YP CORP
Form 10KSB/A
December 01, 2005

U.S. SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-KSB/A
(Amendment No. 2)

(Mark one)
x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE
SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended September 30, 2000

¨ TRANSITION REPORT UNDER SECTION 13 OR 15 (d)
OF THE
SECURITIES EXCHANGE ACT OF 1934
For the Transition period from ____________ to ____________

Commission File Number: 0-24217

YP CORP.
(Name of Small Business Issuer in its Charter)

NEVADA (State or other jurisdiction of incorporation or organization)	85-0206668 (IRS Employer Identification No.)
4840 EAST JASMINE STREET, SUITE 105, MESA, ARIZONA (Address of principal executive offices)	85205 (Zip Code)

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

Securities registered under Section 12(b) of the Exchange Act: NONE

Securities registered under Section 12(g) of the Exchange Act:

COMMON STOCK, $.001 PAR VALUE
(Title of Class)

YP.NET, INC.
(Former Name)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨.

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB ¨.

Registrant's revenues for its most recent fiscal year were $15,836,422.

The aggregate market value of the common stock held by non-affiliates computed based on the closing price of such stock on December 31, 2000 was approximately $8,704,667.

The number of shares outstanding of the registrant's classes of common stock, as of December 31, 2000 was 41,450,798.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement to be filed with the Commission in connection with registrant's annual meeting to be held in May 1, 2001 are incorporated by reference in Part III of this Form 10-KSB.

Transitional Small Business Disclosure Format: Yes ¨ No x

EXPLANATORY NOTE

This Amendment on Form 10-KSB/A (this “Amendment”), amends the Annual Report on Form 10-KSB for the year ended September 30, 2000, as originally filed by YP Corp. on January 16, 2001 (the “Original Filing”), and as amended by Amendment No. 1 on Form 10-KSB/A filed on August 16, 2001, solely for the purpose of revising Part II, Items 6 and 7, to amend and restate the disclosure with respect to our accounting for shares issued to, and subsequently recovered from, certain non-performing consultants during 1999 and 2000. The historical financial statements generated by predecessor management reflected an expense upon issuance of the shares and a reversal of this expense when it was deemed (through a settlement agreement or judgment) that these shares would be returned. However, after further analysis and consultation with the Securities and Exchange Commission, it was determined to be inappropriate to recognize the initial expense and its subsequent reversal as no services were rendered by these consultants. Instead, the issuance of these shares will be reflected as temporary equity, together with a related receivable, until the shares were returned. The net decrease to cumulative after-tax income of approximately $510,000 relates to shares issued in 1999 that were expected to be returned but, for various reasons, cannot be obtained. Such amounts will continue to be reflected as expense in the year granted and our revised statements will no longer reflect the reversal of this expense.

In addition, in connection with the filing of this Amendment and pursuant to the rules of the Securities and Exchange Commission, we are including with this Amendment a currently dated consent of our independent public accountants and certain currently dated certifications.

Except as described above, no other changes have been made to the Original Filing. This Amendment continues to speak as of the date of the Original Filing, and, except a specifically stated herein, we have not updated the disclosures contained in this Amendment to reflect any events that occurred at a date subsequent to the filing of the Original Filing. The filing of this Form 10-KSB/A is not a representation that any statements contained in items of the Original Filing other than that information being amended are true or complete as of any date subsequent to the date of the Original Filing. The filing of this Form 10-KSB/A shall not be deemed an admission that the Original Filing or the amendments made thereto, when made, included any untrue statement of a material fact or omitted to state a material fact necessary to make a statement not misleading.

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PART II

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS

Certain statements in this report are forward-looking statements that involve risks and uncertainties. Several factors could cause actual results to differ materially from those described in such forward-looking statements. These include our ability to manage growth, involvement in litigation, competition in the advertising market, ongoing contractual relationships, dependence upon key personnel, changes in customer attrition and the adoption of new, or changes in, accounting policies or practices and estimates and the application of such policies, practices and estimates, and federal and state governmental regulation, specifically in the areas of Internet advertising products and services.

OVERVIEW

We provide Internet-based yellow page listing services on our Yellow-Page.Net and yp.net Web sites. We acquired Telco Billing, Inc. in June 1999, and as a result of this acquisition changed our primary business focus to become an electronic yellow page listing service. Our Web sites serve as a search engine for yellow page listings in the United States and Canada. We charge our customers for a preferred listing of their businesses on searches conducted by consumers through our Web sites.

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

From March 1999 to February 2000, all former officers resigned or were removed. During this same period, all but one of the former directors resigned. On February 3, 2000 a new Board of Directors was constituted. The current Board members are Angelo Tullo, Walter Vogel, Daniel L. Coury, Sr., Wallace Olsen, Jr., DeVal Johnson, Gregory B. Crane and Harold A. Roberts. This change was initiated in part by changes in core business endeavors and strategies resulting from the acquisition of Telco and our focus on the Internet electronic yellow page advertising business and due to a lack of confidence in former management's ability to successfully operate this business.

YP.Net was originally incorporated in Nevada in 1996 as Renaissance Center, Inc. Renaissance Center and Nuclear Corporation merged in 1997. Our articles of incorporation were restated in July 1997 and our name was changed to Renaissance International Group, Ltd. Our name was later changed to RIGL Corporation in July 1998. With the acquisition of Telco and shift of the focus of our business, our corporate name was again changed to YP.Net, Inc., effective October 1, 1999. The new name was chosen to reflect our focus on our Internet-based yellow page services.

FISCAL 2000 OPERATIONS

We utilized direct mailings as our primary marketing program. At October 1, 1999, we had 103,133 customers subscribing to our services. Our subscribing customers increased to 114,409 at December 31, 1999, 129,457 at March 31, 2000, 143,292 at June 30, 2000 and 130,592 at September 30, 2000, a 21% increase for the fiscal year. We believe the increase in our customer base for these periods was primarily a result of our marketing efforts. The FTC filed a temporary restraining order on YP.Net and 12 days later the order was lifted and we began our negotiations with the FTC to settle the matter. The FTC did not ban us from sending any direct mail solicitations however, it was managements' decision to not send any new direct mailers to new customers until the mail solicitation piece had been reviewed and approved by the FTC. We have been in negotiations on the design and contents of the mailer piece and we anticipate that a final order from the FTC is possible within the next 60 days. In Fiscal 2001 we intend to send out direct mail solicitations designed and approved by the FTC and will continue our marketing efforts and growth of our customer base. In March 2000, we implemented a customer contact program to attempt to increase our customer satisfaction and decrease customer attrition. We believe that this program has and will continue to provide these results. In the upcoming fiscal year we will continue our customer contact program to develop and market new products to our existing customer base.

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On December 6, 1999, prior management entered into an engagement with McGladry & Pullen, LLP ("M&P") to conduct the audit of our financial statements for the fiscal year ended September 30, 1999. M&P estimated the cost to prepare the fiscal year end audit to be from $75,000 to $150,000 with an estimated completion date of January 28, 2000. We incurred and paid audit fees of $150,000 in the three months ended March 31, 2000 in addition to the $150,000 incurred and paid in the previous three month period. In January 2000, M&P informed management that the estimated cost to complete the audit would be an additional $200,000. In February 2000, after the new Board of Directors was appointed, M&P was dismissed as our auditors. The Board of Directors appointed a new independent auditor, King, Weber & Associates, P.C.

During the third quarter ended June 30, 2000 and fourth quarter ended September 30, 2000 our expenditures for legal fees were substantially increased for due to the FTC orders and negotiations, and the additional expenditures to become current with the SEC filings that were previously delinquent. Management expects the legal expenditures for those periods to not reoccur.

The cost of the Yellow-Page.Net URL was capitalized at its cost of $5,000,000. The URL is amortized on an accelerated basis over the twenty-year term of the licensing agreement. Amortization expense on the URL was $149,166 for the year ended September 30, 1999. Annual amortization expense in future years related to the URL is anticipated to be approximately $250,000.

RESULTS OF OPERATIONS

The acquisition of Telco was treated as a reverse merger for financial accounting purposes. As a result of being treated as a reverse merger, Telco was deemed to be the acquiring entity. For financial accounting purposes, Telco was considered to have engaged in a recapitalization and acquired the assets of RIGL as of June, 1999. As a result of this treatment, the financial statements for the year ended September 30, 1999 are the historic statements of Telco with the operations of "old" RIGL being included from June, 1999 forward. The financial statements for the fiscal year ended September 30, 2000 include operations of both YP.Net and Telco for the entire period.

Fiscal Year End September 30, 2000 Compared to Fiscal Year End September 30, 1999.

Revenues for the year ended September 30, 2000 ("Fiscal 2000") increased 84% to $15,836,422 from $8,572,185 during the year ended September 30, 1999 ("Fiscal 1999"). The increase in revenue is principally the result of Telco's operations for the full fiscal period. Prior to the acquisition, no material operations had been commenced.

Sales and marketing expenses for Fiscal 2000 were $1,619,113 as compared to $2,613,338 for the Fiscal 1999. The increase was principally the result of expended marketing due to the operations of Telco. The marketing expenses are attributed to our direct response marketing, which is our primary source of attracting new customers.

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General and administrative expenses for Fiscal 2000 was $4,804,710 as compared to $1,731,209 for Fiscal 1999. The increase was principally the result of billing fees due to the operations of Telco and the increase in consulting fees, legal fees, and accounting fees. The general expenses are attributed to the additional costs to become current on our SEC filings and substantial legal fees to negotiate with the FTC.

Interest expense for Fiscal 2000 was $853,761 compared to $410,319 for Fiscal 1999. The increase in interest expense was a result of increased debt due to the acquisition of Telco and the acquisition of the URL Yellow-Page.Net.

At Fiscal 2000 we had unused Federal net operating losses of $2,296,723 available under Internal Revenue Code 382 - change in control rules expiring from 2011 through 2014. The Company has no available net operating loss carryforwards under the separate return limitation year and has unavailable net operating loss carryforwards of $2,296,723. The Company may utilize the unavailable net operating loss carryforwards of $2,296,723 upon generating taxable income in YP.Net, Inc rather than in the company's wholly owned subsidiary Telco Billing, Inc.

Net profits for Fiscal 2000 were $3,436,127, or $.09 per share, compared to losses of $3,262,598, or ($.15) per share for Fiscal 1999.

LIQUIDITY AND CAPITAL RESOURCES

Our cash balance decreased to $219,613 at Fiscal 2000 from a $255,324 at Fiscal 1999. We funded working capital requirements primarily from cash generated from financing activities and utilized cash in operating activities and investing activities and the reduction of debt. We have a credit facility used primarily to finance our receivables.

Operating Activities. Cash provided by operating activities increased for Fiscal 2000 to $960,303 compared to cash used by operating activities of $691,780 from Fiscal 1999, a 172% increase. The principal source of our operations revenue is from sales of electronic yellow page advertising.

Investing Activities. Cash used by investing activities was $211,803 for Fiscal 2000 compared to $106,512 for Fiscal 1999. We purchased $211,803 of additional computer equipment to upgrade and replace incompatible equipment for Fiscal 2000 compared to $203,662 for Fiscal 1999. We used $3,000,000 for partial payment of the purchase of the 20-year license right to the URL Yellow-Page.Net, the domain name for our Web site. We obtained cash in the amount of $3,124,150, which was utilized in the business combination.

Financing Activities. Cash flows used from financing activities were $784,211 in Fiscal 2000 compared to cash flow provided from financing activities of $1,023,364 for Fiscal 1999, a 123% increase. We had cash inflow from the financing arrangements in the amount of $789,241 for Fiscal 2000 compared to $788,306 for Fiscal 1999 and from the sale of common stock of $84,329 for Fiscal 2000 compared to $629,681 for Fiscal 1999. We had cash outflow for notes paid in the amount of $1,657,781 for Fiscal 2000 compared to $394,623 for Fiscal 1999.

We incurred debt in the acquisition of the license right to the Yellow-Page.Net URL. A total of $4,000,000 was borrowed, $2,000,000 from Joseph and Helen VanSickle and $2,000,000 as a carry-back from Matthew & Markson Ltd. Management has dedicated payments in the amount of $100,000 per month for the payment of the VanSickle note. Management has also dedicated payments to the Matthew & Markson note in the amount of $100,000 per month, with the provision that no payment be made if YP.Net has less than 30 days operating capital reserved, or if it is in an uncured default with any of its lenders. A total of 4,500,000 shares were issued to secure these notes and are held in escrow.

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Collections on accounts receivables are received primarily through the billing service integrators under contract to administer this billing and collection process. The billing service providers generally do not remit funds until they are collected. The billing companies maintain holdbacks for refunds and other uncertainties. Generally, cash is collected and remitted to YP.Net over a 90 to 120 day period subsequent to the billing dates.

YP.Net markets it products primarily through the use of direct mailers to businesses throughout the United States. YP.Net generally pays for these marketing costs when incurred and amortizes the costs of direct-response advertising on a straight-line basis over eight months. The amortization lives are based on estimated attrition rates. During the Fiscal 2000 YP.Net paid $3,206,576 compared to fiscal 1999, YP.Net paid $2,029,575 for direct-response advertising. Management anticipates the outlays for direct-response advertising to remain consistent over the near term.

YP.Net does not intend to incur significant capital expenditures in the near term.

Financial Institution Lending Agreements. We have an existing asset-based collateralized line of credit with Finova Capital Corporation. Because of certain technical defaults under the terms of the loan agreement, which occurred under prior management, Finova exercised its right to terminate the agreement. We have entered into letter agreements whereby Finova has agreed to forbear the exercise of any of its available remedies through March 3, 2001. Our line of credit has been reduced to $1,400,000 for the period of November 6, 2000, $1,200,000 for the period of December 5, 2000 and $1,000,000 for the period of February 7, 2001. Management is seeking other potential lenders that specialize in financing businesses utilizing LEC billings. We do not anticipate these changes to have an adverse affect on our ability to continue operating at our current levels.

ITEM 7. FINANCIAL STATEMENTS

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and Board
of Directors of YP Corp.:

We have audited the accompanying consolidated balance sheet of YP Corp. and subsidiaries as of September 30, 2000 and the related statements of operations, stockholders' equity and cash flows for the each of the two years in the period then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the auditing standards generally accepted in the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of YP Corp. and subsidiaries as of September 30, 2000, and the consolidated results of its operations and cash flows for each of the two years in the period ended September 30, 2000, in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the Company restated its financial statements for the years ended September 30, 2000 and 1999.

/s/ Epstein, Weber & Conover, PLC
Scottsdale, Arizona
December 20, 2000
(except for the restatement of financial statements
described in Note 1, for which the date is November 18,
2005)

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YP.NET, INC.

CONSOLIDATED BALANCE SHEET
SEPTEMBER 30, 2000

ASSETS:		
CURRENT ASSETS		
Cash	$	219,613
Accounts receivable, net of allowance of $1,796,852		3,705,881
Customer acquisition costs, net of accumulated amortization of $2,975,678		230,898
Prepaid expenses and other assets		99,229
Deferred income taxes		771,382
Total current assets		5,027,003
PROPERTY AND EQUIPMENT, net		502,708
DEPOSITS		13,287
INTELLECTUAL PROPERTY- URL, net of accumulated amortization of $630,833		4,379,167
DEFERRED FINANCING COSTS		21,250
RECEIVABLE - COMMON STOCK TO BE RETURNED		1,689,239
TOTAL ASSETS	$	11,632,654
LIABILITIES AND STOCKHOLDERS' EQUITY:		
CURRENT LIABILITIES:		
Accounts payable	$	103,015
Accrued liabilities		328,128
Line of credit		1,577,547
Notes payable - current portion		2,370,019
Income taxes payable		260,427
Total current liabilities		4,639,136
DEFERRED INCOME TAXES		105,868
Total liabilities		4,745,004
COMMITMENTS AND CONTINGENCIES		-
TEMPORARY EQUITY - Common stock to be returned, 1,525,000 shares issued and outstanding		1,689,239
STOCKHOLDERS' EQUITY:		
Series B preferred stock, $.001 par value, 2,500,000 shares designated, 1,500,000 issued		1,500
Common stock, $.001 par value, 50,000,000 shares authorized, 39,035,464 issued and outstanding		39,036
Paid in capital		4,081,399
Treasury stock at cost		(69,822)

Retained earnings		1,146,298
Total stockholders' equity		5,198,411
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$	11,632,654

The accompanying notes are an integral part of these consolidated financial statements.

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