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 March 31, 2005

☐ 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	**85-0206668**
(State or Other Jurisdiction of Incorporation or Organization)	(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 May 1, 2005 was 50,869,294 shares of common stock, par value $.001.

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FOR THE QUARTER ENDED MARCH 31, 2005

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

YP CORP. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	March 31, 2005 (unaudited)	September 30, 2004
Assets		
Cash and equivalents	$ 8,201,559	$ 3,576,529
Accounts receivable, net of allowance for doubtful accounts of $1,273,045 and $3,400,575	6,271,276	8,362,283
Prepaid expenses and other current assets	1,180,870	822,919
Income tax refund receivable	-	1,239,436
Deferred tax asset	-	352,379
Total current assets	15,653,705	14,353,546
Accounts receivable, long term portion, net of allowance for doubtful accounts of $85,523 and $269,662	1,836,596	2,075,334
Customer acquisition costs, net of accumulated amortization of $3,977,694 and $5,096,669	2,980,972	4,482,173
Property and equipment, net	579,468	725,936
Deposits and other assets	60,919	239,060
Intangible assets, net of accumulated amortization of $2,849,428 and $2,446,403	3,139,018	3,326,274
Advances to affiliates	4,052,834	3,894,862
Total assets	$ 28,303,512	$ 29,097,185
Liabilities and Stockholders' Equity		
Accounts payable	$ 584,211	$ 1,210,364
Accrued liabilities	413,416	542,481
Income taxes payable	243,497	-
Deferred tax liability	14,988	-
Notes payable- current portion	115,868	115,868
Total current liabilities	1,371,980	1,868,713
Deferred income taxes	408,220	1,116,314
Total liabilities	1,780,200	2,985,027
Commitments and contingencies	-	-
Series E convertible preferred stock, $.001 par value, 200,000 shares authorized, 127,840 and 128,340 issued and outstanding, liquidation preference $38,202	10,866	10,909
Common stock, $.001 par value, 100,000,000 shares authorized, 50,254,294 and 50,071,302 issued and outstanding	50,254	50,071
Paid in capital	10,131,250	11,375,384
Deferred stock compensation	(3,965,108)	(5,742,814)
Retained earnings	20,296,050	20,418,608
Total stockholders' equity	26,523,312	26,112,158
Total liabilities and stockholders' equity	$ 28,303,512	$ 29,097,185

See accompanying notes to consolidated financial statements.

YP CORP. AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended March 31,		Six Months Ended March 31,	
	2005	2004	2005	2004
Net revenues	$ 6,444,609	$ 16,367,853	$ 12,634,764	$ 30,207,820
Cost of services	860,933	6,600,782	1,995,517	11,482,984
Gross profit	5,583,676	9,767,071	10,639,247	18,724,836
Operating expenses:				
General and administrative expenses	3,181,644	3,107,522	6,566,495	5,871,265
Sales and marketing expenses	1,720,034	1,445,965	3,330,527	2,736,345
Depreciation and amortization	298,192	199,719	593,879	395,912
Total operating expenses	5,199,870	4,753,206	10,490,901	9,003,522
Operating income	383,806	5,013,865	148,346	9,721,314
Other income (expense):				
Interest expense and other financing costs	(4,447)	(3,795)	(8,610)	(7,667)
Interest income	91,650	82,340	176,762	157,365
Other income	21,088	71,395	107,453	346,153
Total other income (expense)	108,291	149,940	275,605	495,851
Income before income taxes and cumulative effect of accounting change	492,097	5,163,805	423,951	10,217,165
Income tax benefit (provision)	(193,817)	(1,815,206)	(176,447)	(3,583,881)
Income before cumulative effect of accounting change	298,280	3,348,599	247,504	6,633,284
Cumulative effect of accounting change (net of income taxes of $53,764 in 2004)	-	-	99,848	-
Net income	$ 298,280	$ 3,348,599	$ 347,352	$ 6,633,284
Net income per common share:				
Basic:				
Income applicable to common stock before cumulative effect of accounting change	$ 0.01	$ 0.07	$ 0.01	$ 0.14
Cumulative effect of accounting change	$ -	$ -	$ 0.00	$ -
Net income applicable to common stock	$ 0.01	$ 0.07	$ 0.01	$ 0.14
Diluted:				
Income applicable to common stock before cumulative effect of accounting change	$ 0.01	$ 0.07	$ 0.01	$ 0.14
Cumulative effect of accounting change	$ -	$ -	$ 0.00	$ -
Net income applicable to common stock	$ 0.01	$ 0.07	$ 0.01	$ 0.14
Weighted average common shares outstanding:				
Basic	46,749,794	46,946,458	46,749,544	46,904,402
Diluted	46,825,577	48,145,140	46,901,954	47,640,118

See accompanying notes to consolidated financial statements.

YP CORP. AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended March 31,	
	2005	**2004**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 347,352	$ 6,633,284
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	593,878	395,912
Amortization of deferred stock compensation	567,599	503,071
Issuance of common stock as compensation for services	119,500	-
Cumulative effect of accounting change	(99,848)	-
Deferred income taxes	(394,491)	37,962
Loss on disposal of equipment	-	36,932
Provision for uncollectible accounts	(16,220)	-
Changes in assets and liabilities:		
Accounts receivable	2,345,965	(5,801,351)
Customer acquisition costs	1,501,201	(502,547)
Prepaid and other current assets	(357,951)	(152,539)
Deposits and other assets	178,141	35,000
Accounts payable	(626,153)	394,051
Accrued liabilities	(129,065)	(72,743)
Income taxes payable	1,482,933	1,466,113
Advances to affiliates (accrued interest)	(157,972)	-
Net cash provided by operating activities	5,354,869	2,973,145
CASH FLOWS FROM INVESTING ACTIVITIES:		
Advances made to affiliates and related parties	-	(2,725,000)
Expenditures for intangible assets	(215,767)	-
Purchases of equipment	(44,387)	(384,991)
Net cash used for investing activities	(260,154)	(3,109,991)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Series E preferred stock dividends	(960)	-
Common stock dividends	(468,950)	-
Proceeds from conversion of preferred stock	225	-
Net cash used for financing activities	(469,685)	-
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	4,625,030	(136,846)
CASH AND CASH EQUIVALENTS, beginning of period	3,576,529	2,378,848
CASH AND CASH EQUIVALENTS, end of period	$ 8,201,559	$ 2,242,002

See accompanying notes to consolidated financial statements.

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"). The Company is 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. No material or information contained on these websites is a part of the notes or the quarterly report to which notes are attached. All material intercompany accounts and transactions have been eliminated.

The accompanying unaudited financial statements as of March 31, 2005 and for the three and six months ended March 31, 2005 and 2004, 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 first quarter of fiscal 2006) 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 six months ended March 31, 2005. 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 and six months ended March 31, 2005 was to increase net income by $22,000 and $53,000 (net of income taxes of $13,000 and $31,000), respectively.

The estimated pro forma effects of the accounting change on the Company's results of operations for the three and six months ended March 31, 2004 are as follows:

	Three Months Ended March 31, 2004	Six Months Ended March 31, 2004
As reported:		
Net income	$ 3,349,000	$ 6,633,000
Basic net income per share	$ 0.07	$ 0.14
Diluted net income per share	$ 0.07	$ 0.14
Pro forma amounts reflecting the accounting change applied retroactively:		
Net income	$ 3,393,000	$ 6,715,000
Basic net income per share	$ 0.07	$ 0.14
Diluted net income per share	$ 0.07	$ 0.14

3. BALANCE SHEET INFORMATION

Balance sheet information is as follows:

	March 31, 2005		
	Current	Long-Term	Total
Gross accounts receivable	$ 7,544,000	$ 1,922,000	$ 9,466,000
Allowance for doubtful accounts	(1,273,000)	(85,000)	(1,358,000)
Net	$ 6,271,000	$ 1,837,000	$ 8,108,000

	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:

	March 31, 2005	September 30, 2004
Allowance for dilution and fees on amounts due from billing aggregators	$ 1,067,000	$ 2,978,000
Allowance for customer refunds	291,000	638,000
Other allowances	-	55,000
	$ 1,358,000	$ 3,671,000

Property and equipment consists of the following:

	March 31, 2005	September 30, 2004
Leasehold improvements	$ 439,000	$ 439,000
Furnishings and fixtures	298,000	298,000
Office, computer equipment and other	1,038,000	993,000
Total	1,775,000	1,730,000
Less accumulated depreciation	(1,195,000)	(1,004,000)
Property and equipment, net	$ 580,000	$ 726,000

4. COMMITMENTS AND CONTINGENCIES

At March 31, 2005, future minimum annual lease payments under operating lease agreements for fiscal years ended September 30 are as follows:

Remainder of Fiscal 2005	$ 220,000
Fiscal 2006	326,000
Fiscal 2007	19,000
Thereafter	-
Total	$ 565,000

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 granted 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.

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 its common stockholders, subject to applicable law and certain restrictions with respect to the Company's liquidity. The quarterly dividend associated with the second quarter of fiscal 2005 was declared and paid in April 2005 and, therefore, was not accounted for in the three months ended March 31, 2005.

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 at that time and through which each entities' support staff provided executive management services to the Company. 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 paid 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 has been 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 Advanced Internet Marketing, Inc., 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 has been allocated to non-compete agreements, as paid. See Note 6.

5. NET INCOME PER SHARE

Net income per share is calculated using the weighted average number of shares of common stock outstanding during the year. Preferred stock dividends are subtracted from net income to determine the amount available to common stockholders.

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

	Three Months Ended March 31, 2005	Three Months Ended March 31, 2004	Six Months Ended March 31, 2005	Six Months Ended March 31, 2004
Income before cumulative effect of accounting change	$ 298,000	$ 3,349,000	$ 248,000	$ 6,633,000
Less: preferred stock dividends	-	-	(1,000)	(1,000)
Income applicable to common stock before cumulative effect of accounting change	298,000	3,349,000	247,000	6,632,000
Cumulative effect of accounting change	-	-	100,000	-
Net income applicable to common stock	$ 298,000	$ 3,349,000	$ 347,000	$ 6,632,000
Basic weighted average common shares outstanding	46,749,794	46,946,458	46,749,544	46,904,402
Add incremental shares for:				
Unvested restricted stock	3,795	990,886	73,021	608,739
Series E convertible preferred stock	71,988	-	79,389	-
Outstanding warrants	-	207,796	-	126,977
Diluted weighted average common shares outstanding	46,825,577	48,145,140	46,901,954	47,640,118
Net income per share:				
Basic:				
Income applicable to common stock before cumulative effect of accounting change	$ 0.01	$ 0.07	$ 0.01	$ 0.14
Cumulative effect of accounting change	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Net income applicable to common stock	$ 0.01	$ 0.07	$ 0.01	$ 0.14
Diluted:				
Income applicable to common stock before cumulative effect of accounting change	$ 0.01	$ 0.07	$ 0.01	$ 0.14
Cumulative effect of accounting change	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Net income applicable to common stock	$ 0.01	$ 0.07	$ 0.01	$ 0.14

The following potentially dilutive securities were excluded from the calculation of net income per share because the effects are antidilutive:

	Three Months Ended March 31, 2005	Three Months Ended March 31, 2004	Six Months Ended March 31, 2005	Six Months Ended March 31, 2004
Warrants to purchase shares of common stock	500,000	500,000	500,000	500,000
Shares of non-vested restricted stock	2,920,831	-	1,978,591	5,011
	3,420,831	500,000	2,478,591	505,011

6. RELATED PARTY TRANSACTIONS

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 March 31, 2005. The following table includes the compensation paid to these entities during the three months ended March 31, 2005 and the amounts remaining to be paid as of March 31, 2005, pursuant to the termination agreements between the Company and the former officers' respective entities.

	Payments Under Termination Agreements for the Quarter Ended March 31, 2005	Remaining Termination Payments as of March 31, 2005
Sunbelt Financial Concepts	$ 53,000	$ 550,000
Advertising Management & Consulting Services, Inc.	32,000	371,000
Advanced Internet Marketing, Inc.	95,000	208,000
MAR & Associates	20,000	-
	$ 200,000	$ 1,129,000

7. CONCENTRATION OF CREDIT RISK

The Company maintains cash balances at major nationwide institutions in Arizona and Nevada. Accounts are insured by the Federal Deposit Insurance Corporation up to $100,000. At March 31, 2005, the Company had bank balances exceeding those insured limits of approximately $7,897,000.

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 March 31, 2005 was $6,508,000, net of an allowance for doubtful accounts of $698,000. The net receivable from that billing services provider at March 31, 2005, represents approximately 80% of the Company's total net accounts receivable at March 31, 2005.

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.

9. SUBSEQUENT EVENTS

On April 1, 2005, the Company and Morris & Miller, Ltd. and Matthew and Markson, Ltd., (together, the "Shareholders") entered into a Transfer and Repayment Agreement (the "Agreement"). Under the Agreement, the Shareholders satisfied their outstanding debt obligations to the Company (reflected as Advances to Affiliates in the accompanying Consolidated Balance Sheet) as follows:

- The Shareholders agreed to surrender and deliver to the Company 1,889,566 shares of its common stock previously owned by the Shareholders;

- The Shareholders forgave $115,865 of debt owed by the Company to the Shareholders;

- The Shareholders released any liens they previously had on any shares of the Company's common stock;

- The Shareholders assigned certain intellectual property to the Company; and

- The Shareholders agreed to a non-compete and non-solicitation agreement whereby the Shareholders and their affiliates agree not to compete with the Company or solicit any customers for a period of five years.

The Company expects this transaction to result in a non-cash charge to its earnings for the third fiscal quarter ended June 30, 2005 equal to the difference between the $3,895,000 of debt forgiven and the value of the consideration received. As the fair value of the intellectual property and non-compete and non-solicitation agreement has not been determined, the exact amount of the charge is currently unknown. However, the Company expects the charge to be between $1.7 million and $2.2 million.

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 and six months ended March 31, 2005, 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 our (i) assertion that there is an expectation of tremendous growth in online advertising; (ii) expectation that our adoption of the provisions of SFAS 123R in the first quarter of fiscal 2006 on a prospective basis will not have a material effect on its financial condition or results of operations; (iii) expectation that our revenues, paying customer count and profitability will continue to grow in the second half of fiscal 2005 as we continue to migrate customers to alternative billing channels, attract new customers through marketing initiatives and engage in cost containment activities; and (iv) expectation that cost of services to continue to be directly correlated to our usage of LEC billing channel

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

Changes in Billing Practices

Until late 2004, we billed most of our customers directly through their monthly phone bill (referred to as LEC billing). As discussed in recent SEC filings, our revenues have been negatively impacted by recent changes in LEC billing practices, which require us to perform additional procedures to confirm new and existing customers before we are allowed to bill via certain local telephone companies. There has also been an increasing presence of Competitive Local Exchange Carriers, or CLECs, in the local telephone market. If an advertiser changes its telephone service from a LEC to a CLEC, we are no longer able to utilize LEC billing channels to bill for services. Therefore we must discontinue revenue recognition until an acceptable alternate billing method can be implemented.

During the fiscal quarter ended March 31, 2005, we continued to deal with the impacts of the billing issues. As a result, we have made strides to reduce our dependence on LEC billing and have identified effective alternative methods of billing our customers. We have migrated a substantial portion of our customers to automated clearing house, or ACH, billing, which 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 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 recent fiscal quarters:

	Q2 2005	**Q1 2005**	**Q4 2004**	**Q3 2004**	**Q2 2004**
LEC billing	26%	49%	67%	92%	98%
ACH billing	56%	42%	30%	6%	1%
Direct billing	18%	9%	3%	2%	1%

Recent Financial Results

The following represents a summary of recent financial results:

	Q2 2005	**Q1 2005**	**Q4 2004**	**Q3 2004**	**Q2 2004**
Revenues	$6,444,609	$6,190,155	$10,069,924	$16,890,361	$16,367,853
Gross margin	5,583,676	5,055,571	4,990,492	8,695,098	9,874,452
Operating expenses	(5,199,870)	(5,291,031)	(5,518,453)	(5,213,413)	(4,773,053)
Operating income (loss)	383,806	(235,459)	(527,961)	3,481,685	5,101,399
Net income (loss)	298,280	49,072	(311,721)	2,639,420	3,348,599

Our revenues have been adversely affected as we transition from LEC billing to other billing methods. During this transitional period, we have experienced increased customer cancellations and missed billings as we continue to gather the information necessary to convert customers to more desirable billing methods such as ACH billing.

Despite the effects of the transition from LEC billing, we have experienced the following recent positive operating trends:

- Increased revenues by approximately 4% in the second quarter of fiscal 2005.

- Decreased operating expenses over the last two quarters despite incurring an estimated $550,000 of incremental expenses over the last six months associated with the transition from LEC billing to other billing methods. This is a result of proactive measures taken to reduce operating expenses, including personnel reductions, contract renegotiations, and other cost containment measures

- Increased operating income and net income by over $900,000 and $600,000, respectively, over the last two quarters despite a 40% reduction in revenues over the same period.

We expect that our revenues and paying customer count will continue to grow in the second half of fiscal 2005 as we continue to migrate customers to alternative billing channels and to attract new customers through marketing initiatives. We also expect to increase profitability in the second half of fiscal 2005 through revenue growth and continued cost containment activities.

Other

On April 1, 2005, we entered into a Transfer and Repayment Agreement (the "Agreement") with Morris & Miller, Ltd. and Matthew and Markson, Ltd., (together, the "Shareholders"). Under the Agreement, the Shareholders satisfied their outstanding debt obligations to us (reflected as Advances to Affiliates in the accompanying Consolidated Balance Sheet included elsewhere in this report). See the more detailed discussion of this matter in note 9 in the Notes to Unaudited Consolidated Financial Statements.

Results of Operations

Net Revenues

	Net Revenues			
	2005	**2004**	**Change**	**Percent**
Three Months Ended March 31,	$ 6,444,609	$ 16,367,853	$ (9,923,244)	(61)%
Six Months Ended March 31,	$ 12,634,764	$ 30,207,820	$ (17,600,056)	(58)%

The decrease in revenues for the three and six months ended March 31, 2005, as compared to the corresponding periods ending March 31, 2004 was largely due to declines in our paying subscriber base resulting from our LEC billing issues. The following table sets forth our quarter-end paying customer counts:

Q2 2005	Q1 2005	Q4 2004	Q3 2004	Q2 2004	Q1 2004
105,000	95,000	196,000	224,000	265,000	253,000

We have experienced significant customer count declines from the second quarter of 2004 to the first quarter of 2005 as a result of our transition from LEC billing to other billing channels as described in the "Recent Developments" section above. Despite our continued transition away from LEC billing, we increased our paying customer count during the second quarter of 2005 as compared to the first quarter of 2005, resulting in increased revenues.

The price for our IAP product ranges from $17.95 to $29.95 per month.

Cost of Services

	Cost of Services			
	2005	**2004**	**Change**	**Percent**
Three Months Ended March 31,	$ 860,933	$ 6,600,782	$ (5,739,849)	(87)%
Six Months Ended March 31,	$ 1,995,517	$ 11,482,984	$ (9,487,467)	(83)%

The decrease in our cost of services is directly attributable to a reduction in our dilution expense as a result of our transition from LEC billing to alternative billing methods. Billings through LEC channels, which drives a substantial majority of our dilution expense, decreased to 26% of total billings in the second quarter of fiscal 2005 from over 97% of total billings in the second quarter of fiscal 2004. A significant portion of these customers were converted to ACH and direct billing methods, which have minimal dilution. We expect cost of services to continue to be directly correlated to our usage of LEC billing channels.

Gross Profit

	Gross Profit			
	2005	2004	Change	Percent
Three Months Ended March 31,	$ 5,583,676	$ 9,767,071	$ (4,183,395)	(43)%
Six Months Ended March 31,	$ 10,639,247	$ 18,724,836	$ (8,085,589)	(43)%

The decrease in our gross profits was due to decreased revenues resulting from the previously mentioned decrease in paying IAP advertisers, offset in part by the decreased dilution as discussed above. Gross margins increased to 86.6% and 84.2% of net revenues in the second quarter and first half of fiscal 2005, respectively, compared to 59.7% and 62.0% of net revenues in the second quarter and first half of fiscal 2004, respectively, due to decreased dilution in fiscal 2005.

General and Administrative Expenses

	General and Administrative Expenses			
	2005	2004	Change	Percent
Three Months Ended March 31,	$ 3,181,644	$ 3,107,522	$ 74,122	2%
Six Months Ended March 31,	$ 6,566,495	$ 5,871,265	$ 695,230	12%

General and administrative expenses were largely consistent for the second quarter of fiscal years 2005 and 2004; however, there were changes to certain components of such expenses. During the second quarter of fiscal 2005, as compared to the second quarter of fiscal 2004, we experienced increased costs of approximately $230,000 associated with our efforts to reconfirm our existing subscriber base, and increased mailing and customer-related expenses of approximately $335,000 for expenses related to ACH notices, paper invoices, and other customer mailings associated with the conversion of many of our customers from LEC billing to other billing methods. These increases were offset by decreased legal costs associated with the conclusion of several outstanding legal matters in fiscal 2004, and general expense reductions associated with cost-containment initiatives. General and administrative expenses for the first six months of fiscal 2005 were higher than the first six months of fiscal 2004 due to costs associated with reconfirming existing customers and increased mailing and customer-related expense previously described.

Our general and administrative expenses consist largely of fixed expenses such as compensation, rent, utilities, etc. Therefore, we do not consider short-term trends of general and administrative expenses as a percent of revenues to be meaningful indicators for evaluating operational performance.

We have been successful in reducing our general and administrative expenses, despite incurring significant costs associated with the transition from LEC billing to acceptable alternate billing methods. The following table sets forth our recent operating performance for general and administrative expenses:

	Q2 2005	Q1 2005	Q4 2004	Q3 2004	Q2 2004
Reconfirmation, mailing, billing and other customer-related costs	$635,624	$309,592	$ 132,390	$244,324	$ 67,511
Compensation for employees, consultants, officers and directors	1,937,592	2,265,863	2,458,735	2,029,536	2,006,719
Other G&A costs	608,428	809,396	950,677	1,029,252	945,758

Sales and Marketing Expenses

	Sales and Marketing Expenses			
	2005	2004	Change	Percent
Three Months Ended March 31,	$ 1,720,034	$ 1,445,965	$ 274,069	19%
Six Months Ended March 31,	$ 3,330,527	$ 2,736,345	$ 594,182	22%

The primary reason for the increase in sales and marketing expenses is increased expenditures for brand awareness as we attempt to increase traffic to our website. Branding expenses include radio and Internet advertising and fees paid to redirect traffic from other websites.

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 resulted in our sales and marketing expenses increasing as a percentage of revenues to 26.7% for the second quarter of fiscal 2005 compared to 8.8% for the second quarter of fiscal 2004.

Depreciation and Amortization

	Depreciation and Amortization			
	2005	2004	Change	Percent
Three Months Ended March 31,	$ 298,192	$ 199,719	$ 98,473	49%
Six Months Ended March 31,	$ 593,879	$ 395,912	$ 197,967	50%

The increase in depreciation and amortization expense 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 and 2005. Amortization relating to the capitalization of our direct mail marketing costs is included in marketing expenses, as discussed previously.

Operating Income

	Operating Income			
	2005	2004	Change	Percent
Three Months Ended March 31,	$ 383,806	$ 5,013,865	$ (4,630,059)	(92)%
Six Months Ended March 31,	$ 148,346	$ 9,721,314	$ (9,572,968)	(98)%

Operating income experienced substantial decline due primarily to revenue declines previously described. However, we have returned to profitability in the second quarter of fiscal 2005 and we expect to continue increasing our operating income in the second half of fiscal 2005.

Other Income

	Other Income			
	2005	2004	Change	Percent
Three Months Ended March 31,	$ 21,088	$ 71,395	$ (50,307)	(70)%
Six Months Ended March 31,	$ 107,453	$ 346,153	$ (238,700)	(69)%

Other income decreased 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.

Income Tax Provision

	Income Tax Provision			
	2005	2004	Change	Percent
Three Months Ended March 31,	$ (193,817)	$ (1,815,206)	$ 1,621,389	(89)%
Six Months Ended March 31,	$ (176,447)	$ (3,583,881)	$ 3,407,434	(95)%

The decrease in our income tax provision for the second quarter and first half of fiscal 2005 as compared to fiscal 2004 is due almost entirely to our decrease in profitability.

Cumulative Effect of Accounting Change

	Cumulative Effect of Accounting Change			
	2005	2004	Change	Percent
Three Months Ended March 31,	$ -	$ -	$ -	0%
Six Months Ended March 31,	$ 99,848	$ -	$ 99,848	100%

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 that are ultimately expected to vest. 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 first quarter of fiscal 2006) 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

	Net Income			
	2005	2004	Change	Percent
Three Months Ended March 31,	$ 298,280	$ 3,348,599	$ (3,050,319)	(91)%
Six Months Ended March 31,	$ 347,352	$ 6,633,284	$ (6,285,932)	(95)%

Net income for the second quarter and first half of fiscal 2005, as compared to the corresponding periods for fiscal 2004, decreased due primarily to decreased revenues. As a percentage of revenues, net income was 4.6% and 2.8% for the second quarter and first half of fiscal 2005, respectively, as compared to 20.4% and 21.9% for the second quarter and first half of fiscal 2004, respectively. As a significant portion of our expenses are fixed, our profitability margins are negatively impacted by declines in revenue.

Liquidity and Capital Resources

Net cash provided by operating activities increased $2,381,724 or 80.1%, to $5,354,869 for the six months ended March 31, 2005 compared to $2,973,145 for the six months ended March 31, 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 first half of 2005 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. Additionally, approximately 80% of our accounts receivable are due from one of the Company’s aggregators.

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 $260,154 for the first half of fiscal 2005 and consisted of minor purchases of equipment and expenditures for intangible assets. During the first half of fiscal 2004, cash used for investing activities was $3,109,991, of which the primary component was advances to affiliates of $2,725,000.

Net cash flows from financing activities for the first half of fiscal 2005 consisted primarily of payments of common stock dividends of $468,950. There were no financing cash flows for the first half of fiscal 2004.

We had working capital of $14,281,725 as of March 31, 2005, 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 non-cash expenses, such as amortization of customer acquisition costs and deferred stock compensation, which allows us to continue to grow our cash and working capital.

We maintain a $1,000,000 credit facility with Merrill Lynch Business Financial Services, Inc. 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 1% of the committed amount. 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 March 31, 2005. The line is in process of being renewed for an additional one-year period. The Company has received verbal approval of the renewal and is awaiting updated documentation.

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 March 31, 2005, we were in compliance with the covenants and are able to fully draw on the credit facility.

We are contractually obligated to pay 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 second fiscal quarter of 2005 was declared and paid in April 2005 and, therefore, was not accounted for in the three months ended March 31, 2005.

Although our revenues have recently declined and we have only been slightly profitable for the first half 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 use existing billing methods would 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, causing significant revenue declines from the third quarter of fiscal 2004 to the first quarter of fiscal 2005. While we have transitioned most of our existing customers to alternative billing methods, such as ACH billing, we continue to utilize LEC billing for approximately 26% of our customers. We bill the majority of our customers through ACH billing.

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. Additionally, if the restrictions imposed on us by certain LECs become more widespread, we could further lose the ability to utilize LEC billing. If any of these events occur or, alternatively, if changes in regulations regarding ACH billing limit our use of that billing method, our 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. We cannot provide any assurances that our efforts to transition such customers to alternative billing methods 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.

We face a concentration of credit risk with respect to our billing service providers.

Currently, we utilize multiple vendors for both LEC and ACH billing; however, one service provider handles a substantial majority of our LEC billing activity. If this vendor discontinued providing services to us, we could face missed billings and lost revenue which would adversely affect our ability to meet our existing financial obligations. Moreover, over 80% of our existing outstanding receivables are due from this service provider. If this vendor were to face financial difficulty, our financial position would be materially impacted.

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 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.

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, 2006, 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, 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, 2006 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, 2006 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.

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 March 31, 2005, 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 six 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-Q, 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-Q, 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-Q, 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

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

Exhibit Number	Description
10	Form of Restricted Stock Agreement under 2003 Stock Plan
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

SIGNATURES

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

YP.CORP.

Dated: May 16, 2005

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

EXHIBIT INDEX

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YP CORP.
2003 STOCK PLAN
RESTRICTED STOCK AGREEMENT

This Restricted Stock Agreement (the "Agreement") is entered into between YP Corp., a Nevada corporation (the "Company"), and _____________, an individual (the "Grantee"), as of _______ __, 200__ ("Date of Grant").

RECITALS

A. The Company has adopted the YP Corp. 2003 Stock Plan ("Plan") to provide an incentive to employees, non-employee service providers and directors of the Company (or a Subsidiary) to attract and retain employees, non-employee service providers and directors whose services are considered unusually valuable by providing those individuals an opportunity to have a proprietary interest in the success of the Company.

B. The Company believes that entering into this Restricted Stock Agreement with the Grantee is consistent with the above stated purposes. Any capitalized term not otherwise defined will have the meaning ascribed to it in the Plan.

NOW, THEREFORE, in consideration of the mutual covenants and conditions in this Agreement and for other good and valuable consideration, the Company and the Grantee agree as follows:

1. GRANT OF STOCK.

Subject to the terms of this Agreement, the Company hereby grants ________ shares of the Company's common stock, $.001 par value (the "Stock") to the Grantee. The delivery of any documents evidencing the Stock granted pursuant to this Agreement shall be subject to the provisions of Section 5 below.

2. RIGHTS OF GRANTEE.

Upon the execution of this Agreement, the Grantee will become a shareholder with respect to all of the Stock granted to him pursuant to Section 1 and will have all of the rights of a shareholder in the Company with respect to all such Stock including the right to vote and receive dividends; provided, however, that such Stock will be subject to the restrictions set forth in this Agreement.

3. RESTRICTIONS ON STOCK SUBJECT TO THIS AGREEMENT.

A. General.

Except as set forth in this Agreement, the Grantee will transfer those shares of Stock for which the restrictions have not lapsed under Section 4 to the Company immediately and without any payment to the Grantee if the Grantee's employment or status as a non-employee service provider or director with the Company (or its Subsidiary) is terminated for any reason. Notwithstanding the foregoing, in the event that Grantee's employment or status as a non-employee service provider or director with the Company (or its Subsidiary) is terminated six months or more after the Date of Grant as a result of Grantee's death or Disability (as defined in the Plan), Grantee or Grantee's beneficiaries, as applicable, will be permitted to retain the Stock subject to the continuing restrictions set forth in this Agreement.

B. Limitations on Transfer.

Unless approved by the Committee or the Board, the Grantee agrees not to sell, transfer, pledge, exchange, hypothecate, or otherwise dispose of any shares of Stock under this Agreement ("Transfer") before the date on which the restrictions on those shares of Stock lapse in accordance with Section 4. Any attempted disposition of the Stock in violation of the preceding sentence will be null and void, and the Company will not recognize or give effect to such transfer on its books and records or recognize the person or persons to whom such proposed transfer has been made as the legal or beneficial owner of the shares of Stock. In the event that a Transfer is approved by the Committee or the Board, the Grantee must, prior to consummating or effecting a Transfer, first obtain the written agreement of the transferee to be bound by the terms of this Agreement as if such transferee were deemed the original "Grantee."

4. LAPSE OF RESTRICTIONS.

A. Schedule.

Subject to the other conditions in this Section 4, the restrictions on the Stock set forth in Section 3 will lapse in accordance with the following schedule, subject to and as adjusted for, in the case of closing prices of the Company's common stock, stock splits, reverse stock splits, combinations, reclassifications and the like:

Date Restriction Lapses (*earlier to occur of the following*)	**Percentage of Stock Becomes Unrestricted**

Notwithstanding the above, if the Grantee's employment or service is terminated for Cause (as defined in the Plan), the Grantee will be required to transfer all shares of Stock set forth in Section 1 (whether or not subject to restrictions set forth in Section 3) back to the Company for no consideration.

B. Condition That Must be Satisfied Before Restrictions Lapse.

The restrictions on the Stock subject to this Agreement will not lapse unless the Grantee is employed by, or is providing services to, the Company (or a Subsidiary) as of the date the restrictions lapse in accordance with the above schedule.

5. SECURITIES ACT.

A. Registration.

The Company will have the right, but not the obligation, to cause the Stock issuable hereunder to be registered under the appropriate rules and regulations of the Securities and Exchange Commission.

B. Condition on Delivery of Stock.

The Company will not be required to deliver any shares of Stock if, in the opinion of counsel for the Company, the issuance would violate the Securities Act of 1933 or any other applicable federal or state securities laws or regulations. The Company may require the Grantee, prior to or after the issuance of any such Stock, to sign and deliver to the Company a written statement ("Investment Letter") in form and content acceptable to the Company in its sole discretion. Grantee agrees (i) that the Grantee is acquiring the Stock for investment and not with a view to the sale or distribution thereof, (ii) that the Grantee will not sell any Stock received hereunder that remains subject to restrictions except with the prior written approval of the Company, and (iii) that Grantee will comply with the Securities Act of 1933 or other applicable federal or state securities laws and regulations.

C. Legend.

If the Stock has not been registered under the Securities Act of 1933 or other applicable federal or state securities laws or regulations, such shares will bear a legend restricting the transferability. The legend will be substantially in the following form:

> "The Stock represented by this certificate have not been registered or qualified under federal or state securities laws. The Stock may not be offered for sale, sold, pledged, or otherwise disposed of unless so registered or qualified, unless an exemption exists or unless such disposition is not subject to the federal or state securities laws, and the availability of any exemption or the inapplicability of such securities laws must be established by an opinion of counsel, which opinion of counsel will be reasonably satisfactory to the Company."

6. REPRESENTATIONS OF GRANTEE.

In connection with Grantee's receipt of the Stock, Grantee hereby represents and warrants to the Company as follows:

A. Further Limitations on Disposition.

Grantee understands and acknowledges that he may not make any disposition, sale, or transfer (including transfer by gift or operation of law) of all or any portion of the Stock except as provided in this Agreement. Moreover, Grantee agrees to make no disposition of all or any portion of the Stock unless and until: (i) there is then in effect a registration statement under the Securities Act of 1933 covering such proposed disposition and such disposition is made in accordance with said Registration Statement; (ii) the resale provisions of Rule 701 or Rule 144 are available in the opinion of counsel to the Company; or (iii)(A) Grantee notifies the Company of the proposed disposition and has furnished the Company with a detailed statement of the circumstances surrounding the proposed disposition, (B) Grantee furnishes the Company with an opinion of Grantee's counsel to the effect that such disposition will not require registration of such Stock under the Securities Act, and (C) such opinion of Grantee's counsel shall have been concurred with by counsel for the Company and the Company shall have advised Grantee of such concurrence.

B. Determination of Fair Market Value.

Grantee understands Fair Market Value of the Stock shall be determined in accordance with Section 3.1(k) of the Plan.

C. Section 83(b) Election.

Grantee understands that Section 83 of the Internal Revenue Code of 1986 (the "Code") taxes as ordinary income the difference between the amount paid for the Stock and the fair market value of the Stock as of the date any restrictions on the Stock lapse. In this context, "restriction" means the restrictions set forth in Section 3. The Grantee understands that he may elect to be taxed at the time the Stock is granted rather than when and as the Stock vests by filing an election under Section 83(b) of the Code with the Internal Revenue Service within 30 days from the Date of Grant. The Grantee understands that failure to make this filing timely will result in the recognition of ordinary income by the Grantee, as the Stock vests, on the Fair Market Value of the Stock at the time such restrictions lapse.

THE GRANTEE ACKNOWLEDGES THAT IT IS THE GRANTEE'S SOLE RESPONSIBILITY AND NOT THE COMPANY'S TO FILE TIMELY THE ELECTION UNDER SECTION 83(b), EVEN IF THE GRANTEE REQUESTS THE COMPANY OR ITS REPRESENTATIVES TO MAKE THIS FILING ON THE GRANTEE'S BEHALF.

7. NONTRANSFERABILITY OF AGREEMENT.

Unless approved by the Committee or the Board, this Agreement will not be transferable by the Grantee during his life other than by will or pursuant to applicable laws of descent and distribution. Unless approved by the Committee or the Board, any rights and privileges of the Grantee will not be transferred, assigned, pledged, or hypothecated by the Grantee, or by any other person or persons, in any way, whether by operation of law, or otherwise, and will not be subject to execution, attachment, garnishment or similar process. In the event of any such occurrence, this Agreement will automatically be terminated and will thereafter be null and void.

8. FEDERAL AND STATE TAXES.

The Grantee may incur certain liabilities for federal, state, or local taxes and the Company may be required by law to withhold taxes. Upon determination of the year in which such taxes are due and the determination by the Company of the amount of taxes required to be withheld, the Grantee shall pay an amount equal to the amount of federal, state, or local taxes required to be withheld to the Company.

9. ADJUSTMENT OF SHARES.

The number of shares of Stock granted to the Grantee pursuant to this Agreement will be proportionately adjusted in the event of any recapitalization, forward or reverse split, reorganization, merger, consolidation, spin-off, combination, repurchase, or share exchange, or other similar corporate transaction or event affecting the Stock all as set forth in Article 11 of the Plan.

10. AMENDMENT OF THIS AGREEMENT.

This Agreement may only be amended with the written approval of the Grantee and the Company.

11. GOVERNING LAW.

This Agreement shall be governed in all respects, whether as to validity, construction, capacity, performance, or otherwise, by the laws of the State of Arizona.

12. SEVERABILITY.

In the event that a court of competent jurisdiction determines that any portion of this Agreement is in violation of any statute or public policy, then only the portions of this Agreement which violate such statute or public policy shall be stricken. All portions of this Agreement which do not violate any statute or public policy shall continue in full force and effect. Further, any court order striking any portion of this Agreement shall modify the stricken terms as narrowly as possible to give as much effect as possible to the intentions of the parties under this Agreement.

IN WITNESS WHEREOF, the Company has caused this Agreement to be executed by its duly authorized representative and Grantee has signed this Agreement as of the day and year first written above.

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: May 16, 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: May 16, 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 March 31, 2005 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: May 16, 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 March 31, 2005 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: May 16, 2005

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