.

Looking forward to the second quarter of fiscal 2005, although we continue to experience some customer cancellations, we expect our net paying customer count to increase as a result of the following:

- We have finalized agreements with an ACH billing service provider that allowed us to bill approximately 32,000 customers effective January 2005 that are not included in our paying customer base at December 31, 2004;

- Continued collections on our direct bill activity will increase our paying customer count; and

- We have initiated new direct mail campaigns for which we expect to attract additional paying customers in the second quarter of fiscal 2005.

For these reasons, we expect our revenues and profitability to improve in the second quarter of fiscal 2005 as compared to the first quarter of fiscal 2005.

Results of Operations

Net revenue decreased 55.3%, or $7,649,812, to $6,190,155 for the first quarter of fiscal 2005 from $13,839,967 for the first fiscal quarter of 2004. The decrease in revenues for the first quarter was due, largely, to declines in our paying subscriber base, which is described in more detail below.

"We had approximately 95,000 paying customers at December 31, 2004. This is down from approximately 196K at September 30, 2004 and approximately 253,000 at December 31, 2003." Paying customers at September 30, 2003. This reduction in our paying customer base is due primarily to the effects of CLECs and changes in billing practices as previously described above in Recent Developments. Although we experienced a decline in paying customers, we have over 100,000 additional active customers that are excluded from our paying customer count. These customers are excluded from our paying customer count primarily because they are either (i) customers that are not currently being billed due to the changes previously described or (ii) customers that are billed via direct bill methods but are not counted in our paying customer base as they have not demonstrated a sufficient payment history to be considered a paying customer. We anticipate that current marketing and billing efforts will result in an increase in our paying customer count during the second quarter of fiscal 2005.

Within the last two years, the prices for our IAP product have fluctuated between $17.95 and $29.95 per month. Currently, the majority of our customers are charged $29.95 per month, though recently we dropped our price to $27.50 per month.

We continue to take active measures to reconfirm our existing subscriber base and to convert customers from LEC billing to ACH billing. This is a time-consuming project and has resulted in an increase in customer cancellations. However, we believe we have appropriately addressed the problem and we expect to begin seeing increased paying customer counts during our second fiscal quarter ..

Cost of services decreased 76.8%, or $3,747,818, to $1,134,584 for the first quarter of fiscal 2005 from $4,882,402 for the first quarter of fiscal 2004. As a percentage of net revenue, our cost of services decreased to 18.3% in the first quarter of fiscal 2005 from 35.3% in the first quarter of fiscal 2004. The decrease in our cost of services is directly attributable to a decrease in our dilution expense as a result of our decreasing usage of LEC billing. Billings through LEC channels, which drives a substantial majority of our dilution expense, decreased to 49% of total billings in the first quarter of fiscal 2005 from over 95% of total billings in the first quarter of fiscal 2004. A significant portion of these customers were converted to ACH billing, which has minimal dilution. We expect cost of services to continue to decrease as we convert additional customers from LEC billing to alternative means such as ACH billing.

Gross profits decreased 43.6%, or $3,901,994, to $5,055,571 for the first quarter of fiscal 2005 from $8,957,565 for the first quarter of fiscal 2004. The decrease in our gross profits was due to decreased revenues resulting from the previously mentioned decrease in paying IAP advertisers, offset by decreased dilution discussed above. Gross margins increased to 81.7% of net revenues in the first quarter of fiscal 2005 compared to 64.7% of net revenues in the first quarter of fiscal 2004 due to decreased dilution in fiscal 2005. As previously discussed, we expect that this trend of decreased dilution will continue.

Our general and administrative expense increased 22.5%, or $621,108, to $3,384,851 for the first quarter of fiscal 2005 from $2,763,743 for the first quarter of fiscal 2004. General and administrative expenses increased due to an increase in compensation expense of approximately $200,000, increased mailing and customer-related expenses of approximately $250,000 and other miscellaneous expense increases. Compensation expense increased due to an increase in officers' compensation relating to employment contracts with such officers and termination agreements with former officers. Mailing and customer related expenses increased as we incurred costs for ACH notices, paper invoices and other customer mailings associated with the conversion of many of our customers from LEC billing to alternate billing methods.

Our general and administrative expenses consist primarily of fixed expenses such as compensation, rent, utilities, etc. Therefore, revenue declines caused our general and administrative expenses to increase as a percentage of revenues to 54.7% for the first quarter of fiscal 2005 compared to 20.0% for the first quarter of fiscal 2004.

Sales and marketing expenses increased 24.8%, or $320,313, to $1,610,493 for the first quarter of fiscal 2005 from $1,290,180 for the first quarter of fiscal 2004. The main reasons for the increase in sales and marketing expenses are due to the increased effort in our marketing solicitation program, the implementation of new market strategies, and modifications to our direct mail marketing pieces. We expect these sales and marketing costs to continue to increase as our marketing efforts increase and as we continue to implement our branding campaign. We capitalize certain direct marketing expenses and amortize those costs over an 18-month period based on the estimated IAP advertiser attrition rates. A substantial portion of the current period expense relates to the amortization of costs previously incurred, thereby creating a significant fixed component of this expense. Accordingly, revenue declines caused our sales and marketing expenses to increase as a percentage of revenues to 26.0% for the first quarter of fiscal 2005 compared to 9.3% for the first quarter of fiscal 2004.

Depreciation and amortization, consisting of depreciation of property and equipment and amortization of intangible assets, increased 50.7%, or $99,494, to $295,687 for the first quarter of fiscal 2005 from $196,193 for the first quarter of fiscal 2004. This increase is attributable to (i) increased depreciation due to additional purchases of equipment related to our upgrade in infrastructure in the information technology department and hardware purchased relating to our Quality Assurance and Outbound Marketing initiatives and (ii) increased amortization of intangible assets associated with website development costs that were capitalized during 2004. Amortization relating to the capitalization of our direct mail marketing costs is included in marketing expenses, as discussed previously.

We recorded an operating loss of $235,460 for the first quarter of fiscal 2005 compared to operating income of $4,707,449 for the first quarter of fiscal 2004. Operating margins decreased to (3.8%) of net revenue in the first quarter of fiscal 2005 from 34.0% in the first quarter of fiscal 2004. The decrease in operating income is the result of the decreased revenue discussed above. Operating margins decreased due primarily to the decrease in revenues and changes in expenses previously described.

Other income decreased $188,393 to $86,365 for the first quarter of fiscal 2005 from $274,758 for the first quarter of fiscal 2004 due to the termination of a service agreement with Simple.Net, an entity owned by a former director of the Company. Prior to the termination of this agreement on March 2, 2004, we provided technical and customer service support to Simple.Net.

We recorded a net loss before taxes and cumulative effect of accounting change of $68,146 for the first quarter of 2005 as compared with net income before taxes and cumulative effect of accounting change of $5,053,360 for the first quarter of fiscal 2004.

The income tax benefit was $17,370 for the first quarter of fiscal 2005 compared to an income tax provision of $1,768,675 in the first quarter of fiscal 2004, resulting from our decrease in profitability.

During the first fiscal quarter of 2005, we changed our method of accounting for forfeitures of restricted stock awards to employees, officers and directors. Prior to October 1, 2004, we recognized forfeitures as they occurred. Upon occurrence, we reversed the previously recognized expense associated with such grant. Effective October 1, 2004 we changed to an expense recognition method that is based on an estimate of the number of shares for which the expected service is expected to be rendered. We believe that this is a preferable method as it provides less volatility in expense recognition. Additionally, while both methods of accounting for forfeitures are acceptable under current guidance, the implementation of FAS 123R (effective during the fourth quarter of fiscal 2005) will no longer permit us to recognize forfeitures as they occur. This change resulted in an increase to net income of $99,848, net of income taxes of $53,764 during the first quarter of fiscal 2005.

Net income decreased to $49,072, or $0.00 per diluted share, for the first fiscal quarter of 2005, down from net income of $3,284,685 or $0.07 per diluted share, for the first fiscal quarter of 2004. Net income as a percentage of net revenues was 0.8% and 23.7% for the first fiscal quarters of 2005 and 2004, respectively.

Liquidity and Capital Resources

Net cash provided by operating activities increased $1,721,360, or 199%, to $2,588,368 for the first quarter of fiscal 2005 compared to $867,008 for the first quarter of fiscal 2004. The increase in cash generated from operations is primarily due to a conversion of many of our customers from LEC billing to alternate billing channels that have a shorter collection time and the fact we did not actively market for new customer acquisition during the quarter as we worked to resolve the previously discussed billing issues.

Our primary source of cash inflows is net remittances from our billing channels, including LEC billings and ACH billings. For LEC billings, we receive collections on accounts receivable through the billing service aggregators under contracts to administer this billing and collection process. The billing service aggregators generally do not remit funds until they are collected. Generally, cash is collected and remitted to us (net of dilution and other fees and expenses) over a 60 to 120 day period subsequent to the billing dates. Additionally, for each monthly billing cycle, the billing aggregators and LECs withhold certain amounts, or “holdback reserves,” to cover potential future dilution and bad debt expense. These holdback reserves lengthen our cash conversion cycle as they are remitted to us over a 12 to 18-month period of time. We classify these holdback reserves as current or long-term receivables on our balance sheet, depending on when they are scheduled to be remitted to us. For ACH billings, we generally receive the net proceeds through our billing service processors within 15 days of submission.

Our most significant cash outflows include payments for marketing expenses and general operating expenses. Cash outflows for direct response advertising, our primary marketing strategy, typically occur in advance of expense recognition as these costs are capitalized and amortized over 18 months, the average estimated retention period for new customers. General operating cash outflows consist of payroll costs, income taxes, and general and administrative expenses that typically occur within close proximity of expense recognition.

Net cash used for investing activities totaled $8,732 for the first quarter of fiscal 2005 and consisted of minor purchases of equipment. During the first quarter of fiscal 2004, cash used for investing activities was $2,089,698, of which the primary component was advances to affiliates of $2,000,000.

The only net cash flows from financing activities were payments of preferred stock dividends of $481 and $0 for the first quarter of fiscal 2005 and 2004, respectively.

We had working capital of $13,523,308 as of December 31, 2004, compared to $12,484,833 as of September 30, 2004. Despite our near breakeven performance during the first fiscal quarter of 2005, our operating expenses consist of a substantial amount of noncash expenses, such as amortization of customer acquisition costs and deferred stock compensation, which allows us to continue to grow our cash and working capital.

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 the one-month LIBOR rate (as published in the *Wall Street Journal*), plus 3%. The facility requires an annual line fee of $10,000 payable whether or not we have drawn any funds on the line. Outstanding advances are secured by all of our existing and acquired tangible and intangible assets located in the United States. There was no balance outstanding at December 31, 2004.

The credit facility requires us to maintain a "Leverage Ratio" (total liabilities to tangible net worth) that does not exceed 1.5-to-1 and a "Fixed Charge Ratio" (earnings before interest, taxes, depreciation, amortization and other non-cash charges minus any internally financed capital expenditures divided by the sum of debt service, rent under capital leases, income taxes and dividends) that is not less that 1.5-to-1 as determined quarterly on a 12-month trailing basis. The credit facility includes additional covenants governing permitted indebtedness, liens, and protection of collateral. As of the period ended 12/31/04, we were in compliance with the covenants and are able to fully draw on the credit facility.

We owe $115,868 to Mathew & Markson Ltd. on a note related to the original acquisition of the “Yellow Page.net” URL. This note is technically past due. We have not repaid the balance, however, as we have amounts owed to us from Mathew & Markson in excess of the amount due. As we have no legal right of offset, we have not netted this amount due with the amounts owed to us in our consolidated balance sheet filed as part of this Quarterly Report. We currently are negotiating the settlement of this balance.

In connection with our termination of the loan obligations, we began paying a $0.01 per share dividend each quarter, subject to compliance with applicable laws, to all common stockholders, including those who hold unvested restricted stock. The quarterly dividend associated with the first fiscal quarter of 2005 was declared and paid in January 2005 and, therefore, was not accounted for in the three months ended December 31, 2004.

Although our revenues have recently declined and we generated an operating loss for the first quarter of fiscal 2005, we believe that our existing cash on hand will provide us with sufficient liquidity to meet our operating needs for the next twelve months.

Risk Factors

An investment in our common stock involves a substantial degree of risk. Before making an investment decision, you should give careful consideration to the following risk factors in addition to the other information contained in this report. The following risk factors, however, may not reflect all of the risks associated with our business or an investment in our common stock. Accordingly, you should only consider investing in our common stock if you can afford to lose your entire investment.

Risks Related to Our Business

The loss of our ability to bill IAP advertisers through Local Exchange Carriers on the IAP advertisers' telephone bills will adversely impact our results of operations.

Our business model historically has depended heavily upon our ability to bill advertisers on their telephone bills through their respective Local Exchange Carriers, or LECs. We have recently faced challenges and impediments to our ability to bill certain advertisers in this manner. This has forced us to convert these advertisers to alternative methods of billing, which has resulted in dilution and decreased revenues. We continue, however, to rely on our ability to use the LEC billing method for our other advertisers.

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. 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 also could obviate the need for and access to the LECs. Finally, if the recent trend of certain LECs to change their policies concerning an ability to use an incentive check as a letter of authorization and to adopt more onerous reconfirmation requirements becomes more widespread, our ability to use the LECs to bill our advertisers could be jeopardized altogether. Our inability to use the LECs to bill our advertisers through their monthly telephone bills would result in increased dilution and decreased revenues and would have a material adverse impact on our financial condition and results of operations.

We may experience increased dilution and our revenue may decline over time due to the involvement of the CLECs.

We have experienced a decrease in revenue from the LECs from the effects of the Competitive Local Exchange Carriers, or CLECs, that are providing local telephone services to IAP advertisers. With the competition in the telephony industry, many business customers are finding alternative telephony suppliers, such as CLECs, that offer less expensive alternatives to the LECs. When the LECs effectuate a price increase this causes a rush of LEC customers looking for an alternative telephone company, which may be a CLEC. When our advertising customers switch service providers from the LECs to a CLEC, we are precluded from billing these customers on their monthly telephone bill and must instead convert them to alternative billing methods such as ACH billing or direct invoicing. This conversion process can be disruptive to our operations and result in lost revenue. 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. We may experience future increases in dilution of our customer base that we are able to bill on their monthly telephone bills, which, in turn, may result in decreases in our revenue.

Failure to achieve and maintain effective internal controls in accordance with Section 404 of the Sarbanes-Oxley Act could have a material adverse effect on our business and stock price.

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, beginning with our Annual Report on Form 10-K for the fiscal year ending September 30, 2005, we will be required to furnish a report by our management on our internal control over financial reporting. The internal control report must contain (i) a statement of management's responsibility for establishing and maintaining adequate internal control over financial reporting, (ii) a statement identifying the framework used by management to conduct the required evaluation of the effectiveness of our internal control over financial reporting, (iii) management's assessment of the effectiveness of our internal control over financial reporting as of the end of our most recent fiscal year, including a statement as to whether or not internal control over financial reporting is effective, and (iv) a statement that the Company's independent auditors have issued an attestation report on management's assessment of internal control over financial reporting.

In order to achieve compliance with Section 404 of the Act within the prescribed period, beginning in our next fiscal year, we will need to engage in a process to document and evaluate our internal control over financial reporting, which will be both costly and challenging. In this regard, management will need to dedicate internal resources, engage outside consultants and adopt a detailed work plan to (i) assess and document the adequacy of internal control over financial reporting, (ii) take steps to improve control processes where appropriate, (iii) validate through testing that controls are functioning as documented and (iv) implement a continuous reporting and improvement process for internal control over financial reporting. We can provide no assurance as to our, or our independent auditors', conclusions at September 30, 2005 with respect to the effectiveness of our internal control over financial reporting under Section 404 of the Act. There is a risk that neither we nor our independent auditors will be able to conclude at September 30, 2005 that our internal controls over financial reporting are effective as required by Section 404 of the Act.

During the course of our testing we may identify deficiencies which we may not be able to remediate in time to meet the deadline imposed by the Sarbanes-Oxley Act for compliance with the requirements of Section 404. In addition, if we fail to achieve and maintain the adequacy of our internal controls, as such standards are modified, supplemented or amended from time to time, we may not be able to ensure that we can conclude on an ongoing basis that we have effective internal controls over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act. Moreover, effective internal controls, particularly those related to revenue recognition, are necessary for us to produce reliable financial reports and are important to helping prevent financial fraud. If we cannot provide reliable financial reports or prevent fraud, our business and operating results could be harmed, investors could lose confidence in our reported financial information, and the trading price of our stock could drop significantly.

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.

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

Our quarterly results of operations could fluctuate due to factors outside of our control.

Our net revenues 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
    - changes in economic conditions and our IAP advertisers' profitability,
    - varying IAP advertiser response rates to our direct marketing efforts,
    - our ability to complete direct mailing solicitations on a timely basis each month,
    - changes in our direct marketing efforts,
    - IAP advertiser refunds or cancellations, and
    - 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 in order 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 LECs, 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;

- 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
- our expenses are only partially based on our expectations regarding future revenue and are largely fixed in nature, particularly in the short term.

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 check processing companies to provide us with advertiser information at the point of sign-up for our Internet Advertising Package. 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 LECs relating to the LECs' billing and collection of our monthly charges from advertisers, as well as collecting from those advertisers on ACH billing. We currently have agreements with two billing aggregators and two ACH service providers. Any disruption in our billing aggregators' ability to perform these functions could adversely affect our financial condition and 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 with 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 its 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.

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-base 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 September 30, 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.

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 added a number of key managerial, technical, and operations personnel and we may add additional key personnel in the future. 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 our 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. Any 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. Our increasing dependence on ACH billing has exposed us to greater scrutiny by the National Automated Clearing House Association, or NACHA. 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 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:

- 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;
- exposure 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 websites. 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 and 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 may 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.

We may 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 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 affect 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 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 and fallen 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.

Certain provisions of Nevada law and in our charter, as well as our Shareholder Rights Plan, 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.

We also recently adopted a Shareholder Rights Plan, commonly referred to as a poison pill. This Plan serves as a strong deterrent to any unsolicited or hostile takeover attempts and, effectively, requires an interested acquirer to negotiate with our board of directors.

These provisions of Nevada law and our articles and bylaws, as well as our poison pill, 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 customers 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 customer's accounts. The bid and offer quotation and compensation information must be provided prior to effecting the transaction and must be contained on the customer'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.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As of December 31, 2004, we did not participate in any market risk-sensitive commodity instruments for which fair value disclosure would be required under Statement of Financial Accounting Standards No. 107. We believe that we are not subject in any material way to other forms of market risk, such as foreign currency exchange risk or foreign customer purchases (of which there were none in the first three months of fiscal 2005 or in any of 2004) or commodity price risk.

ITEM 4. 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 the end of the period covered by 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. During the period covered by this Form 10-QSB, there have not been any changes in our internal control over financial reporting that have materially affected, or that are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

From time to time, we are party to certain legal proceedings incidental to the conduct of our business. We believe that the outcome of pending legal proceedings will not, either individually or in the aggregate, have a material adverse effect on our business, financial position, results of operations, cash flows or liquidity.

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:

Exhibit Number	Description
10.1	Termination Agreement between the Registrant and Advanced Internet Marketing, Inc. dated November 4, 2004
10.2	Employment Agreement between the Registrant and Penny Spaeth dated November 1, 2004
10.3	Employment Agreement between the Registrant and John Raven dated September 21, 2004
18	Auditors' Letter Regarding Change in Accounting Principles
31	Certifications pursuant to SEC Release No. 33-8238, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32	Certifications pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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

- On November 9, 2004, the Company filed a Current Report on Form 8-K in connection with the execution of a Termination Agreement with Advanced Internet Marketing, Inc. and the termination of an Executive Consulting Agreement with the same entity.

- On November 12, 2004, the Company filed a Current Report on Form 8-K in connection with the execution of an Employment Agreement with Penny Spaeth for services as the Company's Chief Operating Officer.

- On December 30, 2004, the Company filed a Current Report on Form 8-K attaching a press release and reporting its results of operations for the Company's fiscal year ended September 30, 2004.

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: February 10, 2005	*/s/ W. Chris Broquist*
	W. Chris Broquist
	Chief Financial Officer

EXHIBIT INDEX

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TERMINATION AGREEMENT

This Termination Agreement, by and between YP Corp., a Nevada corporation, f/k/a YP.Net, Inc. (the "**Company**") and Advanced Internet Marketing, Inc., an Arizona corporation ("**AIM**"), is entered into and effective as of November 4, 2004 (the "**Effective Date**").

Background

AIM and the Company previously entered into an Executive Consulting Agreement, dated September 20, 2002 ("**Consulting Agreement**") that specifies the terms and conditions of AIM's provisions to the Company of the services of Corporate Secretary, Vice President and a director. Under the Consulting Agreement the Company is obligated to make payments to AIM until September 30, 2007 of approximately $1 million. AIM and AIM's officers, directors, shareholders are collectively referred to throughout this Agreement as "**AIM**." In certain cases, the reference to AIM may refer to an individual officer or director of AIM.

Company previously granted AIM and/or its employees shares of its common stock, at $.001 par value per share pursuant to Company's 2003 Stock Plan, that are subject to transfer restrictions and forfeiture back to Company in the event AIM ceases providing services to Company ("**Restricted Stock**"). The shares of Restricted Stock are subject to a vesting schedule whereby the transfer restrictions and forfeiture provisions lapse with respect to a portion of such shares upon the passage of time and/or the achievement of certain corporate objectives. The vesting schedules of the respective allotments of Restricted Stock are set forth in one or more Restricted Stock Agreements between Company and AIM or individually with AIM's employees ("**Restricted Stock Agreements**").

AIM and the Company acknowledge that in connection with the execution of this Agreement, DeVal Johnson has resigned as an officer of both Company and its wholly-owned subsidiary, Telco Billing, Inc. DeVal Johnson is the President of AIM and was the person previously designated by both parties to provide the executive officer services of Vice President and Corporate Secretary and the services of a Director to the Company under the Consulting Agreement.

AIM and the Company agree that it is in their respective best interests to terminate the Consulting Agreement.

In consideration of the payments and benefits set forth in this Agreement, AIM desires to waive any payments and benefits to which it may otherwise be entitled upon the termination of the Consulting Agreement.

Agreement

The parties agree as follows:

1. Resignation and Termination.

a. General. AIM and the Company acknowledge that DeVal Johnson has resigned as an officer of both the Company and its wholly-owned subsidiary, Telco Billing, Inc., effective as of the Effective Date. The resignation and termination were not due to negligence, malfeasance, theft or embezzlement by Johnson or any other employees of AIM while in the employ of the Company.

b. Termination of Consulting Agreement. As of the Effective Date, the Consulting Agreement is hereby terminated and is of no further force or effect.

c. Waiver of Severance. AIM waives any right to severance benefits under the Consulting Agreement in connection with the termination of the Consulting Agreement.

d. Waiver of Reinstatement. AIM and its affiliates acknowledge and agree that Company is under no obligation to reinstate, renegotiate or re-execute the Consulting Agreement or the terms thereof or reinstate or employ any of AIM's officers, agents or employees, and it hereby waives any rights to recall or reinstatement of any past or future wages, bonuses, compensation not specifically provided in this Agreement.

2. Buy-Out Payments. In complete and full satisfaction and in lieu of all claims for compensation, benefits, severance or related payments from Company or any and all of its affiliates, subsidiaries, corporate parents, agents, officers, shareholders, employees, attorneys, successors, and assigns, and as compensation for the services specified in this Agreement, Company will pay to AIM an aggregate of $367,570 in periodic payments ("**Buy-Out Payments**") as follows:

a. $14,865 payable at the beginning of each month for 18 months commencing December 1, 2004;

b. $50,000 upon signing of this Agreement; and

c. $50,000 on January 1, 2005.

Upon the sale of all or substantially all of the assets of the Company and Company's wholly-owned subsidiary, Telco Billing, Inc., or a change of control as defined by the Securities and Exchange Commission, all the foregoing Buy-Out Payments will be immediately due and payable.

3. Default.

a. If the Company fails to make any payment to AIM hereunder when due and the nonpayment lasts more than 10 days AIM shall send written notice of default by registered U.S. mail to the Company at the address herein with a 20-day grace period for the Company to cure. If the amount remains uncured at the end of that period the Company would be in default under this agreement.

b. A filing under the Bankruptcy Statutes or the appointment of a receiver for a substantial portion of the Company's and its subsidiary's assets would be a default under this Agreement.

c. After the second occurrence of the Company's failure to make a Buy-Out Payment when due, after the grace period and opportunity to cure as provided in Section 3(a) above, the delinquent Buy-Out Payment will be subject to a 5% penalty fee. If at any time the Company fails to cure a default, this shall cause all Buy-Out Payments due under this Agreement to be immediately due and payable together with a penalty of 5% on the entire balance. From that point forward, the balance shall accrue default interest at the default rate of 10% per annum until paid in full.

4. Retention of Restricted Stock. Except as otherwise provided in this Agreement, the Restricted Stock Agreements remain in full force and effect. AIM and its employees will be permitted to receive and retain the shares of Restricted Stock as authorized by the Board of Directors and reflected in the minutes of the Company, and such shares will continue to vest in accordance with the vesting schedule set forth in the Restricted Stock Agreements.

5. Transition and Consultation. From the Effective Date and during the period in which the Company is paying AIM the Buy-Out Payments, and without any additional consideration not provided for herein, AIM will comply with all reasonable requests made by Company to facilitate an orderly and successful transition of the duties and services previously fulfilled and provided by AIM. Additionally, during such period, and without any additional consideration not provided for herein, AIM will make available to Company, any specific AIM officer, director, consultant, or employee, requested by Company, as well as AIM's collective expertise and experience for the benefit of Company either at the Company's facilities or elsewhere and will cause such officers, directors, consultants, or employees requested by Company to cooperate with Company in good faith to facilitate an orderly and successful transition of the duties previously fulfilled and provided by AIM ("**Consultation Obligation**"). The duties which shall fall under the purview of this agreement are those limited to graphic design, website design, development of Company marketing materials and assistance in reference to Company historical or archival material. The failure of AIM to produce or make physically available an officer, director, consultant or employee of AIM due to physical impossibility or the death or physical incapacity of such individual will not be deemed a breach or violation of this Section 5 or Agreement. DeVal Johnson will remain a director or consultant of AIM at all times during the term of this Agreement. AIM represents and warrants to Company that any services provided to Company pursuant to this Agreement will be performed in a professional and workmanlike manner. AIM acknowledges that AIM and its officers, directors, employees and consultants do not have any authority to execute contracts, agreements, documents or instruments, or negotiate on behalf of Company or otherwise to bind Company, unless expressly authorized by Company's Chief Executive Officer. Notwithstanding any provision hereof, for all purposes of this Agreement, each party will be and act as an independent contractor and not as partner, joint venturer, or agent of the other, and will not bind nor attempt to bind the other to any contract. As an independent contractor, AIM is solely responsible for all taxes, withholdings, and other statutory or contractual obligations of any sort except as provided herein.

6. Surviving Provisions from the Consulting Contract incorporated herein.

a. As regards indemnity for actions taken by AIM on behalf of Company, the indemnity provisions included in the Bylaws as published, Nevada Statues, or the Consulting Agreement, whichever is broader, shall survive and are incorporated in this Agreement. In connection with any and all indemnity provisions, reasonable and prudent professional services and costs needed or expended by AIM for the Company's regulatory inquiries (if any), Company's litigation or filings of or by Company shall be billed by AIM in addition to the sums payable under Section 2 above. AIM and its agents may select accountants and lawyers separate from those employed to represent Company, the reasonable and prudent fees of which shall be paid by the Company.

b. The tax provisions for taxes included in the Consulting Agreement for 2002, 2003 and 2004, until October 31, 2004, if any, shall survive and be included in this Agreement.

c. Paragraph 10 of the original Consulting Agreement called for the election and payment of $1,000 by AIM for certain office equipment owned by the Company that would then be transferred to AIM. By signing below the Company acknowledges that AIM has elected to and will make this payment under that contract

7. Mutual Covenants. Where indicated, AIM and its officers, directors, employees and consultants agree to comply with each of the following covenants (the "**Covenants**"), the violation or breach of which will permit Company, in accordance with Section 9 of this Agreement, to utilize the remedies set forth in Section 9.

Where indicated, the Company and its officers, directors, employees and consultants agree to comply with each of the following covenants (the "**Covenants**"), the violation or breach of which will permit AIM, in accordance with Section 3 of this Agreement, to immediately terminate this Agreement and cause an acceleration of all sums due AIM from Company to be immediately due and payable including the retention of all of the unvested restricted stock of Company issued to AIM or its employees, agents, officers and directors.

a. Confidentiality and Non-Disclosure. Both Parties recognize and acknowledge that Company's and AIM's trade secrets, proprietary information and know-how (including, without limitation, any information, materials, records, financial statements or books provided to either during the term of this Agreement), as they may exist from time to time ("**Confidential Information**"), to which either has had and will continue to have access to and knowledge of, are valuable, special and unique assets of their business. Neither Company, its employees, agents and consultants, nor AIM or its employees, agents and consultants will, during or after the term of this Agreement, in whole or in part, disclose such Confidential Information to any party for any reason or purpose whatsoever, nor will either make use of any such Confidential Information for its or his own purposes or for the benefit of any third-party under any circumstances during or after the term of this Agreement, provided that these restrictions will not apply to such Confidential Information that is in the public domain (provided that Company or AIM was not responsible, directly or indirectly, for the respective dissemination into the public domain). AIM will use its best efforts to cause all persons or entities to whom any Confidential Information will be disclosed by it hereunder to observe the terms and conditions set forth herein as though each such person or entity was bound hereby. This restriction does not apply to disclosures required by law, legal process, or disclosures to professionals to make appropriate filings required by law, including but not limited to, tax returns and SEC reports.

b. Public Statements. AIM and Company, and each of their employees, agents or consultants will refrain from making any public statements or comments, whether orally, in writing, or transmitted electronically, concerning or in any way related to Company that, in the reasonable judgment of the Board of Directors of each, may, directly or indirectly, have a material adverse effect upon each business, prospects or goodwill, except that AIM is allowed to promote the success that AIM achieved for the Company during its tenure there.

c. Disparaging Comments. AIM and Company and each of their employees, agents or consultants will refrain from making any disparaging comments, directly or indirectly, publicly or privately, about or in any way related to the other or the other's officers, directors, employees and affiliates, including, without limitation, Each party's business, management, prospects or services.

d. Communication with Certain Parties. Unless specifically authorized, AIM and Company will refrain from communicating, either orally, in writing, or via electronic transmission, with any parties with which the other has a contractual or business relationship, including, without limitation, any employee, customer, or shareholder, with respect to matters concerning the other's business or the other's prospects; provided, however, that they may, subject to the other provisions of this Agreement, and notice to the other's Chief Executive Officer, communicate with executive officers, directors, employees, customers, vendors, partners and shareholders of the other as necessary to reasonably and properly satisfy their obligations under this Agreement. Both recognize that the other may have existing relationships with vendors, shareholders, customers, or even employees and ex-employees of the other that are not related to the other and may continue to do so, so long as the relationship and activities are not intended to compete with or disparage or damage the other.

e. Bad Faith Acts. AIM and Company will refrain from directly or indirectly engaging in any act or omission that is in bad faith and to the material detriment of the other or the other's business, prospects or goodwill.

f. Non-Competition. Neither Company nor AIM, their officers, directors and employees or consultants, nor their respective affiliates will, directly or indirectly, either individually or in connection with another entity or any third-party, compete with the other or participate in the development of a product or the provision of services that reasonably could be deemed to be competitive with any of the other's products, services, concepts or lines of business, for a period of six years from the Effective Date. AIM's payment for this provision is expressly recognized to be AIM's reduction in compensation under this Agreement from that in the Consulting Agreement. Company's business, products, services or lines of business are specifically defined as the creation and production of an online business directory similar to the printed Yellow Pages, which includes direct marketing in the yellow page industry. Notwithstanding anything in the Agreement to the contrary, the Company is at all times permitted to operate in the Yellow Pages industry.

g. Non-Solicitation

(i) Non-Solicitation of Customers. Neither AIM nor Company, nor their respective affiliates, whether personally or as an agent, employee, consultant, or in any other capacity on behalf of any person or entity, will, for a period of six years from the Effective Date, directly or indirectly solicit, do business with, call upon, handle, deliver products or render services to any active or prospective Customer (as defined below) of the other, for the purpose of soliciting or selling such Customer the same as, similar to, or related products or services that the other provides, as defined above. For purposes of this paragraph, “Customer” shall mean the corporate customer itself, the representatives of the corporate customer, and any affiliated entity of the corporate customer.

(ii) Non-Solicitation of Employees and Independent Contractors. For a period of six years from the Effective Date, neither AIM, Company, nor their respective affiliates will, either alone or as an agent, employee, partner, representative, affiliate, or in any other capacity on behalf of any person or entity, directly or indirectly, go into business with or hire any Company employee or independent contractor or solicit, induce, or recruit any Company employee or independent contractor to end its relationship with Company for the purpose of having such Company employee or independent contractor engage in services that are the same as, similar to or related to the services that such Company employee or independent contractor provided for Company. This provision does not apply in the event of a change of control as defined by the Securities and Exchange Commission, a sale of all or substantially all of either’s assets, the default of payment of the sums described in its Agreement.

h. Reasonableness of Restrictions and Provision for Reduction. AIM and Company expressly acknowledge and agree that the time and scope limitations contained above in subparagraphs f and g of this Section 7 are entirely reasonable and are properly and necessarily required for the adequate protection of the business and intellectual property of Company. If a court of competent jurisdiction determines that six years from the Effective Date is unreasonable or unenforceable, then the period will be five years. If a court of competent jurisdiction determines that five years from the Effective Date is unreasonable or unenforceable, then the period will be four years. If a court of competent jurisdiction determines that four years from the Effective Date is unreasonable or unenforceable, then the period will be three years. If a court of competent jurisdiction determines that three years from the Effective Date is unreasonable or unenforceable, then the period will be two years. If a court of competent jurisdiction determines that two years from the Effective Date is unreasonable or unenforceable, then the period will be one year.

i. Further Assurances and Cooperation. AIM and the Company will cooperate reasonably with each other and with each other’s representatives, officers, directors and agents in connection with any steps required to be taken as part of their respective obligations under this Agreement, and will (a) upon request, furnish to each other such further information; (b) execute and deliver to each other such other documents; and (c) do such other acts and things, all as each may reasonably request for the purpose of carrying out the intent of this Agreement, including, without limitation, the re-execution of this Agreement. Each specifically agrees to cooperate with the other on all outstanding legal and administrative matters or issues either of them or any of their affiliates has been involved with during the term of the Consulting Agreement or their involvement with each other. This obligation includes spending adequate time for preparation to testify or give depositions, and cooperating with each other’s attorneys in gathering information regarding any legal matter.

8. Representations and Warranties. AIM and Company, acknowledging that each is relying upon the truth and accuracy of such representations and warranties, represent and warrant to each other as follows:

a. No Knowledge of Fraud or Misrepresentation. Neither Company, AIM, nor any of their officers or directors is aware of or has knowledge of any misrepresentation or misstatement contained in the Company's filings made, either publicly or privately, with the Securities and Exchange Commission concerning the beneficial ownership of Company securities of any current or former officer or director of Company or any beneficial owner of the Company's securities, nor, except as disclosed in the Company's filings with the Securities and Exchange Commission, of any fraud, embezzlement, or malfeasance, that involves or involved Company's management, Company consultants or Company employees while in the employment of Company or while providing services to Company that should have been disclosed.

b. Review of Agreement. AIM and Company have been given the opportunity and have, in fact, read this entire Agreement, and it is in plain language, and each has had all questions regarding its meaning answered to their satisfaction.

c. Independent Advice. Each party has been given the full opportunity to obtain the independent advice and counsel from an attorney of its own choosing and has in fact done so or has knowingly declined such advice and counsel.

d. Understanding of Terms. Each party fully understands the terms, contents and effects of this Agreement.

e. Voluntary Act. Each party enters into this Agreement knowingly and voluntarily in exchange for the promises in this Agreement and that no other representations have been made to it to induce or influence its execution of this Agreement.

9. Termination. Upon the material breach of this Agreement, including, without limitation, the Consultation Obligation by AIM, its agents, employees or consultants, a Covenant by either party, its agents, employees or consultants, or upon the material breach of any representation or warranty of one party to the other, and in each case after written notice by the non-breaching party and (other than a breach of a representation and warranty) a 30-day opportunity to cure (5-day opportunity to cure in the case of a breach of the Consultation Obligation by AIM), the other may terminate this Agreement if the breach is not cured. Notwithstanding the termination of this Agreement, the representations and warranties set forth in Section 8 and the Covenants set forth in Section 7 will survive and continue to be in effect.

10. Governing Law. The interpretation, performance and enforcement of this Agreement will be governed by the internal laws of the State of Arizona without giving effect to any choice of law or rule that would cause the application of the laws of any jurisdiction other than the internal laws of the State of Arizona to the rights and duties of the parties. Except for the indemnity provisions which will follow Nevada Statutes, as Company and its subsidiary are Nevada Corporations.

11. Severability. If any provision of this Agreement or the application thereof is held to be invalid, void or unenforceable for any reason, the remaining provisions not so declared will be construed so as to comply with the law, and will nevertheless continue in full force and effect without being impaired in any manner whatsoever.

12. Headings. The headings in this Agreement are for reference only and will not affect the interpretation of this Agreement.

13. Notices. All notices, demands, or other communications that are required or are permitted to be given under this Agreement must be in writing and are sufficient upon personal delivery, facsimile, or on the third business day following due deposit in the United States Mail, postage prepaid, and sent certified mail, return receipt requested, correctly addressed to the addresses of the parties as follows:

If to AIM: Advanced Internet Marketing, Inc.
____
____
phone: ( ) ______________________
fax: ( ) _________________________

If to Company: Chief Executive Officer
YP Corp.
4840 East Jasmine Street, Suite 105
Mesa, Arizona 85205-3321
Fax: (480) 860-0800

14. Indemnification. In the event of any litigation or any other legal proceeding, including arbitration, relating to this Agreement, including without limitation, any action to interpret or enforce this Agreement, the prevailing party will be entitled to two times the reasonable attorneys' fees and costs of suit.

15. Intent to be Binding. This Agreement may be executed in any number of counterparts and by facsimile, and each counterpart and/or facsimile constitutes an original instrument, but all such separate counterparts and/or facsimiles constitute one and the same agreement. Neither party to this Agreement will seek to have any term, provision, covenant, or restriction of this Agreement to be held invalid. This Agreement shall inure to the benefit of and be enforceable by the successors and assigns of Company, any person or entity which purchases substantially all of the assets of Company or with whom Company merges, and any subsidiary, affiliate, corporation, or operating division of the previously described entities.

16. Entire Agreement. This Agreement supersedes all prior agreements, whether written or oral, between the parties with respect to its subject matter (including, without limitation, the Consulting Agreement, any letter of intent, conceptual agreement, or e-mail communication) and constitutes a complete and exclusive statement of the terms of the agreement between the parties with respect to its subject matter. This Agreement may not be amended, supplemented, or otherwise modified except by a written agreement executed by the party to be charged with the amendment.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be signed by their respective authorized representatives as of the date first written above.

ADVANCED INTERNET MARKETING, INC.	**YP CORP.**
By: /s/ DeVal Johnson	By: /s/ Peter Bergmann
DeVal Johnson, President	Peter Bergmann Chief Executive Officer

[SIGNATURE PAGE TO AIM TERMINATION AGREEMENT]

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT ("**Agreement**") is made and entered into on November 1, 2004 by and between YP Corp., a Nevada corporation (the "**Company**") and Penny Spaeth ("**Executive**").

In consideration of the mutual promises, covenants and agreements herein contained, intending to be legally bound, the parties agree as follows:

1. Employment. The Company hereby agrees to employ Executive, and Executive hereby agrees to serve, subject to the provisions of this Agreement, as an employee of the Company in the position of Chief Operating Officer, Executive will perform all services and acts reasonably necessary to fulfill the duties and responsibilities of her position and will render such services on the terms set forth herein and will report to the Company's Chief Executive Officer (the "**CEO**"). Executive agrees to devote her business time, attention and energies to the extent reasonably necessary to perform the duties assigned hereunder, and to perform such duties diligently, faithfully and to the best of her abilities. It is expressly understood and agreed that Executive shall have the right to engage in any activities that are generally engaged in by executives of her position and status, provided that Executive agrees to refrain from any activity that does, will or could reasonably be deemed to conflict with the best interests of the Company.

2. Term. This Agreement is for the two-year period (the "**Term**") commencing on the date hereof and terminating on the second anniversary of such date, or upon the date of termination of employment pursuant to Section 8 of this Agreement; provided, however, that commencing on the second anniversary of the date hereof and each anniversary thereafter the Term will automatically be extended for one additional year unless, not later than 30 days prior to any such anniversary, either party hereto will have notified the other party hereto that such extension will not take effect, in which event the Term shall end on the last day of the then current period.

3. Place of Performance. Except for required travel on the Company's business, Executive will perform the majority of her duties and conduct the majority of her business on behalf of the Company at the Company's offices in Mesa, Arizona.

4. Compensation.

(a) Salary. Executive's salary during the first year of this Agreement will be at the annual rate of $137,500 (the "**Annual Salary**"), payable in accordance with the Company's regular payroll practices. All applicable withholdings, including taxes, will be deducted from such payments. The Annual Salary will be increased to $151,250 during the second year of this Agreement. Thereafter, the Annual Salary will be as determined by the Compensation Committee of the Board, but shall in no event be less than 110% of the previous year's Annual Salary,

(b) Performance Bonuses. Upon signing this agreement Executive shall receive a cash Bonus of $1,000. Promptly following the commencement of each fiscal year Executive will receive a bonus of 25,000 shares of the Company's common stock, $.001 par value per share issued out of the Company's 2003 Stock Plan and pursuant to the Company's standard form of Restricted Stock Agreement ("**Restricted Stock**") in the event that the Company's basic earnings per share (as reported in the Company's filings with the Securities and Exchange Commission) for that respective fiscal year ended September 30, exceed the prior fiscal year's basic earnings per share by a minimum of 50%. To the extent such test is met, the bonus will be paid to Executive no later than 30 days after the Company receives from its independent public accountants the audited financial statements for the relevant fiscal year indicating that the Company's basic earnings per share for such fiscal year exceed the basic earnings per share for the prior year by a minimum of 50%. All bonuses payable under this Section 4 will be subject to all applicable withholdings, including taxes.

(c)Car Allowance. Executive shall be provided with a four hundred dollar per month allowance for automobile usage.

(d) Cell Phone. Executive shall be reimbursed for cell phone usage with a ceiling of one hundred dollars per month.

(c) Office. Executive shall be provided with an executive office suitable for her position and status.

5. Business Expenses. During the Term, the Company will reimburse Executive for all business expenses incurred by her in connection with her employment, upon submission by the Executive of receipts and other documentation in conformance with the Company's normal procedures for executives of Executive's position and status.

6. Vacation, Holidays and Sick Leave. During the Term, Executive will be entitled to paid vacation (15 business days per calendar year), paid holidays and paid sick leave in accordance with the Company's standard policies for its officers, as may be amended from time to time.

7. Benefits. During the Term, Executive will be eligible to participate fully in all health, disability and dental benefits, insurance programs, pension and retirement plans and other employee benefit and compensation arrangements (collectively, the "**Employee Benefits"**) available to senior officers of the Company generally, as the same may be amended from time to time by the Board

8. Termination of Employment.

(a) Notwithstanding any provision of this Agreement to the contrary, the employment of Executive hereunder will terminate on the first to occur of the following dates;

(i) the date of Executive's death;

(ii) the date on which Executive has experienced a Disability (as defined below), and the Company gives Executive notice of termination on account of Disability;

(iii) th e date on which Executive has engaged in conduct that constitutes Cause (as defined below), and the Company gives Executive notice of termination for Cause;

(iv) expiration of the Term without renewal or extension;

(v) the date on which the Company gives Executive notice of termination for any reason other than the reasons set forth in (i) through (iv) above; or

(vi) the date on which Executive gives the Company notice of termination for Good Reason (as defined below).

(b) For purposes of this Agreement, "Disability" will mean an illness injury or other incapacitating condition as a result of which Executive is unable to perform, with reasonable accommodation, the services required to be performed under this Agreement for 180 consecutive days during the Term, In any such event, the Company, in its sole discretion, may terminate this Agreement by giving notice to Executive of termination for Disability. Executive agrees to submit to such medical examinations as may be necessary to determine whether a Disability exists, pursuant to such reasonable requests made by the Company from time to time. Any determination as to the existence of a Disability will be made by a physician mutually selected by the Company and Executive.

(c) For purposes of this Agreement, "Cause" will mean the occurrence of any of the following events, as reasonably determined by the Board:

(i) Executive's willful failure to substantially perform her duties hereunder;

(ii) Executive's conviction of a felony, or her guilty plea to or entry of a nolo contendere plea to a felony charge;

(iii) the willful engaging by Executive in conduct that is materially injurious to the Company's business or reputation; or

(iv) Executive's breach of any material term of this Agreement or the Company's written policies and procedures, as in effect from time to time; provided, however, that with respect to (i), (iii) or (iv) above, such termination for Cause will only be effective if the conduct constituting Cause is not cured by Executive within 5 days of receipt by Executive of notice specifying in reasonable detail the nature of the alleged breach.

(d) For purposes of this Agreement, "Good Reason" will mean the occurrence of any of the following events, as reasonably determined by Executive:

(i) the failure of the Company to pay Executive her total Annual Salary and/or bonuses earned (not including discretionary bonuses);

(ii) the Company's breach of any material term of this Agreement; provided that in all cases Executive will have provided the Company with notice and not less than a 15 calendar day opportunity to cure the conduct that Executive claims constitutes Good Reason; and/or

(iii) a Change of Control shall have occurred. For purposes of this Agreement, "Change of Control" shall have the meaning ascribed to it in the Company's 2003 Stock Plan.

9. Compensation in Event of Termination. Upon termination of the Term, this Agreement will terminate and the Company will have no further obligation to Executive except to pay the amounts set forth in this Section 9.

(a) In the event Executive's employment is terminated pursuant to Sections 8(a)(i), (ii), (iii) or (iv) on or before the expiration of the Term, Executive or her estate, conservator or designated beneficiary, as the case may be, will be entitled to payment of any earned but unpaid Annual Salary for the year in which the Executive's employment is terminated through the date of termination, as well as any accrued but unused vacation, reimbursement of expenses and vested benefits to which Executive is entitled in accordance with the terms of each applicable Employee Benefits plan.

(b) In the event Executive's employment is terminated pursuant to Section 8(a)(v) or (vi) on or before the expiration of the Term, Executive will be entitled to receive on the date of termination, as her sole and exclusive remedy, a lump sum amount equal to 2 months of payments that Executive would receive under the Agreement if her employment with the Company had not been terminated, including, but not limited to, the Annual, Salary in effect at the time of termination and bonuses (payable at time they would be otherwise be payable), vacation, benefits and reimbursement of expenses.

10. Confidentiality. Executive covenants and agrees that she will not at any time during or after the end of the Term, without written consent of the Company or as may be required, by law or valid legal process, directly or indirectly, use for her own account, or disclose to any person, firm or corporation, other than authorized officers, directors, attorneys, accountants and employees of the Company or its subsidiaries. Confidential Information (as hereinafter defined) of the Company. As used herein, "Confidential Information" of the Company means information about the Company of any kind, nature or description, including but not limited to, any proprietary information, trade secrets, data, formulae, supplier, client and customer lists or requirements, price lists or pricing structures, marketing and sales information, business plans or dealings and financial information and plans as well as all papers, resumes and records (including computer records) that are disclosed to or otherwise known to Executive as a direct or indirect consequence of Executive's employment with the Company, which information is not generally known to the public or in the businesses in which the Company is engaged. Confidential Information also includes any information furnished to the Company by a third party with restrictions on its use or further disclosure.

11. Nonsolicitation and Noninterference.

(a) Customers and Suppliers. While employed by the Company and for a one-year period thereafter, Executive will not, directly or indirectly, solicit or influence or attempt to solicit or influence any current or prospective customer, client vendor or supplier of the Company or any of its affiliates or subsidiaries to divert their business to any Competitor (as defined below) of the Company (whether or not exclusive) or otherwise terminate her or its relationship with the Company.

(b) Employees.

(i) Executive recognizes that, as *a* result of Executive's association with the Company, she will possess confidential information about other employees or consultants of the Company and its subsidiaries and affiliates relating to their education, experience, skills, abilities, compensation and benefits, and their interpersonal relationships with customers. Executive acknowledges and agrees that the information she possesses or will possess about these other employees or consultants is not generally known, is of substantial value to the Company and its affiliates and subsidiaries in developing its business and in securing and retaining customers, and is, will be or may be known to Executive because of her employment with the Company.

(ii) Accordingly, Executive agrees that, while employed by the Company and for a one-year period thereafter, Executive will not, directly or indirectly, induce, solicit or recruit any employee or consultant of the Company or its subsidiaries or affiliates for the purpose of (A) being employed by Executive or by any Competitor of the Company or (B) causing such individual to terminate his or her employment relationship with the Company for any purpose or no purpose,

(iii) For purposes of this Agreement, a "Competitor" will mean any other entity or person that provides or proposes to provide services or products similar in kind or purpose to those provided or proposed to be provided by the Company during the Term.

(iv) The provisions of Sections 11 (a) and (b) above shall not apply in the event that Executive terminates this Agreement for Good Reason.

12. Rights and Remedies upon Breach. In the event that Executive breaches, or threatens to breach, any of the material agreements or material covenants set forth herein, the Company will have the right and remedy to seek to obtain injunctive relief, it being agreed that any breach or threatened breach of any of the confidentiality, nonsolicitation or other restrictive covenants and agreements contained herein would cause irreparable injury to the Company and that money damages would not provide an adequate remedy at law to the Company.

13. Dispute Resolution. Except for an action exclusively seeking injunctive relief, any disagreement, claim or controversy arising under or in connection with this Agreement, including Executive's employment or termination of employment with the Company will be resolved exclusively by arbitration before a single arbitrator in accordance with the National Rules for the Resolution of Employment Disputes of the American Arbitration Association (the "Rules"), provided that, the arbitrator will allow for discovery sufficient to adequately arbitrate any statutory claims, including access to essential documents and witnesses; provided further, that the Rules will be modified by the arbitrator to the extent necessary to be consistent with applicable law. The arbitration will take place in Phoenix, Arizona. The award of the arbitrator with respect to such disagreement, claim or controversy will be in writing with sufficient explanation to allow for such meaningful judicial review as permitted by law, and that such decision will be enforceable in any court of competent jurisdiction and will be binding on the parties hereto. The remedies available in arbitration will be identical, to those allowed at law. The arbitrator will be entitled to award reasonable attorneys' fees to the prevailing party in any arbitration or judicial action under this Agreement, consistent with applicable law. The Company and Executive each will pay its or her own attorneys' fees and costs in any such arbitration, provided that, the Company will pay for any costs, including the arbitrator's fee, that Executive would not have otherwise incurred if the dispute were adjudicated in a court of law, rather than through arbitration,

14. Rinding Agreement. (a) This Agreement is a personal contract and the rights and interests of Executive hereunder may not be sold, transferred, assigned, pledged, encumbered or hypothecated by her, provided that all rights of the Executive hereunder shall inure to the benefit of, and be enforceable by Executive's personal or legal representatives, executors, heirs, administrators, successors, distributors, devisees and legatees,

(b) In addition to any obligations imposed by law upon any successor to Company (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the assets of Company, by agreement in form and substance satisfactory to Executive, to expressly assume and agree to perform this Agreement in the same manner and to the same extent that the Company would by required to perform if no such succession had taken place.

15. Disclosure Obligations. During the Term, Executive agrees to make prompt and full disclosure to the Company of any change of facts or circumstances that may affect Executive's obligations undertaken and acknowledged herein, and Executive agrees that the Company has the right to notify any third party of the existence and content of Executive's obligations hereunder.

16. Return of Company Property. Executive agrees that following the termination of her employment for any reason, she will promptly return all property of the Company, its subsidiaries, affiliates and any divisions thereof she may have managed that is then in or thereafter comes into her possession, including, but not limited to, documents, contracts, agreements, plans, photographs, books, notes, electronically stored data and all copies of the foregoing, as well as any materials or equipment supplied by the Company to Executive.

17. Entire Agreement. This Agreement contains all the understandings between the parties hereto pertaining to the matters referred to herein, and supersedes all undertakings and agreements, whether oral or written, previously entered into by them with respect thereto, Executive represents that, in executing this Agreement, she does not rely, and has not relied, on any representation or statement not set forth herein made by the Company with regard to the subject matter, bases or effect of this Agreement or otherwise.

18. Amendment or Modification, Waiver. No provision of this Agreement may be amended or waived unless such amendment or waiver is agreed to in writing, signed by Executive and by a duly authorized officer of the Company. The failure of either party to this Agreement to enforce any of its terms, provisions or covenants will not be construed as a waiver of the same or of the right of such party to enforce the same. Waiver by either party hereto of any breach or default by the other party of any term or provision of this Agreement will not operate as a waiver of anv other breach or default.

19. Notices. Any notice to be given hereunder will be in writing and will be deemed given when) delivered personally, sent by courier or fax or registered or certified mail, postage prepaid, return receipt requested, addressed to the party concerned at the address indicated below or to such other address as such patty may subsequently give notice of hereunder in writing:

To Executive at:

Penny Spaeth.

Mesa, Az.

YP Corp.
Suite 105
4840 East Jasmine Street
Mesa, Arizona 85205-3321
Phone: (480) 860-0011
Fax: (480) 325-1257

To the Company at:

YP Corp.
Suite 105
4840 East Jasmine Street
Mesa, Arizona 85205-3321
Phone: (480) 860-0011
Fax: (480) 325-1257
Attention: Board of Directors

Any notice delivered personally or by courier under this Section will be deemed given on the date delivered. Any notice sent by fax or registered or certified mail, postage prepaid, return receipt requested, will be deemed given on the date faxed or mailed. Each party may change the address to which notices are to be sent by giving notice of such change in conformity with the provisions of this Section.

Severability. In the event that any one or more of the provisions of this Agreement will be held to be invalid, illegal or unenforceable, the validity, legality and enforceability of the remainder of the Agreement will not in any way be affected or impaired thereby. Moreover, if any one or more of the provisions contained in this Agreement will be held to be excessively broad as to duration, activity or subject, such provisions will be construed by limiting and reducing them so as to be enforceable to the maximum extent allowed by applicable law.

20. Survivorship. The respective rights and obligations of the parties hereunder will survive any termination of this Agreement to the extent necessary for the intended preservation of such rights and obligations.

21. Each Party the Drafter. This Agreement and the provisions contained in it will not be construed or interpreted for or against any party to this Agreement because that party drafted or caused that party's legal representative to draft any of its provisions.

22. Governing Law. This Agreement will be governed by and construed in accordance with the laws of the State of Arizona, without regard to its conflicts of laws principles.

23. Headings. All descriptive headings of sections and paragraphs in this Agreement are intended solely for convenience, and no provision of this Agreement is to be construed by reference to the heading of any section or paragraph.

24. Counterparts. This Agreement may be executed in counterparts, each of which will be deemed an original, but all of which together will constitute one and the same instrument.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first written above,

YP CORP., a Nevada corporation	EXECUTIVE
/s/ Peter J. Bergmann	/s/ Penny Spaeth
Peter J. Bergmann	Penny Spaeth
Chief Executive Officer	

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (“**Agreement**”) is made and entered into on September 21, 2004 by and between YP Corp., a Nevada corporation (the “**Company**”) and John Raven (“**Executive**”).

In consideration of the mutual promises, covenants and agreements herein contained, intending to be legally bound, the parties agree as follows:

1. Employment. The Company hereby agrees to employ Executive, and Executive hereby agrees to serve, subject to the provisions of this Agreement, as an employee of the Company in the position of Chief Technical Officer. Executive will perform all services and acts reasonably necessary to fulfill the duties and responsibilities of his position and will render such services on the terms set forth herein and will report to the Company’s Chief Executive Officer (the “**CEO**”). Executive agrees to devote his business time, attention and energies to the extent reasonably necessary to perform the duties assigned hereunder, and to perform such duties diligently, faithfully and to the best of his abilities. It is expressly understood and agreed that Executive shall have the right to engage in any activities that are generally engaged in by executives of his position and status, provided that Executive agrees to refrain from any activity that does, will or could reasonably be deemed to conflict with the best interests of the Company.

2. Term. This Agreement is for the two-year period (the “**Term**”) commencing on the date hereof and terminating on the second anniversary of such date, or upon the date of termination of employment pursuant to Section 8 of this Agreement; provided, however, that commencing on the second anniversary of the date hereof and each anniversary thereafter the Term will automatically be extended for one additional year unless, not later than 30 days prior to any such anniversary, either party hereto will have notified the other party hereto that such extension will not take effect, in which event the Term shall end on the last day of the then current period.

3. Place of Performance. Except for required travel on the Company’s business, Executive will perform the majority of his duties and conduct the majority of his business on behalf of the Company at the Company’s offices in Mesa, Arizona.

4. Compensation.

(a) Salary. Executive’s salary during the first year of this Agreement will be at the annual rate of $165,000 (the “**Annual Salary**”), payable in accordance with the Company’s regular payroll practices. All applicable withholdings, including taxes, will be deducted from such payments. The Annual Salary will be increased to $181,500 during the second year of this Agreement. Thereafter, the Annual Salary will be as determined by the Compensation Committee of the Board, but shall in no event be less than 110% of the previous year’s Annual Salary.

(b) Performance Bonuses. Within ten days of the signing of this agreement Executive shall receive a cash bonus of $35,000. . All applicable withholdings, including taxes, will be deducted from such payments. Promptly following the commencement of each fiscal year, Executive will receive a bonus of 50,000 shares of the Company’s common stock, $.001 par value per share, issued out of the Company’s 2003 Stock Plan and pursuant to the Company’s standard form of Restricted Stock Agreement (“**Restricted Stock**”) in the event that the Company’s basic earnings per share (as reported in the Company’s filings with the Securities and Exchange Commission) for that respective fiscal year ended September 30, exceed the prior fiscal year’s basic earnings per share by a minimum of 50%. To the extent such test is met, the bonus will be paid to Executive no later than 30 days after the Company receives from its independent public accountants the audited financial statements for the relevant fiscal year indicating that the Company’s basic earnings per share for such fiscal year exceed the basic earnings per share for the prior year by a minimum of 50%. All bonuses payable under this Section 4(c) will be subject to all applicable withholdings, including taxes.

(c) Office. Executive shall be provided with an executive office suitable for his position and status.

5. Business Expenses. During the Term, the Company will reimburse Executive for all business expenses incurred by him in connection with his employment, upon submission by the Executive of receipts and other documentation in conformance with the Company's normal procedures for executives of Executive's position and status.

6. Vacation, Holidays and Sick Leave. During the Term, Executive will be entitled to paid vacation (21 business days per calendar year), paid holidays and paid sick leave in accordance with the Company's standard policies for its officers, as may be amended from time to time.

7. Benefits. During the Term, Executive will be eligible to participate fully in all health, disability and dental benefits, insurance programs, pension and retirement plans and other employee benefit and compensation arrangements (collectively, the "**Employee Benefits**") available to senior officers of the Company generally, as the same may be amended from time to time by the Board.

8. Termination of Employment.

(a) Notwithstanding any provision of this Agreement to the contrary, the employment of Executive hereunder will terminate on the first to occur of the following dates:

(i) the date of Executive's death;

(ii) the date on which Executive has experienced a Disability (as defined below), and the Company gives Executive notice of termination on account of Disability;

(iii) the date on which Executive has engaged in conduct that constitutes Cause (as defined below), and the Company gives Executive notice of termination for Cause;

(iv) expiration of the Term without renewal or extension;

(v) the date on which the Company gives Executive notice of termination for any reason other than the reasons set forth in (i) through (iv) above; or

(vi) the date on which Executive gives the Company notice of termination for Good Reason (as defined below).

(b) For purposes of this Agreement, “Disability” will mean an illness injury or other incapacitating condition as a result of which Executive is unable to perform, with reasonable accommodation, the services required to be performed under this Agreement for 180 consecutive days during the Term. In any such event, the Company, in its sole discretion, may terminate this Agreement by giving notice to Executive of termination for Disability. Executive agrees to submit to such medical examinations as may be necessary to determine whether a Disability exists, pursuant to such reasonable requests made by the Company from time to time. Any determination as to the existence of a Disability will be made by a physician mutually selected by the Company and Executive.

(c) For purposes of this Agreement, “Cause” will mean the occurrence of any of the following events, as reasonably determined by the Board:

(i) Executive’s willful failure to substantially perform his duties hereunder;

(ii) Executive’s conviction of a felony, or his guilty plea to or entry of a nolo contendere plea to a felony charge;

(iii) the willful engaging by Executive in conduct that is materially injurious to the Company’s business or reputation; or

(iv) Executive’s breach of any material term of this Agreement or the Company’s written policies and procedures, as in effect from time to time; provided, however, that with respect to (i), (iii) or (iv) above, such termination for Cause will only be effective if the conduct constituting Cause is not cured by Executive within 5 days of receipt by Executive of notice specifying in reasonable detail the nature of the alleged breach.

(d) For purposes of this Agreement, “Good Reason” will mean the occurrence of any of the following events, as reasonably determined by Executive:

(i) the failure of the Company to pay Executive his total Annual Salary and/or bonuses earned (not including discretionary bonuses);

(ii) the Company’s breach of any material term of this Agreement; provided that in all cases Executive will have provided the Company with notice and not less than a 15 calendar day opportunity to cure the conduct that Executive claims constitutes Good Reason; and/or

(iii) a Change of Control shall have occurred. For purposes of this Agreement, “Change of Control” shall have the meaning ascribed to it in the Company’s 2003 Stock Plan.

9. <u>Compensation in Event of Termination</u>. Upon termination of the Term, this Agreement will terminate and the Company will have no further obligation to Executive except to pay the amounts set forth in this <u>Section 9.</u>

(a) In the event Executive's employment is terminated pursuant to Sections 8(a)(i), (ii), (iii) or (iv) on or before the expiration of the Term, Executive or his estate, conservator or designated beneficiary, as the case may be, will be entitled to payment of any earned but unpaid Annual Salary for the year in which the Executive's employment is terminated through the date of termination, as well as any accrued but unused vacation, reimbursement of expenses and vested benefits to which Executive is entitled in accordance with the terms of each applicable Employee Benefits plan.

(b) In the event Executive's employment is terminated pursuant to Section 8(a)(v) or (vi) on or before the expiration of the Term, Executive will be entitled to receive on the date of termination, as his sole and exclusive remedy, a lump sum amount equal to 2 months of payments that Executive would receive under the Agreement if his employment with the Company had not been terminated, including, but not limited to, the Annual Salary in effect at the time of termination and bonuses (payable at time they would be otherwise be payable), vacation, benefits and reimbursement of expenses.

10. Confidentiality. Executive covenants and agrees that he will not at any time during or after the end of the Term, without written consent of the Company or as may be required by law or valid legal process, directly or indirectly, use for his own account, or disclose to any person, firm or corporation, other than authorized officers, directors, attorneys, accountants and employees of the Company or its subsidiaries, Confidential Information (as hereinafter defined) of the Company. As used herein, "Confidential Information" of the Company means information about the Company of any kind, nature or description, including but not limited to, any proprietary information, trade secrets, data, formulae, supplier, client and customer lists or requirements, price lists or pricing structures, marketing and sales information, business plans or dealings and financial information and plans as well as all papers, resumes and records (including computer records) that are disclosed to or otherwise known to Executive as a direct or indirect consequence of Executive's employment with the Company, which information is not generally known to the public or in the businesses in which the Company is engaged. Confidential Information also includes any information furnished to the Company by a third party with restrictions on its use or further disclosure.

11. Nonsolicitation and Noninterference.

(a) Customers and Suppliers. While employed by the Company and for a one-year period thereafter, Executive will not, directly or indirectly, solicit or influence or attempt to solicit or influence any current or prospective customer, client, vendor or supplier of the Company or any of its affiliates or subsidiaries to divert their business to any Competitor (as defined below) of the Company (whether or not exclusive) or otherwise terminate his or its relationship with the Company.

(b) Employees.

(i) Executive recognizes that, as a result of Executive's association with the Company, he will possess confidential information about other employees or consultants of the Company and its subsidiaries and affiliates relating to their education, experience, skills, abilities, compensation and benefits, and their interpersonal relationships with customers. Executive acknowledges and agrees that the information he possesses or will possess about these other employees or consultants is not generally known, is of substantial value to the Company and its affiliates and subsidiaries in developing its business and in securing and retaining customers, and is, will be or may be known to Executive because of his employment with the Company.

(ii) Accordingly, Executive agrees that, while employed by the Company and for a one-year period thereafter, Executive will not, directly or indirectly, induce, solicit or recruit any employee or consultant of the Company or its subsidiaries or affiliates for the purpose of (A) being employed by Executive or by any Competitor of the Company or (B) causing such individual to terminate his or her employment relationship with the Company for any purpose or no purpose.

(iii) For purposes of this Agreement, a "Competitor" will mean any other entity or person that provides or proposes to provide services or products similar in kind or purpose to those provided or proposed to be provided by the Company during the Term.

(iv) The provisions of Sections 11(a) and (b) above shall not apply in the event that Executive terminates this Agreement for Good Reason.

12. Rights and Remedies upon Breach. In the event that Executive breaches, or threatens to breach, any of the material agreements or material covenants set forth herein, the Company will have the right and remedy to seek to obtain injunctive relief, it being agreed that any breach or threatened breach of any of the confidentiality, nonsolicitation or other restrictive covenants and agreements contained herein would cause irreparable injury to the Company and that money damages would not provide an adequate remedy at law to the Company.

13. Dispute Resolution. Except for an action exclusively seeking injunctive relief, any disagreement, claim or controversy arising under or in connection with this Agreement, including Executive's employment or termination of employment with the Company will be resolved exclusively by arbitration before a single arbitrator in accordance with the National Rules for the Resolution of Employment Disputes of the American Arbitration Association (the "**Rules**"), provided that, the arbitrator will allow for discovery sufficient to adequately arbitrate any statutory claims, including access to essential documents and witnesses; provided further, that the Rules will be modified by the arbitrator to the extent necessary to be consistent with applicable law. The arbitration will take place in Phoenix, Arizona. The award of the arbitrator with respect to such disagreement, claim or controversy will be in writing with sufficient explanation to allow for such meaningful judicial review as permitted by law, and that such decision will be enforceable in any court of competent jurisdiction and will be binding on the parties hereto. The remedies available in arbitration will be identical to those allowed at law. The arbitrator will be entitled to award reasonable attorneys' fees to the prevailing party in any arbitration or judicial action under this Agreement, consistent with applicable law. The Company and Executive each will pay its or his own attorneys' fees and costs in any such arbitration, provided that, the Company will pay for any costs, including the arbitrator's fee, that Executive would not have otherwise incurred if the dispute were adjudicated in a court of law, rather than through arbitration.

14. Binding Agreement. 1) This Agreement is a personal contract and the rights and interests of Executive hereunder may not be sold, transferred, assigned, pledged, encumbered or hypothecated by him, provided that all rights of the Executive hereunder shall inure to the benefit of, and be enforceable by Executive's personal or legal representatives, executors, heirs, administrators, successors, distributors, devisees and legatees.

(b) In addition to any obligations impose by law upon any successor to Company (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the assets of Company, by agreement in form and substance satisfactory to Executive, to expressly assume and agree to perform this Agreement in the same manner and to the same extent that the Company would by required to perform if no such succession had taken place.

15. Disclosure Obligations. During the Term, Executive agrees to make prompt and full disclosure to the Company of any change of facts or circumstances that may affect Executive's obligations undertaken and acknowledged herein, and Executive agrees that the Company has the right to notify any third party of the existence and content of Executive's obligations hereunder.

16. Return of Company Property. Executive agrees that following the termination of his employment for any reason, he will promptly return all property of the Company, its subsidiaries, affiliates and any divisions thereof he may have managed that is then in or thereafter comes into his possession, including, but not limited to, documents, contracts, agreements, plans, photographs, books, notes, electronically stored data and all copies of the foregoing, as well as any materials or equipment supplied by the Company to Executive.

17. Entire Agreement. This Agreement contains all the understandings between the parties hereto pertaining to the matters referred to herein, and supersedes all undertakings and agreements, whether oral or written, previously entered into by them with respect thereto. Executive represents that, in executing this Agreement, he does not rely, and has not relied, on any representation or statement not set forth herein made by the Company with regard to the subject matter, bases or effect of this Agreement or otherwise.

18. Amendment or Modification, Waiver. No provision of this Agreement may be amended or waived unless such amendment or waiver is agreed to in writing, signed by Executive and by a duly authorized officer of the Company. The failure of either party to this Agreement to enforce any of its terms, provisions or covenants will not be construed as a waiver of the same or of the right of such party to enforce the same. Waiver by either party hereto of any breach or default by the other party of any term or provision of this Agreement will not operate as a waiver of any other breach or default.

19. Notices. Any notice to be given hereunder will be in writing and will be deemed given when delivered personally, sent by courier or fax or registered or certified mail, postage prepaid, return receipt requested, addressed to the party concerned at the address indicated below or to such other address as such party may subsequently give notice of hereunder in writing:

To Executive at:

John Raven

Mesa, Az.

YP Corp.
Suite 105
4840 East Jasmine Street
Mesa, Arizona 85205-3321
Phone: (480) 860-0011
Fax: (480) 325-1257

To the Company at:

YP Corp.
Suite 105
4840 East Jasmine Street
Mesa, Arizona 85205-3321
Phone: (480) 860-0011
Fax: (480) 325-1257
Attention: Board of Directors

Any notice delivered personally or by courier under this Section will be deemed given on the date delivered. Any notice sent by fax or registered or certified mail, postage prepaid, return receipt requested, will be deemed given on the date faxed or mailed. Each party may change the address to which notices are to be sent by giving notice of such change in conformity with the provisions of this Section. A copy of all notices sent to Executive shall be simultaneously sent to Phillips Nizer LLP, 666 Fifth Avenue, New York, NY 10103-0084; attention: David H. Chidekel, Esq.

20. Severability. In the event that any one or more of the provisions of this Agreement will be held to be invalid, illegal or unenforceable, the validity, legality and enforceability of the remainder of the Agreement will not in any way be affected or impaired thereby. Moreover, if any one or more of the provisions contained in this Agreement will be held to be excessively broad as to duration, activity or subject, such provisions will be construed by limiting and reducing them so as to be enforceable to the maximum extent allowed by applicable law.

21. Survivorship. The respective rights and obligations of the parties hereunder will survive any termination of this Agreement to the extent necessary for the intended preservation of such rights and obligations.

22. Each Party the Drafter. This Agreement and the provisions contained in it will not be construed or interpreted for or against any party to this Agreement because that party drafted or caused that party's legal representative to draft any of its provisions.

23. Governing Law. This Agreement will be governed by and construed in accordance with the laws of the State of Arizona, without regard to its conflicts of laws principles.

24. Headings. All descriptive headings of sections and paragraphs in this Agreement are intended solely for convenience, and no provision of this Agreement is to be construed by reference to the heading of any section or paragraph.

25. Counterparts. This Agreement may be executed in counterparts, each of which will be deemed an original, but all of which together will constitute one and the same instrument.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first written above.

YP CORP., a Nevada corporation	EXECUTIVE
/s/ Peter J. Bergmann	/s/ John Raven
Peter J. Bergmann	John Raven
Chief Executive Officer	

[JOHN RAVEN EMPLOYMENT AGREEMENT]

January 28, 2005

To the Audit Committee of the Board of
Directors of YP Corp.

Gentlemen:

Pursuant to your request we have read the statements contained in Note 2 to the financial statements included in the Form 10-Q of YP Corp. for the three months ended December 31, 2004. As stated in Note 2, the Company changed its method of accounting for forfeitures of restricted stock awards from recognizing such as they occur to a method by which forfeitures are estimated at the time of the award. Additionally, Note 2 states that the Company believes that this is a preferable method as it provides less volatility in expense recognition.

You have requested a letter from us as your Independent Registered Public Accounting Firm that you can file with the Securities and Exchange Commission indicating whether or not we believe the aforementioned change in method of accounting is preferable under your particular circumstances. This letter is submitted to you solely for that purpose.

Based on our reading of the information set forth in the Form 10-Q YP Corp. for the three months ended December 31, 2004, we believe (a) the newly adopted accounting principle is a generally accepted accounting principle (b) the method of accounting for the effect of the change is in conformity with generally accepted accounting principles, (c) the Company has justified the use of the newly adopted accounting principle on the basis that it is preferable as required by Accounting Principles Board Opinion No. 20 and the Company's justification for the change is reasonable, and (d) there are no unusual circumstances such that the selection and application of the newly adopted accounting principle would make the financial statements taken as a whole misleading. We have not examined any financial statements of YP Corp. as of any date or for any period subsequent to September 30, 2004, nor have we audited the information set forth in Note 2 to Form 10-Q of YP Corp. for the three months ended December 31, 2004; accordingly, we do not express an opinion concerning the factual information contained therein.

While there are two methods of accounting for forfeitures of stock based awards that are acceptable under generally accepted accounting principles in accordance with SFAS No. 123 par. 28. We believe that, under your particular circumstances, the aforementioned change is a preferable alternative accounting principle.

Very truly yours,

/s/ EPSTEIN, WEBER & CONOVER. PLC

Exhibit 31

CERTIFICATIONS PURSUANT TO SECTION 302 OF SARBANES-OXLEY

I, Peter J. Bergmann, Chairman, President and Chief Executive Officer of YP Corp., certify that:

1. I have reviewed this Quarterly Report on Form 10-Q 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 registrant'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 registrant 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 registrant, 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 registrant'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 registrant's internal control over financial reporting that occurred during the registrant'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 registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting to the registrant's auditors and the audit committee of the registrant'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 registrant'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 registrant's internal control over financial reporting.

Date: February 10, 2005

/s/ Peter J. Bergmann

Peter J. Bergmann
Chairman, President and Chief Executive Officer

CERTIFICATIONS PURSUANT TO SECTION 302 OF SARBANES-OXLEY

I, W. Chris Broquist, Chief Financial Officer of YP Corp., certify that:

1. I have reviewed this Quarterly Report on Form 10-Q 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 registrant’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 registrant 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 registrant, 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 registrant’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 registrant’s internal control over financial reporting that occurred during the registrant’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 registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting to the registrant’s auditors and the audit committee of the registrant’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 registrant’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 registrant’s internal control over financial reporting.

Date: February 10, 2005

/s/ W. Chris Broquist

W. Chris Broquist
Chief Financial Officer

Exhibit 32

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, Peter J. Bergmann, the Chairman, President, Chief Executive Officer 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-Q for the quarter ended December 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 Quarterly Report on Form 10-Q fairly presents in all material respects the financial condition and results of operations of YP Corp.

Date: February 10, 2005

/s/ Peter J. Bergmann
Peter J. Bergmann
Chairman, President and Chief Executive Officer

I, W. Chris Broquist, the Chief Financial Officer 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-Q for the quarter ended December 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 Quarterly Report on Form 10-Q fairly presents in all material respects the financial condition and results of operations of YP Corp.

Date: February 10, 2005

/s/ W. Chris Broquist
W. Chris Broquist
Chief Financial Officer