YP CORP
Form 10-K
December 29, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K
ANNUAL REPORT
PURSUANT TO SECTIONS 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

(Mark one)
T ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended September 30, 2006

£ 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.

(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 Street, Suite 105, Mesa, Arizona	**85205**
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (480) 654-9646

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)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes £ No T

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes £ No T

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 T No £

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not 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-K or any amendment to this Form 10-K £

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer" and "large accelerated filer" in Rule 12b-2 of the Exchange Act.
Large accelerated filer £ Accelerated filer £ Non-accelerated filer T

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes £ No T.

The aggregate market value of the common stock held by non-affiliates computed based on the closing price of such stock on March 31, 2006 was approximately $29,007,749

The number of shares outstanding of the registrant's classes of common stock, as of December 15, 2006, was 50,020,094 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the Registrant's 2007 Annual Meeting of Shareholders are incorporated by reference in Part III of this Form 10-K.

YP CORP.

FORM 10-K
For the year ended September 30, 2006

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PART I

Forward-Looking Statements

Part I of this Annual Report on Form 10-K, includes statements that constitute "forward-looking statements." These forward-looking statements are often characterized by the terms "may," "believes," "projects," "expects," or "anticipates," and not reflect historical facts. Specific forward-looking statements contained in Part I of this Annual Report include, but are not limited to our company's (i) belief that local exchange carrier, or LEC billing, will continue to be a significant billing channel in the future; (ii) with the discontinuance of activation checks, the expectation of increasing our future telemarketing efforts to generate new business; (iii) expectation of increasing revenues through the national accounts programs, fulfillment contracts, web hosting and other arrangements; (iv) expectation that its technologies will increase recurrent use of its system by users of its directory services; (v) belief in the growth of Internet usage and the Internet Yellow Page market as set forth in recent press releases by The Kelsey Group; (vi) belief that existing cash on hand will be sufficient to meet our needs for the next twelve months; and (vii) belief that existing facilities are adequate for its current and anticipated future needs and that its facilities and their contents are adequately covered by insurance.

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 *Item 1A. Risk Factors*, as well as other factors that we are currently unable to identify or quantify, but may exist in the future.

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

ITEM 1. Business

Our Company

YP Corp., a Nevada corporation (the "Company," "we," "us," or "our") is a national Internet Yellow Pages publisher, headquartered in Mesa, Arizona. Through our wholly-owned subsidiary, Telco Billing, Inc., or Telco, located in Las Vegas, Nevada, we publish our Yellow Pages online at or through the following URL's: www.Yellow-Page.Net, www.YP.Net and www.YP.Com. Any information contained on the foregoing websites or any other websites referenced in this Annual Report are not a part of this Annual Report.

Summary Business Description

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 almost 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. We also have arrangements with third parties to distribute our advertisers' information to other search engines, thereby enhancing our advertisers' presence on the Internet.

Products. Our primary product is our Internet Advertising Package™, or IAP. Under this package, the advertiser pays 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 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.

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We also offer our customers other products and services to enhance their use of the Internet, including a simple, effective, website development tool and a cost-effective Internet dial-up package. These products are described in greater detail below under *Products and Services*.

In fiscal 2006, we began providing fulfillment services for certain third parties. Under the terms of these agreements, we provide hosting and administrative services under a revenue sharing agreement with the related third party.

Marketing. Unlike most print Yellow Pages companies that sell advertising space by visiting or calling potential advertisers in their area, we solicit advertisers for our IAP product by direct mail and telemarketing.

Our direct mail marketing program historically has included a promotional incentive, generally in the form of a $3.25 activation check that a solicited business simply deposits to activate the service and become an IAP advertiser on a month-by-month basis. In response to a number of inquiries from state regulatory agencies, we voluntarily entered into an agreement to cease the use of these activation checks.

In fiscal 2006, we began acquiring new customers via telemarketing campaigns, for whom our monthly billing rates are higher than for those acquired through other means. With the discontinuance of activation checks, we expect to increase our future telemarketing efforts to generate new business. Additionally, we are testing other marketing channels, developing new product offerings and exploring other strategic partnerships to generate future revenues.

Billing. Similar to the local Regional Bell Operating Companies, we are approved to bill our products and services directly on some of our advertisers' local telephone bill through their local exchange carrier, or LEC, commonly referred to as their local telephone company. We believe that this is an efficient and cost-effective billing method as compared to direct billing methods. However, during the fourth quarter of fiscal 2004, several of these LECs changed their internal policies regarding the use of activation checks as the letter of authorization that allows us to bill our products and services directly on our advertisers' local telephone bill. We therefore began to convert many of our advertisers to billing via recurring direct bank account withdrawal options through an Automated Clearing House, or ACH billing, which is an efficient and cost-effective billing alternative to LEC billing. This transition to ACH billing continued through fiscal 2005. In fiscal 2006, we began acquiring new customers via telemarketing campaigns, which are allowed to be billed via LECs. These telemarketing campaigns have revitalized certain LEC billing channels. See *Item 7: Management's Discussion and Analysis of Financial Condition and Operating Results - Executive Overview* for a more detailed description of these changes and the impact they have had on our business and operations.

Benefits to Advertisers. RH Donnelley indicated in its 2004 report that the Internet is the future of the Yellow Pages. For advertisers, we believe that online Yellow Pages provide significant competitive advantages over existing print directories. For example, the ability of online advertisers to access and modify their displays and advertisements often results in more current information. Additionally, online advertisers can more readily advertise temporary or targeted specials or discounts. We provide added value to advertisers that have purchased our IAP through promotion and branding of our website to bring customers to our advertisers. We believe that the large number of IAPs, which include the Mini-WebPages, provide users of our website with more information about our advertisers and that this feature is more readily available on our website than that of our competitors. We believe that we provide users of our website with the information they are looking for, more quickly and more efficiently. We believe our call center provides the highest level of customer service and therefore provides IAP advertisers with the necessary resources to fully utilize the benefits of the IAP. We also believe the attraction of these users will, over the long-term, result in more sales for our IAP advertisers.

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Moreover, we provide additional value through our relationships. We provide the majority of our IAP advertisers additional exposure by circulating their listings to other search engines. The circulated listing competes for appearance in search results across the Internet through a paid advertising agreement with Interchange Corp, who in turn circulates listings to destinations such as epilot.com and local.com. Interchange has agreements with approximately 300 search partners with over 3 billion searches per month to display advertising. We also have an agreement with Yahoo! Search Services to improve our IAP advertisers' appearance in search results at several high-profile sites including www.msn.com, www.altavista.com, www.cnn.com and www.infospace.com. In addition to our paid advertising programs, our preferred listings are syndicated to community portals at www.mycity.com. MyCity.com has a national network of online city guides, focused on delivering local search results.

Benefits to Users of our Website. We are a national online Yellow Pages. Users of our website can access information nationally rather than relying exclusively on local listings such as those provided in print Yellow Pages directories. In addition, our product offerings allow users to find and take advantage of our advertisers' current special offerings and discounts. Users can access such information easily through their desktop or laptop computers, cellular telephones or hand-held devices, such as personal digital assistants. We believe our offering of a national online Yellow Pages service meets the growing demand for immediate access and the increasing need and trend of Internet users who are more frequently traveling to areas outside the areas serviced by their local print directories. We also believe that our website meets or exceeds the local Yellow Page search capabilities of our major competitors.

Directory Service and Search Engine. We believe that our products offer many competitive advantages over standard search engines. Our directory service and search engine format allows a user of our website to search by location using either a business name or business category. Unlike popular commercial search engines, our search engine does not search the Internet to provide results. Instead, it searches our defined database, resulting in a more focused, refined and, typically, quicker and more accurate search.

Products and Services

For those advertisers that want additional exposure for their businesses or desire to take full advantage of connectivity to the World Wide Web, we offer several products and services for a fee.

Internet Advertising Package. Our primary product is our Internet Advertising Package, or IAP. Under this package, the advertiser pays for additional exposure by purchasing a Mini-WebPage. This Mini-WebPage contains, among other useful information, a 40-word description of the business, hours of operation, and detailed contact information. The advertiser can easily access and modify its Mini-WebPage. This product is easily searched by users of our website on their personal computers, as well as cellular telephones and other hand-held devices. In order to provide search traffic to an advertiser's Mini-WebPage, we elevate the advertiser to a preferred listing status at no additional charge. As such, the preferred advertiser enjoys the benefit of having its advertisement displayed in a primary position before all of the basic listings in that particular category when users of our website perform searches on our website. We also provide our IAP advertisers with enhanced presentation and additional unique products, including:

- Larger font.
- Bolded business name.
- A "tagline" whereby the advertiser can differentiate itself from its competitors.
- An audio advertisement.
- Map directions.
- A Click2Call™ feature, whereby a user of our website can place a telephone call to one of our advertising customers by clicking the icon that is displayed on the Mini-WebPage. This initiates a telephone call by the advertiser to the user, in a conference call type format. Once both are connected, it functions as a regular telephone call. Because we cover all charges for this telephone call, it is free of charge to both the user and the IAP advertiser. We have an

agreement with WebDialogs, Inc. to provide this service.

- A link to the advertiser’s own webpage and email address.
- Additional distribution network for preferred listings. This feature gives additional exposure to our IAP advertisers by placing their preferred listing on several online directory systems. There currently is no charge to the IAP advertiser for these additional channels of distribution.

Our IAP advertisers generally pay between $27.50 and $39.95 per month. Our IAP and the Internet Dial-Up Package described below account for over 99% of our net revenues.

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Internet Dial-Up Package™. We also offer all of our IAP advertisers a cost-effective and efficient Internet dial-up package to take advantage of the benefits offered by on-line access. This allows our advertisers that do not have Internet access to take full advantage of the IAP and QuickSite packages that we offer. In most instances, we offer this service bundled with our IAP service for between $29.95 and $39.95 per month. In some regions, we only offer the bundled product and not an IAP standalone product.

Online QuickSite Package™. For those IAP advertisers that do not have their own website and that desire to provide more information than is offered through the IAP Mini-WebPage, we will design and create an eight page, template-driven website for the advertiser. This is known as a QuickSite™. Once set up, the advertiser can access its new QuickSite online and make modifications at its discretion. This essentially serves the same function as display advertisements in print Yellow Pages books, except that it can be changed more often to meet the advertiser's needs. Users of our website can access these QuickSites on the World Wide Web or from the advertiser's preferred listing or Mini-WebPage. Currently, this product accounts for less than 1% of our net revenues.

Fulfillment Services. Beginning in fiscal 2006, we began entering into contracts with several third parties whereby we provide hosting, customer service and certain administrative functions under a revenue sharing agreement. We believe these agreements allow us to increase operational efficiencies and expand our customer base.

Billing

Our billing process allows us to deliver high levels of service to our customers through convenient and timely billing and payment options. We currently bill our advertisers through (i) their LEC, (ii) ACH billing, (iii) their credit card or (iv) direct bill invoices.

Until the end of fiscal 2004, we historically billed the majority of our advertisers via their LEC. However, during the fourth quarter of fiscal 2004, several of the LECs changed their internal policies regarding the use of activation checks as the letter of authorization that would allow us to bill our products and services directly on our advertisers' local telephone bill. In fiscal 2006, we began acquiring new customers via telemarketing campaigns, which are allowed to be billed via LECs. These telemarketing campaigns, together with our fulfillment contracts, have revitalized certain LEC billing channels. See *Item 7: Management's Discussion and Analysis of Financial Condition and Operating Results - Executive Overview* for a detailed description of these changes and the effects they have had and will continue to have on our financial condition and results of operations.

During fiscal 2004, we began converting many of our advertisers to ACH billing, which is an efficient and cost-effective billing method and has a faster collection time than LEC billing. However, it was time-consuming and labor-intensive to convert customers from one billing channel to another and resulted in missed billings and customer cancellations. While ACH billing is a cost-effective billing method, many of our customers prefer LEC billing. Therefore, many of our existing marketing programs, including our telemarketing campaign, offer LEC billing as a payment option. We expect that LEC billing will continue to be a significant billing channel in the future.

In cases where other billing methods, including LEC billing, ACH billing and recurring credit card charges, are unavailable or instances where the customer requests that we bill them directly, we utilize direct bill invoices. Direct billing has a higher percentage of uncollectible accounts than other billing methods and, therefore, is our least attractive billing option.

Billing Service Agreements. In order to bill our advertisers through their LECs, we are required to use one or more billing service aggregators. These aggregators have been approved by various LECs to provide billing, collection, and related services through the LECs. Under these agreements, our service aggregators bill and collect our charges to our advertisers through LEC billing and remit to us the proceeds, net of fees, bad debt expense, customer returns, and unbillable accounts, typically within 90 days of submission.

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We also use billing service providers to process our ACH billings. These service providers process direct bank withdrawals through an Automated Clearing House and remit the proceeds, net of fees and refunds to advertisers that cancel their service, typically within 15 days of settlement.

Under our contractual agreements with our LEC billing service aggregators and our ACH service providers, these third-parties are entitled to withhold certain amounts from our net proceeds to serve as a security deposit or “holdbacks” or “reserves.” In the case of LEC billing aggregators, such amounts are generally remitted to us over a 12-18 month period, depending on the terms of the respective agreements. ACH processors maintain a rolling reserve based on average monthly volume.

During 2005, in an effort to reduce our concentration of credit risk with any single third-party, we engaged the services of additional service providers. We currently utilize three LEC billing aggregators and two ACH service providers. This reduced our concentration of gross accounts receivable with any single vendor from approximately 65% at the end of fiscal 2005 to approximately 31% at the end of fiscal 2006.

Pricing

We generally price our IAP product between $27.50 and $39.95 per month, which includes all of the service benefits previously described. We believe that these prices are comparable to the prices of our competitors and we believe that our site provides superior value to our advertisers when considering the many benefits that they receive, including the Click2Call feature, the Mini-WebPage, mapping directions, links to the advertiser websites, and the speed and ease of use of our website.

Our pricing advantage is significant when compared with printed Yellow Pages. For a Yellow Pages listing with comparable information content, an advertiser would typically pay over $200 per month. This listing in the printed Yellow Pages would include a business description of comparable size to our IAP offering but would lack our Click2Call feature, mapping directions, and link to the advertiser’s website. Our online Yellow Pages provide significant flexibility in terms of changing content and adding special informational items at any time throughout the year. Advertisers in printed Yellow Pages are limited by the publishers’ infrequent re-publication schedule if they desire to change their advertisement.

Marketing

Unlike most print Yellow Pages companies that sell advertising space by visiting or calling potential advertisers in their area, we solicit advertisers for our IAP product by direct mail and telemarketing.

Direct Mail Solicitation. Our direct mail marketing solicitation is made up of several pages that describe in detail our products, services, pricing, sign-up instructions, and billing alternatives. Until recently, we included in this solicitation a promotional sign-up incentive, generally in the form of a $3.25 activation check made payable to the name of the solicited business.

We have received numerous inquiries from the attorney general offices of several states investigating our promotional activities, specifically, the use of our check mailer for customer activation. In December 2006, we voluntarily entered into a settlement with thirty-four states’ attorneys general to address their inquiries and bring finality to the process. Under this settlement, we have voluntarily agreed to the following:

· We will pay a settlement fee of $2,000,000 to the state consortium, which they may distribute among themselves;
· We will discontinue the use of activation checks as a promotional incentive;
·

We will suspend billing of any active customer that was acquired in connection with the use of an activation check until a letter is mailed notifying the customer of their legal rights to cancel the service and providing them a 60-day opportunity to receive a refund equivalent to the customer's last two payments; and

- We will not employ any collection efforts with respect to past-due accounts of customers that were secured through the use of an activation check, nor will we represent our ability to do so.

This settlement limits our exposure to significant legal fees and costs that may have been otherwise incurred had we decided to dispute these inquiries. Further, we had been transitioning a significant amount of our marketing efforts away from the use of activation checks toward the use of telemarketing and other marketing channels during 2005 and 2006. This settlement accelerates this transition away from the use of activation checks and focuses our marketing efforts toward improving the effectiveness and efficiency of our telemarketing campaigns and other marketing efforts.

Telemarketing. During the fourth quarter of fiscal 2005, we began testing our telemarketing sales campaign. In fiscal 2006, this campaign went into full production and we utilized multiple third parties to make outbound calls to potential customers using a marketing list that we provide. We pay these third parties a combination of hourly rates and commissions.

When soliciting a new customer, we offer a variety of payment options, including LEC billing, ACH billing, and credit card prepayments.

Marketing List Generation. To generate the leads for our telemarketing efforts and to continually update our billing records, we purchase business directory information from some of the largest information providers in the North American market: Qsent, InfoUSA, and Amacai. We refer to each information provider’s list of business listings as a data set. Each data set consists of 10-19 million records with each record composed of several attributes, such as company name, address, employment range, telephone number, United States Standard Industrial Classification, or SIC code, and Standard Yellow Pages Heading, or SYPH code. While SYPH codes are proprietary to many vendors, we believe our fluency in multiple industrial classifications and the additional cost and effort of acquiring data from several sources gives us a competitive edge over companies that purchase data from only a single provider of information or a provider that does not verify the accuracy of the information for each business listing.

We continue to evaluate the accuracy of data provided to us by our information providers and continuously expand our list of information providers as necessary in order to generate an accurate database of potential customers. We believe the quality of a lead from each information provider’s data set cannot be evaluated by business count alone. We consider other factors including overall quality, duplicates, out of business records, and records without telephone numbers. Each information provider verifies the information for each business listing differently. For example, some will attempt to verify information for each business by telephone while others will attempt to verify by using a United States Postal Service Certified Address Standardization process for converting addresses to a standard zipcode-4 format required to qualify for lower bulk mailing rates.

Other Marketing Efforts. We utilize our expertise and experience as an Internet Yellow Page company to identify other marketing opportunities. Through our referral networks, we have generated revenue from national accounts programs (whereby revenues are generated on a “per click” basis), fulfillment contracts, web hosting and other arrangements. We also have entered into various marketing arrangements with other businesses whereby we pay commissions based on sales leads and revenue generated from these businesses. To date, such commissions have not been material. We evaluate such business opportunities on a case-by-case basis and expect to expand future revenues from such marketing efforts.

During fiscal 2006, we suspended the majority of our branding activities. Whereas in the past we have tried to drive traffic to our site, YP.com, changes in the competitive landscape have made it difficult to compete with local search engines that are significantly larger than us. We now focus on driving high quality traffic to our IAP advertisers through our agreements with local search engines and affiliates. For example, through our agreements with Yahoo! Search Services and Interchange, a searcher can find our advertisers in the results of their search at destinations other than YP.com. We believe that this distribution strategy provides greater value to our IAP advertisers than merely branding the YP.com site as a search destination.

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In July 2003, we entered into a licensing agreement with a vendor to license the use of the URL www.yp.com in exchange for cash and restricted shares of our common stock. Under the terms of this agreement, the licensor had the option of transferring the rights to the URL and the restricted shares to us in exchange for $300,000. In July 2006, the licensor exercised this option, and transferred ownership of the URL and the restricted shares to us. As this option was deemed to be a purchase commitment, no liability was reflected in our financial statements prior to the exercise of the option. We capitalized the URL at its net acquisition price, computed as the $300,000 cash payment less the fair market value of the shares acquired (determined based on the stock price on the date of reacquisition) and we are amortizing this asset on a straight-line basis over its estimated useful life.

Technology and Infrastructure

We have developed technologies to support the timely delivery of information requested by a user of our online Yellow Pages system. A staff of senior engineers experienced in large-scale system design and computer operation develops and maintains the technology. We believe we are particularly adept at large-scale database management, design, data modeling, operations and content management.

To focus on a quality and timely product, we have divided our technology staff and technology base into a business operations unit and an advanced technologies group dedicated to our directory services product. Our business operations support a sophisticated call center, automated billing of our customers, customer relationship management, and automated mailing campaign. Our advanced technologies group supports all programming and other systems enhancements to the YP website and internal systems. These operations are described in the following paragraphs.

YP.Com. The front end of our directory services and the showcase of our technology and marketing capabilities is our website, YP.Com. The YP.Com website currently is in its sixth generation of development. We develop ongoing enhancements to our website on a recurring schedule to meet the increased demand for our services and products. Our YP.com website provides several key and easy to use features, including timely information, simple search, search tips, reverse telephone number lookup, mapping, and residential and business directory listings.

Database Management Systems. At the core of our infrastructure are several high-performance and proprietary database systems containing several terabytes of data representing billions of records with hundreds of attributes each, such as business name, telephone number, address, number of employees, and our unique-to-the-industry 40-word description of the business. We maintain the data for internal operations on high-performance servers and with large-scale storage systems at our Mesa, Arizona facility, which is co-located with our call center operation and technology teams. To meet the demand for our products and services and to provide the highest level of reliability, we employ technologies and techniques providing data redundancy and clustering. Clustering is the use of several computers deployed in a manner that provides redundancy and additional computer processing power.

High-Performance Database and Search Engine. We believe we provide one of the most complete and high-performing directory services in the market today. Our proprietary database enables us to collect and merge data from multiple sources to provide extensive and accurate content for our users. With our xDirectory™ and DirectXML™ technologies, we provide spellchecking, synonym matching, automated content delivery, and multiple source data merging in a simple to use paradigm. We believe these technologies simplify the search process and provide the most relevant content to suit our customers' and users' needs. Ultimately, we expect these technologies to increase recurrent use of our system by users of our directory services.

xDirectory. xDirectory is the platform for our high-performance database and search engine. xDirectory is a proprietary content management system and repository for extensible data merged from multiple sources of North American listing data. xDirectory also serves as a platform for several proprietary features, including real-time search feedback on accuracy, search time, spellchecking, synonym matching, geographical positioning, automated content syndication, and the proprietary algorithms to perform listing data match-up and merging into a uniquely accurate record.

DirectXML. DirectXML is the technology that supports our content syndication program and distribution network. DirectXML integrates our proprietary content management system with our distribution network to deliver up-to-date syndicated content. DirectXML leverages the XML standard for the definition, interoperability, transmission, validation, and interpretation of data between systems and organizations.

Extensible Record. We purchase data from some of the largest information providers in North America and merge that data with our extensive in-house customer data set to form what we believe is the largest and most comprehensive content in the market. This effort provides users of our directory services the greatest number of results per search. Our xDirectory platform has the unique ability to weigh the accuracy of a wide variety of attributes from the source record for inclusion into the merged record. xDirectory's proprietary algorithm for identifying accurate information and removing inaccuracies during the merge process is complemented by our customer verification process that confirms the attributes of a given customer record.

Content Syndication, Distribution, and Private Label Networks. We add value by increasing our IAP advertisers' visibility by providing automated conduits and content delivery to numerous search engines besides our own. We can deliver content both on the Internet and on mobile devices such as cell phones and personal digital assistants. Our market position and volume allows us to provide content to any of our strategic alliances, as discussed elsewhere in this Annual Report, at a cost below what would be accomplished if one were to attempt to duplicate our content and distribution network. We have further enhanced the capabilities of this global distribution network with our DirectXML technology, which provides high-volume automated record updates daily to our distribution partners and private-label customers.

Billing Operation. Our billing process is executed using a two-tier architecture that consists of foundation and business platforms. Our foundation platform is anchored with Microsoft® as the primary partner leveraging their SQL Server product line. This alliance aligns us technically with a stable industry standard with proven scaling ability to meet our growth needs. System stability is enabled through built-in design features including high availability, simplified database administration and security features. Our business applications tier rests on a program suite that consists of partner-provided utilities and our own utilities developed specifically to our billing process. By having development abilities in-house, we have control over our application, which allows us greater flexibility, greater security and reduced dependency on an external entity. These programs also reduce LEC submittal fees by cleaning our customer billing submittals prior to formal submission. They also optimize which provider best suits our needs in order to maximize profit potential.

Call Center Operation. We use sophisticated call center technologies to support teams dedicated to servicing customer needs, managing the provisioning of new customers and selling additional services to existing customers. The call center operation is built around a high-volume telephone switch and sophisticated applications that manage, distribute, and analyze workload across and between call center representatives. Since our call center is staffed five days a week, an automated call attendant is employed only after hours, on weekends or during holidays.

Site Design and Facilities. We implement our website on a set of large-scale, high-performance Unix servers with accompanying large-scale storage subsystems that are organized into layers and groups. Each layer and group provides different functionality across the site. We organize the site to allow the integration of new information and functionality without any interruption of service. To ensure our site remains continuously available to our users, we house the site at environmentally controlled co-location facilities geographically distributed and repeated between three locations in Arizona and Nevada. XO Communications, a leader and national provider of telecommunications services and facilities, provides the co-location services. The co-location facilities are interconnected by a high-performance, scalable and highly-reliable state-of-the-art fiber data network.

Mailing List Generation. The technology for generating a mailing list is comprised of a proprietary application and three primary databases for generating a mailing list of leads. On a monthly basis our information providers send us leads in an electronic format for integration into a database. After data has been refreshed in each provider database, our proprietary application performs a comparison-and-merge process between data sets. The proprietary algorithm within our application improves the quality of the record by verifying the accuracy of the information for every business listing sent to us. We compare information from each information provider to determine matching records, unique records, and the method employed to verify the information for each business listed in order to gauge the accuracy for each respective information provider. A unique record is one that exists only in a single provider's data set. The number of unique records varies from month to month and is one of the reasons we purchase from multiple sources. Following the merge process, our proprietary mailing application employs a sophisticated filtering process to determine address accuracy and facilitate the delivery of the solicitation mailer. Ultimately, the application generates an electronic file containing a list of leads with the name, address of the lead and type of business of each lead. We then send the list to our service provider for printing and mass mailing.

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The Internet Yellow Pages Market

According to The Kelsey Group and the Yellow Pages Integrated Media Association, or YPIMA, while there are approximately 200 major U.S. Yellow Pages print publishers, an increasingly mobile and computer-sophisticated population is accessing the Yellow Pages by way of the Internet at a sharply increasing rate.

According to a July 2005 press release from The Kelsey Group, 8% of advertisers indicated that they were likely to spend more money on Internet Yellow Pages this year, up from 2% one year ago. Among the media tracked by this study—print and Internet Yellow Pages, newspapers, direct mail, magazines, radio, outdoor, coupons, local TV, Web site, search engine key word optimization, e-mail, online city guides, pay-per-click—only Internet Yellow Pages showed a statistically significant jump. Internet Yellow Pages advertising is expected to grow to an estimated $1.3 billion by 2009, an estimated annual growth rate of 19% from 2003.

Internet Yellow Pages provide the following advantages over print Yellow Pages:

- More current and extensive listing information.
- Immediate access to business listings across the nation from any location.
- Broad accessibility via computers and hand-held devices, such as mobile phones and personal digital assistants.
- Features such as mapping, direct calling to the advertiser, and e-mail at the click of a button also may be available.

Internet Yellow Pages also offer lower costs for a given level of content and the ability to easily access and modify displays and advertisements, which allows for opportunistic or targeted specials or discounts.

Internet usage, in general, has increased dramatically in recent years. According to Internet World Stats, 69.3% of the United States population uses the Internet, a growth of 117.3% from 2000 to 2006. Search engines are a common method by which these users navigate the Internet. Our expanding distribution network seeks to allow our advertisers to benefit from this growth by receiving prominent placement in search engine results.

Strategic Alliances

In order to service users of our website more effectively and to extend our brand to other Internet sources, we have entered into strategic relationships with business partners that offer content, technology, and distribution capabilities. The following are descriptions of our most significant strategic relationships:

- We have cross-marketing arrangements with reciprocal linking of websites without any compensation to either party. These arrangements increase the page views for our advertisers' listings by being listed on the linked websites. During 2006, the number of websites providing such links to YP.com fluctuated between 300 and 400 websites. These co-promotional arrangements typically are terminable on a monthly basis.

- We have a distribution agreement with Interchange to increase the page views for our advertisers' listings by displaying our advertisers' information in the search results of their affiliate sites.

- We have a license agreement with Palm, Inc. whereby we pay a fee to be a provider of Yellow Pages content on hand-held devices using the Palm operating system. We provide this content to Palm through a hypertext link from the Palm operating system to our website.

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- We have an agreement with Yahoo! Search Services to provide visibility to our website so that we can provide traffic to our advertisers. In exchange for monthly fees, Yahoo! Search Services tries to ensure that our website will be one of the highest placed sites when Yellow Pages searches are done on major search engines, such as MSN® and Yahoo®.

- We utilize WebDialogs in a co-promotional effort to provide automatic dialing services to our website users. These services allow these users to place a call to one of our IAP advertisers by simply clicking a button. This function powers our Click2Call feature.

We are members of the Yellow Pages Association (fka Yellow Pages Integrated Media Association) and the Association of Directory Publishers and have been since 1998. These organizations are trade associations for Yellow Pages publishers or others that promote the quality of published content and advertising methods.

Customer Service

We believe that superior customer service is an important factor in differentiating ourselves from our competitors. To meet this objective, our customer service department is comprised of four main departments - inbound, outbound, quality assurance and administration.

Inbound Call Center. Our call center supports incoming calls from our advertisers for all of our products. The inbound customer service representatives, or CSRs, are responsible for taking calls regarding billing, technical service and general questions. The CSRs are empowered to activate new accounts, adjust accounts with credits, accept payments, change the billing method, and cancel accounts. Our proprietary CSR software is tiered in order to limit the actions taken with an advertiser’s account, depending on the CSR’s position. If a CSR is unable to accommodate the advertiser’s request, the CSR transfers the call to a supervisor to ensure the customer is satisfied. Requests beyond those a supervisor can handle are given to a department manager or our quality assurance personnel. The CSRs have the ability to update advertiser’s accounts by adding or changing a Mini-WebPage, changing hours of operation, changing the business category, and adding the link to the advertiser’s website and email. After the CSR makes the requested changes, the new information will appear on our website within two business days, enabling the advertiser to make timely changes to their listing. The inbound customer call center is generally staffed five days a week.

Outbound Calling. We established the outbound call center to help our IAP advertisers receive the full benefit for the advertising they purchased. The outbound CSRs primarily call new advertisers. They confirm the sale and, in the case of a new advertiser, they obtain the information to build the advertiser’s Mini-Webpage. After the outbound CSR speaks with the advertiser and obtains all the information for the advertiser’s listing, that listing is then sent to our proofreaders. Every listing that is updated is proofread prior to being placed on our site. This additional step ensures that our advertisers are represented professionally and accurately to their customers. Since our outbound CSRs only call existing or new advertisers, we are not affected by the “National Do Not Call” list.

Quality Assurance. The goal of our quality assurance personnel is to monitor inbound and outbound calls, take calls transferred from CSRs, perform customer satisfaction surveys, and make test calls into our customer care line on a random basis.

In addition to the quality assurance representatives, we have a training supervisor whose responsibility is to produce and distribute training material to the entire call center to ensure consistent information is provided to all departments.

Administration. The purpose of our administration department is to provide our customers with timely feedback when requested through the mail, e-mail or by facsimile. In addition to the CSRs answering incoming calls, we have individuals trained to assist customers via email. Our website and our incoming greeting on the telephone give our customers and our website users our email address. We review these emails daily and generally reply within two business days. We have found that many advertisers prefer to email us with their changes and are very satisfied with our response time and ability to respond to their request. The administration department receives, sorts, and distributes all incoming and outgoing mail. They also are responsible for filing the hard copies of the cashed incentive checks. All information that is sent to our advertisers or potential customers by the call center is routed through the administration department in order to ensure that accurate and consistent information is sent.

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Competition

We operate in the highly competitive and rapidly expanding and evolving business-to-business Internet services market. Our largest competitors are LECs, which are generally known as local telephone companies, and national search engines such as Yahoo! and Google that have recently expanded their presence in the local search market. We compete with other online Yellow Pages services, website operators, advertising networks, and traditional offline media, such as traditional Yellow Pages directory publishers, television, radio, and print share advertising. Our services also compete with many directory website production businesses and Internet information service providers.

The principal competitive factors of the markets in which we compete include personalization of service, ease of use of directories, quality and responsiveness of search results, availability of quality content, value-added products and services, and access to end-users. We compete for advertising listings with the suppliers of Internet navigational and informational services, high-traffic websites, Internet access providers, and other media. This competition could result in significantly lower prices for advertising and reductions in advertising revenues. Increased competition could have a material adverse effect on our business.

Many of our competitors have greater capital resources than we have. These capital resources could allow our competitors to engage in advertising and other promotional activities that will enhance their brand name recognition at levels we cannot match. The LECs and national search engines have advantages in terms of brand name recognition.

We believe that we are in a position to successfully compete in these markets due to the speed of our local search engine, the comprehensiveness of our database, the effectiveness of marketing programs and the effectiveness of our distribution network. We further believe that we can compete effectively by continuing to provide quality services at competitive prices and by actively developing new products and services for customers.

We believe our listings and our Mini-WebPages provide users of our website with readily available information that is easy to understand and from which they can make their buying decisions. We believe that our calling center is a competitive advantage. Through our calling centers, we continually receive and process requests to update customer information on our website and, accordingly, we believe our site contains more useful and timely information than that of our competitors. We further believe that this, in turn, will translate into more page views and advertisers.

Employees

As of September 30, 2006, we engaged 76 full-time and 3 part-time employees. Such employees are not covered by any collective bargaining agreements.

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ITEM 1A. 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

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 Google, Microsoft, Verizon, and Yahoo, currently market Internet Yellow Pages or local search 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, customer service, and customer support capabilities than we have;
- some competitors may supply a broader range of services, enabling them to serve more or all of their customers' needs. This could limit our sales and strengthen our competitors' existing relationships with their customers, including our current and potential IAP advertisers;
- some competitors may be able to better adapt to changing market conditions and customer 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 customer 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.

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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 operating results have historically fluctuated significantly and we have experienced recent declines in net revenues and operating profits. We could continue to experience fluctuations or continued declining operating results due to factors that may or may not be within our control. Such factors 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 through LEC billing, ACH billing or credit card channels rather than through direct invoicing;
- market acceptance of new or enhanced versions of our services or products;
- price competition or pricing changes by us or our competitors;
- new product offerings or other actions by our competitors;
- 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
- the fixed nature of a significant amount of our operating expenses.

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

We rely heavily on our ability to bill advertisers on their telephone bills through their respective Local Exchange Carriers, or "LECs." LEC billing has steadily increased in recent quarters and accounted for 64% of net billings in the fourth quarter of 2006.

The existence of the LECs is the result of Federal legislation. In the same manner, Congress could pass future legislation that obviates the existence of or the need for the LECs. Additionally, regulatory agencies could limit or prevent our ability to use the LECs to bill our advertisers. The introduction of and advancement of new technologies, such as WiFi technology or other wireless-related technologies, could render unnecessary the existence of fixed telecommunication lines, which also could obviate the need for and access to the LECs. Finally, we have historically been affected by the LECs' internal policies. With respect to certain LECs, such policies are becoming more stringent. Our inability to use the LECs to bill our advertisers through their monthly telephone bills would result in increased dilution and decreased revenues and would have a material adverse impact on our financial condition and results of operations.

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Our revenue may decline over time due to the involvement of the CLECs in the local telephone markets.

Due to competition in the telephony industry, many business customers are finding alternative telephony suppliers, such as Competitive Local Exchange Carriers, or CLECs, that offer less expensive alternatives to the LECs. When the LECs effectuate a price increase, many business customers look 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 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.

The loss of our ability to bill IAP advertisers through our ACH billing channel would adversely impact our results of operations.

We bill a significant number of our IAP advertisers through our ACH billing channel. ACH transactions are closely regulated by NACHA - The Electronic Payments Association, which develops operating rules and business practices for the Automated Clearing House (ACH) Network and for electronic payments in the areas of Internet commerce and other electronic payment means. Changes in these rules and business practices could compromise our ability to bill a significant number of our advertisers through ACH billing, and we would have to transition these advertisers to other billing channels. Such changes would be disruptive and result in lost revenue.

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 ability to efficiently process new advertiser sign-ups and to bill our advertisers monthly depends upon our third party service providers and billing aggregators and processors, respectively.

We currently use third party service providers 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 and service providers to efficiently bill and collect monies through our LEC billing and ACH billing channels. We currently have agreements with three billing aggregators and two ACH service providers. Any disruption in these third parties' ability to perform these functions could adversely affect our financial condition and results of operations.

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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 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.

The demand and market acceptance for our services may be subject to a high level of uncertainty. 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. 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, 2006, 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.

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 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.

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We have received numerous inquiries from the attorney general offices of several states investigating our promotional activities, specifically, the use of our check mailer for customer activation. In December 2006, we voluntarily entered into a settlement with thirty-four states' attorneys general to address their inquiries and bring finality to the process. We have voluntarily agreed to the following:

- We will pay a settlement fee of $2,000,000 to the state consortium, which they may distribute among themselves;
- We will discontinue the use of activation checks as a promotional incentive;
- We will suspend billing of any active customer that was acquired in connection with the use of an activation check until a letter is mailed notifying the customer of their legal rights to cancel the service and providing them a 60-day opportunity to receive a refund equivalent to the customer's last two payments; and
- We will not employ any collection efforts with respect to past-due accounts of customers that were secured through the use of an activation check, nor will we represent our ability to do so.

This settlement could have an adverse affect on future revenues. Furthermore, there can be no absolute assurance that the other states, which were not part of the above-mentioned state consortium, would not attempt to file similar claims against us in the future. However, we believe this risk is somewhat mitigated by the fact that those states did not join the states in filing complaints against us and the fact that we are discontinuing the use of our check activators. Finally, our utilization of ACH billing has exposed us to greater scrutiny by the National Automated Clearing House Association, or NACHA. Future actions from these and other regulatory agencies could expose us 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 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.

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, 2008, 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.

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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, 2008 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, 2008 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 that 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 relatively 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.

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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.

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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 or "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 been volatile over the past few years and investors could experience losses 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 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:

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

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

Our common stock may be subject to the "penny stock" rules as promulgated under the Exchange Act.

In the event that no exclusion from the definition of "penny stock" under the Exchange Act is available, then any broker engaging in a transaction in our common stock will be required to provide its 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 1B. Unresolved Staff Comments

Not applicable.

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ITEM 2. Properties

We have a long-term operating lease with Arthur Grandlich d/b/a McKellips Corporate Square for the 16,772 square foot corporate office that is located in Mesa, Arizona. We pay rent of approximately $120,000 annually under this lease, which expires in June 2011. This facility contains our customer service call center and certain administrative resources.

We lease a 3,500 square foot facility in Las Vegas, Nevada that functions as the primary operating facility of Telco. In October 2006, we renewed this lease with Tomorrow 33 Convention, LP for a one year period with lease payments of $8,000 per month. We have an option to extend the lease another year.

We lease office space in Las Vegas, Nevada for our telemarketing activities under a month-to-month lease. Payments under this lease vary depending upon the amount of space utilized.

We believe that these facilities are adequate for our current and anticipated future needs and that both of these facilities and their contents are adequately covered by insurance.

ITEM 3. Legal Proceedings

Previously, we disclosed that we had received numerous inquiries from the Attorney General offices of several states investigating our promotional activities, specifically, the use of our check mailer for customer activation. On December 14, 2006, we voluntarily entered into a settlement with thirty-four states' attorneys general to address their inquiries and bring finality to the process. We have voluntarily agreed to the following:

- We will pay a settlement fee of $2,000,000 to the state consortium, which they may distribute among themselves;
- We will discontinue the use of activation checks as a promotional incentive;
- We will suspend billing of any active customer that was acquired in connection with the use of an activation check until a letter is mailed notifying the customer of their legal rights to cancel the service and providing them a 60-day opportunity to receive a refund equivalent to the customer's last two payments; and
- We will not employ any collection efforts with respect to past-due accounts of customers that were secured through the use of an activation check, nor will we represent our ability to do so.

We are party to certain other legal proceedings and other various claims and lawsuits in the normal course of our business, which, in the opinion of management, are not material to our business or financial condition.

ITEM 4. Submission of Matters to a Vote of Security Holders

Not applicable.

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PART II

ITEM 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our Common Stock

Our common stock trades publicly on the OTC Bulletin Board under the symbol “YPNT.” The OTCBB is a regulated quotation service that displays real-time quotes, last-sale prices and volume information in over-the-counter equity securities. The OTCBB securities are traded by a community of market makers that enter quotes and trade reports. This market is extremely limited and any prices quoted are not a reliable indication of the value of our common stock.

The following table sets forth the quarterly high and low bid prices per share of our common stock by the OTCBB during the last two fiscal years. The quotes represent inter-dealer quotations, without adjustment for retail mark-up, markdown or commission and may not represent actual transactions.

Fiscal Year	Quarter Ended	High	Low
2005	December 31, 2005	$1.70	$0.93
	March 31, 2005	$1.31	$0.78
	June 30, 2005	$1.14	$0.69
	September 30, 2005	$1.12	$0.77
2006	December 31, 2005	$0.94	$0.40
	March 31, 2006	$1.03	$0.51
	June 30, 2006	$1.30	$0.95
	September 30, 2006	$1.08	$0.79

Holders of Record

On December 15, 2006, there were approximately 446 holders of record of our common stock according to our transfer agent. The Company has no record of the number of shareholders who hold their stock in “street” name with various brokers.

Dividend Policy

We have one class of outstanding preferred stock (Series E Preferred Stock), of which there are currently 127,840 shares issued and outstanding. Each share of Series E Preferred Stock is entitled to and receives a dividend of $0.015 per year, payable in quarterly installments of $0.00375.

Presently, we do not pay dividends on our common stock. The timing and amount of future dividend payments by our company, if any, will be determined by our Board of Directors based upon our earnings, capital requirements and financial position, general economic conditions, alternative uses of capital, and other pertinent factors.

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Issuer Purchases of Equity Securities

Period	(a) Total Number of Shares (or Units) Purchased	(b) Average Price Paid per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs[2]	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
July 2006	100,000[1]	$ 1.01	-	$ 2,313,207
August 2006	-	N/A	-	$ 2,313,207
September 2006	-	N/A	-	$ 2,313,207
Total	100,000	$ 1.01	-	$ 2,313,207

[1] In July 2003, we entered into a licensing agreement with a vendor to license the use of the URL www.yp.com in exchange for cash and restricted shares of the Company’s common stock. Under the terms of this agreement, the licensor had the option of transferring the rights to the URL and the restricted shares to the Company in exchange for $300,000. In July 2006, the licensor exercised this option, and transferred ownership of the URL and the restricted shares to the Company. The portion of the proceeds allocated to the shares was based on the fair market value of the stock at the transaction date.

[2] On May 18, 2005, we announced the adoption of a $3,000,000 stock repurchase program. To date, we have purchased 853,850 shares at an aggregate price of $686,793.

ITEM 6. Selected Financial Data

The selected financial data presented below are derived from our historical consolidated financial statements for the years indicated, which have been audited by Epstein, Weber & Conover, P.L.C., our independent registered public accounting firm. The selected financial data should be read in conjunction with Management’s Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and the related notes thereto included elsewhere in this Annual Report.

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	Year Ended September 30,				
	2006	**2005 (1)**	**2004**	**2003**	**2002**
Statement of Operations Data					
Net revenues	$ 36,881,164	$ 25,204,858	$ 57,168,105	$ 30,767,444	$ 12,618,126
Cost of services	8,069,239	3,980,619	24,757,880	8,473,746	3,497,678
Gross profit	28,811,925	21,224,239	32,410,225	22,293,698	9,120,448
Operating income	2,124,450	1,313,389	11,465,946	7,281,886	1,595,642
Net income	(1,050,920)	725,146	8,184,930	6,472,705	2,073,417
Net income (loss) per common share:					
Basic	$ (0.02)	$ 0.02	$ 0.17	$ 0.14	$ 0.05
Diluted	$ (0.02)	$ 0.02	$ 0.17	$ 0.14	$ 0.05
Weighted average common shares outstanding:					
Basic	44,958,683	46,390,356	47,375,927	45,326,721	44,024,329
Diluted	44,958,683	46,659,918	48,075,699	45,591,590	44,024,329
Cash dividends declared per common share	$ -	$ 1,444,763	$ 1,427,640	$ -	$ -
Statement of Cash Flows Data					
Net cash provided by (used in) operating activities	$ 2,420,083	$ 6,990,161	$ 4,818,203	$ 4,762,238	$ 1,158,015
Net cash provided by (used in) investing activities	(1,088,416)	(2,440,092)	(2,192,500)	(2,798,500)	(244,077)
Net cash provided by (used in) financing activities	(235,418)	(2,011,587)	(1,428,022)	(351,998)	(830,677)
Balance Sheet Data					
Cash and cash equivalents	$ 7,210,560	$ 6,114,311	$ 3,576,529	$ 2,378,848	$ 767,108
Working capital	13,908,560	13,374,171	12,484,833	6,615,537	3,089,108
Property and equipment, net	178,883	396,862	725,936	731,142	274,459
Intangible assets, net	5,722,604	6,108,823	3,326,274	3,512,952	3,578,542
Total assets	26,727,227	23,632,916	26,289,604	20,356,163	9,922,716
Total long term liabilities	-	-	848,498	-	115,866
Total stockholders equity	22,376,373	22,065,266	23,572,393	15,709,315	8,386,853

(1) Includes an increase to income of approximately $100,000 (net of income taxes of approximately $54,000) resulting from the cumulative effect of an accounting change for forfeitures of restricted stock granted to employees, executives and consultants

ITEM 7. 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 fiscal year ended September 30, 2006, this "Management's Discussion and Analysis" should be read in conjunction with the Consolidated Financial Statements, including the related notes, appearing in Item 8 of this Annual Report.

Forward-Looking Statements

This portion of this Annual Report on Form 10-K, includes statements that constitute "forward-looking statements." These forward-looking statements are often characterized by the terms "may," "believes," "projects," "expects," or "anticipates and do not reflect historical facts. Specific forward-looking statements contained in this portion of the Annual Report include, but are not limited to our (i) expectation that our billing cycles will not be disrupted; (ii) expectation that the number of refund requests will not exceed 40% of customers receiving notifications; (iii) expectations that we can quickly ramp our telemarketing efforts to continue to attract new customers; (iv) expectation that our telemarketing efforts will yield positive customer growth throughout the remainder of fiscal 2007; (v) our projected revenues, operating income and net income for fiscal 2007; (vi) expectation that we can expand our telemarketing campaigns in the future; and (vii) belief that our existing cash on hand will provide us with sufficient liquidity to meet our operating needs for the next twelve months.

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 *Item 1A. 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.

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Executive Overview

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

Recent Developments and Outlook

From 2001 to the fourth quarter of fiscal 2005, our primary source of marketing was through the use of activation checks mailed to prospective customers. During this period, we tracked the effectiveness of these activation checks and noticed a decline in their effectiveness from year-to-year. The response rate with the activation check declined from 2.2% in fiscal 2003 to 0.9% in fiscal 2005, causing this to become a more expensive means of attracting customers. Therefore, during the fourth quarter of fiscal 2005, we began utilizing telemarketing as a supplement to our direct mail activities. In fiscal 2006, our response rate to the activation check further dropped to 0.7%. Accordingly, we began a transition to telemarketing as our primary means of sales and marketing efforts. We increased our telemarketing efforts such that it accounted for approximately 50% of total customer acquisition expenditures during fiscal 2006.

During fiscal 2006, we received numerous inquiries from the Attorney General offices of several states investigating our promotional activities, specifically, the use of our check mailer for customer activation. On December 14, 2006, we voluntarily entered into a settlement with thirty-four states' attorneys general to address their inquiries and bring finality to the process. We have voluntarily agreed to the following:

- We will pay a settlement fee of $2,000,000 to the state consortium, which they may distribute among themselves;
- We will discontinue the use of activation checks as a promotional incentive;
- We will suspend billing of any active customer that was acquired in connection with the use of an activation check until a letter is mailed notifying the customer of their legal rights to cancel the service and providing them a 60-day opportunity to receive a refund equivalent to the customer's last two payments; and
- We will not employ any collection efforts with respect to past-due accounts of customers that were secured through the use of an activation check, nor will we represent our ability to do so.

This settlement limits our exposure to significant legal fees and costs that may have been otherwise incurred had we decided to dispute these inquiries. Further, we have been transitioning a significant amount of our marketing efforts away from the use of activation checks toward the use of telemarketing and other marketing channels during 2005 and 2006. With this settlement, we will be able to accelerate this transition away from the use of activation checks and focus our marketing efforts toward improving the effectiveness and efficiency of our telemarketing campaigns and other marketing efforts.

The mailings related to the settlement listed above affects approximately 41,000 customers. However, we have commenced such mailings and do not expect our billing cycles to be disrupted. Our maximum exposure on refunds under this settlement is $2,500,000, although we do not expect the number of refund requests to exceed 40% of such customers. Our inability to utilize activation checks will cause a near term disruption in our marketing efforts. However, as we have been transitioning toward telemarketing campaigns, we expect that we can quickly ramp up our telemarketing efforts to continue to attract new customers.

We expect that the mailings related to the attorneys general settlement will result in a decline in revenue in the first quarter of fiscal 2007. However, we also expect our telemarketing efforts to yield positive customer growth throughout the remainder of fiscal 2007. Although there are many variables that impact our future results, including the number of customer cancellations resulting from the attorneys general settlement and the success of our future telemarketing campaigns, we expect that our gross annual revenues for fiscal 2007 will be between $45,000,000 and $49,000,000, with our operating income between $11,000,000 and $12,000,000 and net income between $6,000,000 and $7,000,000.

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Changes in Billing Practices

During the end of 2004 and throughout 2005, we had been reducing our use of LEC billing channels as the LECs' policies regarding the use of our check mailer as our primary letter of authorization prevented us from billing many existing customers through this particular billing channel. Additionally, the major LECs (i.e. Regional Bell Operating Companies or RBOCs) prevented us from billing any new customers acquired via check mailers. As such, we transitioned a significant number of our customers to alternate billing means, the most significant of which was ACH billing. ACH billing is less expensive than LEC billing; however, many of our customers view this as a less desirable billing method, leading to increased 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.

In fiscal 2006, we began acquiring new customers via telemarketing campaigns, which are allowed to be billed via LECs. These telemarketing campaigns have reopened certain LEC billing channels. Additionally, our monthly billing rates are higher for customers acquired via telemarketing campaigns. For these reasons, as well as the cessation of the use of our check activator, we expect to continue to expand our telemarketing campaigns in the future.

The following represents the breakdown of net billings by channel during recent fiscal quarters:

	Q4 2006	**Q3 2006**	**Q2 2006**	**Q1 2006**	**Q4 2005**	**Q3 2005**	**Q2 2005**	**Q1 2005**
LEC billing	63%	62%	49%	35%	32%	23%	26%	49%
ACH billing	33%	33%	43%	54%	54%	64%	56%	42%
Direct billing	4%	5%	8%	11%	14%	13%	18%	9%

Recent Financial Results
The following represents a summary of recent financial results:

	Q4 2006	**Q3 2006**	**Q2 2006**	**Q1 2006**	**Q4 2005**	**Q3 2005**	**Q2 2005**	**Q1 2005**
Net Revenues	$ 10,082,487	$ 10,172,705	$ 8,999,196	$ 7,626,776	$ 6,052,936	$ 6,517,158	$ 6,444,609	$ 6,190,155
Gross margin	7,047,642	7,843,120	7,410,732	6,510,430	4,993,639	5,591,353	5,583,676	5,055,571
Operating expenses	5,878,319	6,613,886	7,288,932	6,906,338	5,610,005	5,311,145	4,674,869	4,314,831
Operating income (loss)	1,169,322	1,229,234	121,800	(395,908)	(616,366)	280,208	908,807	740,740
Net income (loss)	(1,680,673)	826,847	129,998	(327,092)	(386,653)	(175,887)	627,135	660,551

During fiscal 2006, we generated net loss of approximately $1,051,000, or ($0.02) per share on a diluted basis (which includes non-recurring expenses totaling approximately $4,144,000 or $0.09 per share consisting of approximately $3,687,000 of settlement related matters with attorneys general and with a former vendor and approximately $457,000 of severance costs, further described below). During fiscal 2005, we generated net income of approximately $725,000, or $0.02 per share on a diluted basis (which includes non-recurring expenses totaling approximately $527,000 or

$0.01 per share, further described below).

The following non-recurring items are relevant to our fiscal 2006 and 2005 quarterly operating results, each of which are further described in this Executive Overview:

§ Fourth quarter of fiscal 2006 - includes the following charges associated with the voluntary agreement with various regulatory agencies surrounding the use of activation checks (described in Recent Developments and Outlook above):

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- o $2,000,000 payment to cover regulatory and related expenses
- o $1,250,000 of accrued refunds and processing fees for existing customers that wish to cancel their service in response to the correspondence to be sent per the terms of the agreement
- o $275,000 of legal and professional fees

§ Third quarter of fiscal 2006 - no significant non-recurring expenses were incurred.

§ Second quarter of fiscal 2006 - includes an increase of general and administrative expenses of approximately $80,000 related to separation costs with our former Chief Financial Officer and $39,000 related to separation costs with other employees.

§ First quarter of fiscal 2006 - includes an increase of general and administrative expenses totaling approximately $338,000 related to separation costs with our former Chief Executive Officer and an increase in other expenses associated with an additional expense of $162,000 relating to an outstanding legal matter.

§ Fourth quarter of fiscal 2005 - includes an increase of general and administrative expenses totaling approximately $212,000 relating to the termination of consulting agreements with certain of our former officers offset by a reduction of general and administrative expenses of approximately $295,000 associated with the true-up of estimates of forfeitures of restricted stock grants.

§ Third quarter of fiscal 2005 - includes losses of $328,000 associated with a litigation settlement and approximately $282,000 associated with our agreement to settle outstanding amounts due from two of our largest stockholders (with the loss being equal to the difference between the fair value of debt forgiven and the value of the consideration received).

Critical Accounting Estimates and Assumptions

The preparation of our financial statements in conformity with accounting principles generally accepted in the United States of America requires our management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. As such, in accordance with the use of accounting principles generally accepted in the United States of America, our actual realized results may differ from management's initial estimates as reported. A summary of our significant accounting policies are detailed in the notes to the financial statements, which are an integral component of this filing.

The following summarizes critical estimates made by management in the preparation of the financial statements.

Revenue Recognition. We generate revenue from customer subscriptions for directory and advertising services. Our billing and collection procedures include significant involvement of outside parties, referred to as aggregators for LEC billing and service providers for ACH billing. Such processes are described below.

ACH Billing - For ACH billing, we submit electronic billing information to our service providers, who in turn use this information as a basis for processing direct bank withdrawals through an Automated Clearing House. We receive information regarding records that are rejected or cannot otherwise be processed on a timely basis, and we recognize revenue only for those items that are processed.

LEC Billing - When a customer subscribes to our service we create an electronic customer file, which is the basis for the billing. We submit gross billings electronically to third party billing aggregators. These billing aggregators compile and format our electronic customer files and forward the billing records to the appropriate LECs. The billing for our service flows through to monthly bills of the individual LEC customers. The LECs collect our billing and remit amounts to the billing aggregators, which in turn remit funds to us. The following are significant accounting estimates and assumptions used in the revenue recognition process with respect to these billings.

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- Customer refunds. We have a customer refund policy that allows the customer to request a refund if they are not satisfied with the service within the first 120 days of the subscription. We accrue for refunds based on historical experience of refunds as a percentage of new billings in that 120-day period. Customer refunds are reserved and charged against gross revenue.

- Non-paying customers. There are customers who may not pay the fee for our services even though we believe they are valid subscribers. Included in cost of services is an accrual for estimated non-paying customers that are recorded at the time of billing.

- Dilution. We recognize revenue during the month for which the service is provided based on net billings accepted by the billing aggregators. We recognize revenue only for accepted records. However, subsequent to this acceptance, there are instances in the LEC billing process where a customer cannot be billed due to changes in telephone numbers, telephone carriers, data synchronization issues, etc. These amounts that ultimately cannot be billed, as well as certain minor billing adjustments by the LECs are commonly referred to as "dilution." Dilution is estimated at the time of billing and charged to cost of services.

- Fees. Processing fees are charged by both the aggregator and the LEC. Additionally, the LEC charges fees for responding to billing inquiries by its customers, processing refunds, and other customer-related services. Such fees are estimated at the time of billing and charged to cost of services.

Direct bill customers - If we are unable to bill via any other means, we bill subscribers directly via paper invoices. Our collection rate on these billings is significantly lower than those processed through the LECs. We track collections on direct billed customers and recognize revenue from those customers based on the historical collection rates.

Fulfillment contracts - Beginning in fiscal 2006, we began entering into contracts with several third parties whereby we provide hosting, customer service and certain administrative functions under a revenue sharing agreements. We recognize revenues only for those revenues for which we are entitled to when the related services are performed.

Allowance for Doubtful Accounts. We receive cash through the processes discussed above. Under our contractual arrangements with our third party aggregators and service providers, the LECs and aggregators/service providers deduct from our gross billings amounts for returns, nonpaying customers, dilution and fees to arrive at net proceeds remitted to us. We estimate an allowance for doubtful accounts on the basis of information provided by the billing aggregators and service providers. This information is an indicator of timely payments made by our subscribers. At September 30, 2006 and 2005, the allowance for doubtful accounts was approximately 36% and 16% of gross accounts receivable, respectively.

Carrying Value of Intellectual Property. The carrying value of our intellectual property at September 30, 2006, relates primarily to the purchase of the Yellow-Page.Net Universal Resource Locator, or URL, from Telco. The URL is recorded at its $5,000,000 purchase price, less accumulated amortization of $2,661,000. We have estimated the useful life of this asset to be 20 years.

We evaluate the recoverability of the carrying amount of this and other intangible assets whenever events or changes in circumstances indicate that the carrying amount of this asset may not be fully recoverable. In 2006, there have been no events that indicate that this asset may be impaired and, accordingly, no such impairment tests are warranted. In the event of such changes, impairment would be assessed if the undiscounted expected cash flows derived for the asset are less than its carrying amount. The dynamic economic environment in which we operate and the resulting assumptions used to estimate future cash flows would impact the outcome of such impairment tests.

Change in Accounting Principle - Capitalization of Customer Acquisition Costs and Amortization of those Costs. We purchase mailing lists and send advertising materials to prospective subscribers from those mailing lists as well as outbound call campaigns. Customers subscribe to the services by affirmatively responding to those advertising materials and calling campaigns, which serve as the contract for the subscription. Previously, we capitalized these customer acquisition costs and amortized them on a straight-line basis over the average expected life of our customers based on historical IAP advertiser attrition rates and other factors.

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Prior to fiscal 2006, the majority of our capitalized customer acquisition costs related to our mailing campaigns for which we amortized the costs based on historical IAP advertiser attrition rates attributable to our entire customer base. During fiscal 2006, we began increasing our expenditures for telemarketing campaigns. The capitalization of such costs requires that we amortize over the average expected life of acquired customers, as determined on a cost-pool by cost-pool basis. Our systems do not allow us to efficiently and accurately monitor customer lives by method of acquisition. Therefore, we are unable to determine the average expected life of those customers acquired via telemarketing versus those acquired via mailing campaigns. As we cannot effectively evaluate such costs on a cost-pool by cost-pool basis, we determined in fiscal 2006 that the more preferable method of accounting for these costs is to expense them when incurred. We enacted this change in accounting principle during the fourth quarter of fiscal 2006 and, in accordance with FAS 154, we have restated all periods presented to reflect this new method of accounting for such costs.

Income Taxes. Management evaluates the probability of the utilization of the deferred income tax assets. We have estimated net deferred income tax assets of $3,117,000 and net deferred tax assets of $1,632,000 at September 30, 2006 and 2005, respectively, which relate to various timing differences between book and tax expense recognition. We are required to make judgments and estimates related to the timing and utilization of deferred income tax assets, applicable tax rates, and feasible tax planning strategies.

Stock-Based Compensation. From time-to-time, we grant restricted stock awards to employees, directors, executives, and consultants. Such awards are recorded as an increase to common stock and paid in capital on the grant date with an offsetting amount of deferred compensation in stockholders' equity. This deferred compensation cost is amortized on a straight-line basis over the vesting period. 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 (see discussion below in "*Results of Operations - Cumulative Effect of Accounting Change*"). The impact of changes in such estimates on unamortized deferred compensation cost are recorded as an adjustment to compensation expense in the period in which such estimates are revised.

Results of Operations

Net Revenues

Year Ended September 30,		Net Revenues		Change from Prior Year	Percent Change from Prior Year
2006	$	36,881,164	$	11,676,306	46.3%
2005	$	25,204,858	$	(31,963,247)	(55.9)%
2004	$	57,168,105			

The increase in revenues for fiscal 2006, as compared to 2005, was largely due to an increased customer count attributable to expanded marketing efforts, the reintroduction of the LEC billing channel for new customers, and new fulfillment contracts.

Through the settlement with the attorneys general described above, we will discontinue the use of activation checks in fiscal 2007. During fiscal 2006, such efforts constituted roughly half of our marketing expenditures.

Although we have concentrations of risk with our billing aggregators (as described in the Notes to Consolidated Financial Statements included elsewhere in this Annual Report) these aggregators bill via many underlying LECs, thereby reducing our risk associated with credit concentrations. However, there are a few LECs that service a significant number of our customers. To the extent that future changes in their billing practices cause a disruption in our ability to bill through these channels, our revenues could be adversely affected.

The majority of our IAP customers pay between $27.50 and $39.95 per month.

The decrease in revenues for the year ended September 30, 2005, as compared to the year ended September 30, 2004, was largely due to declines in our paying subscriber base resulting from our LEC billing issues.

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The success of our business model is based on our ability to retain, add and efficiently bill our subscribers.

There have been different methodologies employed in the reporting of customer count. To more properly reflect customer count we changed our methodology in the first quarter of fiscal 2006 to count billed listings. A billed listing is defined by management as any listing that has successfully been submitted through one of our billing channels or in the case of listings billed by direct invoice only those listings that have paid for their listing at the end of the reporting period.

Management believes that this change when coupled with the knowledge of our average price and percentage of returns and allowances will provide greater insight into our business model for the public.

The following represent our counts for billed listings over the last eight quarters:

Quarter Ended	Average Billed Listings During Quarter	Gross Revenue	Returns & Allowances (% of Gross Revenue)	Net Revenues	Average Monthly Gross Revenue per Average Billed Listing
September 30th, 2006	130,627	$ 10,672,074	5.52%	$ 10,082,487	$ 27.23
June 30th, 2006	134,264	10,869,020	6.41%	10,172,705	$ 26.98
March 31st, 2006	116,622	9,823,664	8.39%	8,999,196	$ 28.08
December 31st, 2005	90,809	8,328,583	8.43%	7,626,776	$ 30.57
September 30th, 2005	81,342	6,856,082	11.71%	6,052,936	$ 28.10
June 30th, 2005	83,096	7,419,827	12.17%	6,517,158	$ 29.76
March 31st, 2005	76,633	7,527,086	14.38%	6,444,609	$ 32.74
December 31st, 2004	82,579	7,502,125	17.49%	6,190,155	$ 30.28

Our average monthly gross revenue per average billed listing declined recently, as a significant amount of our increase in billed listings was via a new fulfillment contract. Under the terms of this new contract, our gross revenues are, on average, approximately $3 lower than comparable billed customers.

Cost of Services

Year Ended September 30,	Cost of Services	Change from Prior Year	Percent Change from Prior Year
2006	$ 8,069,239	$ 4,088,620	102.7%
2005	$ 3,980,619	$ (20,777,261)	(83.9)%
2004	$ 24,757,880		

The increase in cost of services for the year ended September 30, 2006, as compared to September 30, 2005, is largely due to an increase in LEC billings, which have higher costs than other billing channels Billings through LEC channels, comprised 64% of total billings during fiscal 2006 as compared to 32% in fiscal 2005. Increases in dilution expense and adjustments to dilution reserves were the primary components of the increase in cost of sales from fiscal 2005 to fiscal 2006.

The decrease in our cost of services from fiscal 2004 to fiscal 2005 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 32% of total billings during fiscal 2005 from over 90% of total billings during 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.

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Gross Profit

Year Ended September 30,		Gross Profit		Change from Prior Year	Percent Change from Prior Year
2006	$	28,811,925	$	7,587,686	35.8%
2005	$	21,224,239	$	(11,185,986)	(34.5)%
2004	$	32,410,225			

The increase in our gross profits was due primarily to increased revenues partially offset by increased cost of sales associated with higher utilization of LEC billing channels. Gross margins decreased to 78% of net revenues in fiscal 2006 compared to 84% of net revenues in fiscal 2005 due to increased dilution in fiscal 2006 resulting from the increase in LEC billings as previously discussed.

The decrease in our gross profits from fiscal 2004 to fiscal 2005 was due to decreased revenues resulting from a decrease in IAP advertisers, offset in part by the decreased dilution as discussed above.

General and Administrative Expenses

Year Ended September 30,		General & Administrative Expenses		Change from Prior Year	Percent Change from Prior Year
2006	$	13,800,456	$	769,842	5.9%
2005	$	13,030,614	$	344,278	2.7%
2004	$	12,686,336			

General and administrative expenses increased approximately $770,000 for the fiscal year ended September 30, 2006 compared to the fiscal year ended September 30, 2005. The increase in general and administrative expenses for fiscal 2006, as compared to fiscal 2005, is largely due to the following:

- An increase in consulting and professional fees of approximately $1,117,000 associated with (i) increased consulting expenses of $957,000, associated with operational and strategic consulting, and (ii) $162,000 of executive search and placement services and other miscellaneous activities.

- An increase in compensation expense of approximately $476,000 associated with the general increase in revenues and business activity in fiscal 2006. This increase was comprised of increases of approximately (i) $352,000 of severance costs associated with the termination of former officers and other personnel, (ii) non-cash compensation costs of $179,000 associated with restricted stock awards, (iii) $307,000 for Directors' compensation and Executive bonuses, and (iv) increases in leased and contract employees and other miscellaneous compensation expenses of $131,000. These costs were partially offset by a decrease in executive consulting fees of approximately $493,000.

- A decrease in mailing and other customer costs of approximately $662,000 associated with the reduction of paper invoices and other methods of correspondence with customers for which payment is unlikely to be received.

- General cost reductions of $161,000.

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General and administrative expenses increased 2.7 % during fiscal year 2005 compared to fiscal 2004. The increase in costs for the year ended September 30, 2005 was comprised of approximately $828,000 related to our efforts to reconfirm our existing subscriber base and $584,000 associated with increased customer mailing costs attributable to an increase in customers that are invoiced directly and other customer mailing efforts that took place during fiscal 2005. These increases were offset by the combination of $498,000 of decreased legal costs in fiscal 2005 and general expense reductions associated with cost-containment initiatives.

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

The following table sets forth our recent operating performance for general and administrative expenses:

	Q4 2006	Q3 2006	Q2 2006	Q1 2006	Q4 2005	Q3 2005	Q2 2005	Q1 2005
Compensation for employees, leased employees, officers and directors	$ 2,073,646	$ 1,908,099	$ 2,475,244	$ 2,476,713	$ 2,272,287	$ 2,115,672	$ 1,869,134	$ 2,201,308
Professional fees and other G&A costs	1,086,877	976,111	839,972	790,187	665,316	618,738	629,461	823,172
Reconfirmation, mailing, billing and other customer-related costs	39,180	245,597	396,883	491,947	407,554	517,565	614,591	295,816

Sales and Marketing Expenses

Year Ended September 30,		Sales & Marketing Expenses		Change from Prior Year	Percent Change from Prior Year
2006	$	11,452,465	$	6,142,228	115.7%
2005	$	5,310,237	$	(2,017,313)	(27.5)%
2004	$	7,327,550			

As discussed elsewhere in this section , we enacted a change in accounting principle in the fourth quarter of fiscal 2006 to expense such costs when they are incurred and have retroactively restated all period presented to reflect such a change.

Sales and marketing expense increased in fiscal 2006 as compared to fiscal 2005 primarily due to an increase in telemarketing expenditures from $153,000 in fiscal 2005 to $5,245,000 in fiscal 2006. The remaining increase is due to increased mailing campaigns partially offset by a decrease in branding activities. As previously discussed, in connection with the attorneys general campaign, we have ceased utilizing activation checks in early fiscal 2007. We expect telemarketing campaigns to be our primary source of sales and marketing expenditures in fiscal 2007.

Sales and marketing expenses as a percentage of revenues were 31.1% for fiscal 2006 compared to 21.1% for fiscal 2005 as we have increased our telemarketing and other sales efforts to fuel revenue growth.

Depreciation and Amortization

Year Ended September 30,	Depreciation & Amortization	Change from Prior Year	Percent Change from Prior Year
2006	$ 1,434,554	$ (135,445)	(8.6)%
2005	$ 1,569,999	$ 639,606	68.7%
2004	$ 930,393		

Depreciation and amortization remained largely consistent between the fiscal years ended September 30, 2006 and 2005. Expenses for depreciation and amortization consist of amortization of fixed assets, capitalized website costs, intangible assets and our non-compete agreements.

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The increase in depreciation and amortization expense from fiscal 2004 to fiscal 2005 is attributable to (i) amortization of a $1,821,000 non-compete agreement acquired in April 2005 as part of the Transfer and Repayment Agreement described in "Recent Developments" above and in Note 11 of the Notes to Consolidated Financial Statements included elsewhere in this report, and (ii) increased amortization of intangible assets associated with website development costs that were capitalized during 2005.

Operating Income

Year Ended September 30,		Operating Income		Change from Prior Year	Percent Change from Prior Year
2006	$	2,124,450	$	811,061	61.8%
2005	$	1,313,389	$	(10,152,557)	(88.5)%
2004	$	11,465,946			

Our operating income increased in fiscal 2006 from fiscal 2005 due primarily to revenue increases, offset primarily by increased dilution in our LEC billing channel and increased sales and marketing activities, as previously described. Revenues decreases as previously described in fiscal 2005 as compared to fiscal 2004 were the predominant factor in our decrease in operating income for the year ended September 30, 2005 compared with the year ended September 30, 2004.

Loss on Attorneys General Settlement

The loss on attorneys general settlement, unique to fiscal 2006, relates to the settlement of matters described in "*Executive Overview - Recent Developments and Outlook*" above. This loss includes a settlement fee of $2,000,000, $1,250,000 of accrued refunds and related expenses and $275,000 of legal fees. Such matters have been concluded and we do not expect any additional future charges relating to these events.

Other Income (Expense)

Year Ended September 30,		Other Income (Expense)		Change from Prior Year	Percent Change from Prior Year
2006	$	(186,325)	$	364,084	(66.1)%
2005	$	(550,409)	$	(1,338,584)	(169.8)%
2004	$	788,175			

Other income (expense) in each of the years presented consist primarily of non-related matters. Other income (expense) for the year ended September 30, 2006 consists primarily of a $162,000 expense related to the settlement of an outstanding matter with a vendor.

Other income (expense) for the year ended September 30, 2005 includes losses of $328,000 associated with a litigation settlement and approximately $282,000 associated with our agreement to settle outstanding amounts due from two of our largest stockholders. These agreements were reached in fiscal 2005.

Other income in fiscal 2004 consisted of technical and service income from Simple.net of $287,000, a nonrecurring reversal of $525,000 of previously accrued compensation costs for former executives for which payment is no longer required, and other miscellaneous items.

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Income Tax Benefit (Provision)

Year Ended September 30,	Income Tax Benefit (Provision)	Change from Prior Year	Percent Change from Prior Year
2006	$ 311,779	$ 683,816	(183.8)%
2005	$ (372,037)	$ 4,005,176	(91.5)%
2004	$ (4,377,213)		

The change in our income tax benefit (provision) in each of the above years is due primarily to changes in our pre-tax income. As of September 30, 2006, we have utilized all of our net operating loss carryforwards.

Cumulative Effect of Accounting Change

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) no longer permits 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. Note that this change in accounting principle was enacted prior to the adoption of FAS 154, which requires the retroactive application of changes in accounting principles to all periods presented.

Net Income (Loss)

Year Ended September 30,	Net Income (Loss)	Change from Prior Year	Percent Change from Prior Year
2006	$ (1,050,920)	$ (1,776,066)	244.9%
2005	$ 725,146	$ (7,459,784)	(91.1)%
2004	$ 8,184,930		

We reported a net loss for fiscal 2006 of $1,051,000 as compared to net income for fiscal 2005 of $725,000, a decrease of $1,776,000. The substantial decrease in net income in fiscal 2006 is primarily the result of non-recurring expenses totaling approximately $4,144,000 consisting of approximately $3,687,000 of settlement related expenditures with attorneys general and with a former vendor and approximately $457,000 of severance costs and increased sales and marketing expenditures, which were partially offset by increased gross margins due to our ability to utilize the LEC billing channel as previously discussed. The substantial decrease in net income for the year ended September 30, 2005 is due primarily to decreased revenues.

Liquidity and Capital Resources

Net cash provided by operating activities decreased approximately $4,570,000, or 65%, to $2,420,000 for the year ended September 30, 2006, compared to $6,990,000 for the year ended September 30, 2005. The decrease in cash generated from operations in fiscal 2006 is primarily due to an increase in accounts receivable and the related provisions resulting from an increased reliance on the LEC billing channel. Net cash provided by operating activities was $4,818,000 for the year ended September 30, 2004.

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Our primary source of cash inflows is net remittances from our billing channels, including ACH billings and LEC billings. For ACH billings, we generally receive the net proceeds through our billing service processors within 15 days of submission. 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. As of September 30, 2006, approximately 31% of our accounts receivable are due from a single aggregator.

Our most significant cash outflows include payments for marketing expenses and general operating expenses. 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 in investing activities totaled $1,088,000 during fiscal 2006 and consisted of investments of excess cash in certificates of deposit and other investments, expenditures for intangible assets and minor purchases of equipment. During fiscal 2005, cash used for investing activities was $2,441,000, and also consisted of investments of excess cash in certificates of deposit and other investments, expenditures for intangible assets and minor purchases of equipment. During fiscal 2004, cash used for investing activities was $2,193,000.

Net cash used for financing activities was $235,000 during fiscal 2006 and consisted of the repurchase of our treasury stock. Cash used for financing activities during fiscal 2005 were $2,012,000 and consisted predominantly of payments of common stock dividends of $1,445,000 and purchases of treasury stock totaling $566,000. Cash used for financing activities during fiscal 2004 were $1,428,000.

We had working capital of $13,705,000 as of September 30, 2006, compared to $13,374,000 as of September 30, 2005. Our cash position increased to over $7,211,000 at September 30, 2006 from approximately $6,114,000 at the end of fiscal 2005.

During 2005, our Board of Directors authorized the repurchase of up to $3,000,000 of our common stock from time to time on the open market or in privately negotiated transactions. To date, we have purchased 853,850 shares at an aggregate cost of $686,793 under the program.

During fiscal 2006, we entered into a contractual arrangement with an attorney to settle previous claims and to engage the future services of this attorney. Under the terms of the arrangement, we made cash payments during the year totaling $145,000 and granted 100,000 shares of restricted stock. We are obligated to make future payments over the next two years totaling $234,750 in exchange for future services. Such amounts have not been accrued in the accompanying financial statements as such payments are for future services.

During fiscal 2006, we entered into a contractual arrangement with a consulting firm to provide strategic and operational related consulting services. Under the terms of the agreement, we are obligated to make future payments through July 2009 that vary based on the Company's billed customer count subject to a minimum of $20,000 per month. Current payments are approximately $100,000 per month. Such amounts have not been accrued in the accompanying financial statements as such payments are for future services.

The following table summarizes our contractual obligations at September 30, 2006 and the effect such obligations are expected to have on our future liquidity and cash flows:

		Payments Due by Fiscal Year					
Contractual obligations	**Total**	**2007**	**2008**	**2009**	**2010**	**2011**	**Thereafter**
Lease commitments	$ 777,125	$ 296,209	$ 159,899	$ 116,733	$ 116,733	$ 87,550	$ -
Noncanceleable service contracts	894,750	427,500	287,250	180,000	-	-	-
	$ 1,671,875	$ 723,709	$ 447,149	$ 296,733	$ 116,733	$ 87,550	$ -

We believe that our existing cash on hand will provide us with sufficient liquidity to meet our operating needs for the next twelve months.

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At September 30, 2006, we had no other off-balance sheet arrangements, commitments or guarantees that require additional disclosure or measurement.

ITEM 7A. Quantitative and Qualitative Disclosure about Market Risk

As of September 30, 2006, 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 fiscal 2006 or 2005) or commodity price risk.

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ITEM 8. Financial Statements and Supplementary Data

YP CORP.

INDEX TO CONSOLIDATED 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 sheets of YP Corp. and subsidiaries as of September 30, 2006 and 2005 and the related statements of operations, stockholders' equity and cash flows for each of the three years in the period ended September 30, 2006. 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 audits in accordance with the standards of the Public Company Accounting Oversight Board (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, 2006 and 2005, and the consolidated results of its operations and cash flows for each of the three years in the period ended September 30, 2006, in conformity with accounting principles generally accepted in the United States of America.

/s/ Epstein, Weber & Conover, PLC
Scottsdale, Arizona
December 18, 2006

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YP CORP. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	September 30,	
Assets	**2006**	**2005**
Cash and equivalents	$ 7,210,560	$ 6,114,311
Restricted cash	-	500,000
Certificates of deposit and other investments	2,266,268	2,004,987
Accounts receivable, net	6,741,781	5,338,533
Prepaid expenses and other current assets	259,069	602,103
Deferred tax asset	1,781,736	381,887
Total current assets	18,259,414	14,941,821
Accounts receivable, long term portion, net	1,140,179	873,299
Property and equipment, net	178,883	396,862
Deposits and other assets	91,360	62,029
Intangible assets, net	5,722,604	6,108,823
Deferred tax asset, long term	1,334,787	1,250,082
Total assets	$ 26,727,227	$ 23,632,916
Liabilities and Stockholders' Equity		
Accounts payable	$ 773,653	$ 655,527
Accrued liabilities	3,315,439	803,268
Income taxes payable	261,762	108,855
Total current liabilities	4,350,854	1,567,650
Series E convertible preferred stock, $.001 par value, 200,000 shares authorized, 127,840 issued and outstanding, liquidation preference $38,202	10,866	10,866
Common stock, $.001 par value, 100,000,000 shares authorized, 50,021,594 and 48,837,694 issued and outstanding	50,022	48,838
Treasury stock	(2,407,158)	(2,171,740)
Paid in capital	12,249,166	11,044,400
Deferred stock compensation	(2,854,122)	(3,247,535)
Retained earnings	15,327,599	16,380,437
Total stockholders' equity	22,376,373	22,065,266
Total liabilities and stockholders' equity	$ 26,727,227	$ 23,632,916

See accompanying notes to consolidated financial statements.

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YP CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF OPERATIONS

	Year ended September 30, 2006	2005	2004
Net revenues	$ 36,881,164	$ 25,204,858	$ 57,168,105
Cost of services	8,069,239	3,980,619	24,757,880
Gross profit	28,811,925	21,224,239	32,410,225
Operating expenses:			
General and administrative expenses	13,800,456	13,030,614	12,686,336
Sales and marketing expenses	11,452,465	5,310,237	7,327,550
Depreciation and amortization	1,434,554	1,569,999	930,393
Total operating expenses	26,687,475	19,910,850	20,944,279
Operating income	2,124,450	1,313,389	11,465,946
Other income (expense):			
Interest expense and other financing costs	-	(8,610)	(19,123)
Interest income	224,176	242,965	327,145
Loss on attorneys general settlement	(3,525,000)	-	-
Other income (expense)	(186,325)	(550,409)	788,175
Total other income (expense)	(3,487,149)	(316,054)	1,096,197
Income (loss) before income taxes and cumulative effect of accounting change	(1,362,699)	997,335	12,562,143
Income tax benefit (provision)	311,779	(372,037)	(4,377,213)
Cumulative effect of accounting change (net of income taxes of $53,764 in 2005)	-	99,848	-
Net income (loss)	$ (1,050,920)	$ 725,146	$ 8,184,930
Net income (loss) per common share:			
Basic:			
Income (loss) applicable to common stock before cumulative effect of accounting change	$ (0.02)	$ 0.01	$ 0.17
Cumulative effect of accounting change	$ -	$ 0.00	$ -
Net income applicable to common stock	$ (0.02)	$ 0.02	$ 0.17
Diluted:			
Income (loss) applicable to common stock before cumulative effect of accounting change	$ (0.02)	$ 0.01	$ 0.17
Cumulative effect of accounting change	$ -	$ 0.00	$ -
Net income (loss) applicable to common stock	$ (0.02)	$ 0.02	$ 0.17
Weighted average common shares outstanding:			
Basic	44,958,683	46,390,356	47,375,927
Diluted	44,958,683	46,659,918	48,075,699

Certain amounts may not total due to rounding of individual components.

See accompanying notes to consolidated financial statements.

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YP CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

	Common Stock Shares	Common Stock Amount	Preferred Stock Shares	Preferred Stock Amount	Treasury Stock	Paid-In Capital	Deferred Compensation	Retained Earnings	Total
Balance, September 30, 2003	49,348,287	$ 49,349	131,840	$ 11,206	$ (216,422)	$ 9,359,865	$ (3,840,843)	$ 10,346,160	$ 15,709,315
Common stock issued for services	1,010,000	1,010				1,540,430	(1,541,440)		-
Series E preferred stock dividends								(1,957)	(1,957)
Common stock issued in restricted stock plan	515,000	515				1,520,636	(1,521,151)		-
Amortization of deferred stock compensation							1,160,620		1,160,620
Net income								8,184,930	8,184,930
Preferred shares converted to common	3,500	3	(3,500)	(297)		1,869			1,575
Common stock dividends								(1,427,640)	(1,427,640)
Treasury stock retired					216,422	(216,422)			-
Canceled stock	(18,000)	(18)				(54,432)			(54,450)
Balance, September 30, 2004	50,858,787	$ 50,859	128,340	$ 10,909	$ -	$ 12,151,946	$ (5,742,814)	$ 17,101,493	$ 23,572,393
Common stock issued for services	100,000	100				119,400			119,500
Treasury stock received as partial settlement of amounts due from affiliates	(1,889,566)	(1,889)			(1,606,131)	1,889			(1,606,131)

Treasury stock acquited as part of stock repurchase program	(601,250)	(601)			(565,609)	601			(565,609)
Series E preferred stock dividends								(1,439)	(1,439)
Conversion of Series E preferred stock	500		(500)	(43)		267			224
Common stock issued in restricted stock plan	885,723	886				529,490	(530,376)		-
Amortization of deferred stock compensation							1,419,557		1,419,557
Net income								725,146	725,146
Common stock dividends								(1,444,763)	(1,444,763)
Cumulative effect of accounting change						(1,166,426)	1,012,814		(153,612)
Effect of change in estimated forteiture rate for restricted stock plan						(593,284)	593,284		-
Canceled stock	(516,500)	(517)				517			(0)
Balance, September 30, 2005	48,837,694	$ 48,838	127,840	$ 10,866	$ (2,171,740)	$ 11,044,400	$ (3,247,535)	$ 16,380,437	$ 22,065,266
Treasury stock acquired as part of stock repurchase program	(252,600)	(253)			(134,418)	253			(134,418)
Treasury stock acquired in connection	(100,000)	(100)			(101,000)	100			(101,000)

with URL purchase									
Series E preferred stock dividends								(1,918)	(1,918)
Common stock issued in restricted stock plan	2,396,500	2,397				1,288,021	(1,290,418)		-
Amortization of deferred stock compensation							1,599,363		1,599,363
Net income								(1,050,920)	(1,050,920)
Effect of change in estimated forfeiture rate for restricted stock plan		-				(84,468)	84,468		-
Canceled stock	(860,000)	(860)				860			-
Balance, September 30, 2006	50,021,594	$ 50,022	127,840	$ 10,866	$ (2,407,158)	$ 12,249,166	$ (2,854,122)	$ 15,327,599	$ 22,376,373

See accompanying notes to consolidated financial statements.

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YP CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS

	Year ended September 30, 2006	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ (1,050,920)	$ 725,146	$ 8,184,930
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization	1,434,554	1,569,999	930,392
Amortization of deferred stock compensation	1,599,363	1,419,557	1,160,620
Issuance of common stock as compensation for services	-	119,500	-
Non-cash interest income on advances to affiliates	-	(110,019)	-
Non-cash loss on transaction with affiliates	-	281,884	-
Cumulative effect of accounting change	-	(99,848)	-
Non-cash income recognized on return of common stock related to legal settlements	-	-	(54,450)
Deferred income taxes	(1,484,554)	(507,259)	1,673,829
(Gain) loss on disposal of equipment	(3,221)	-	3,992
Provision for uncollectible accounts	348,789	442,775	285,070
Changes in assets and liabilities:			
Restricted cash	500,000	(500,000)	-
Accounts receivable	(2,018,917)	3,783,010	(2,270,558)
Prepaid and other current assets	343,034	(1,365,853)	(668,643)
Deposits and other assets	(29,331)	177,031	(90,750)
Accounts payable	118,126	(554,838)	781,941
Accrued liabilities	2,510,253	260,786	(870,764)
Income taxes payable	(152,807)	1,348,290	(3,928,748)
Advances to affiliates	-	-	(318,658)
Net cash provided by operating activities	2,420,083	6,990,161	4,818,203
CASH FLOWS FROM INVESTING ACTIVITIES:			
Advances made to affiliates and related parties	-	-	(3,050,000)
Repayments of advances made to affiliates and related parties	-	-	1,600,000
Investments in certificates of deposit and other investments	(261,281)	(2,004,987)	-
Expenditures for intangible assets	(801,416)	(391,077)	(391,442)
Proceeds from sale of equipment	-	-	34,320
Purchases of equipment	(25,719)	(44,728)	(385,378)
Net cash used in investing activities	(1,088,416)	(2,440,792)	(2,192,500)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Series E preferred stock dividends	-	(1,439)	(1,957)
Common stock dividends	-	(1,444,763)	(1,427,640)
Proceeds from conversion of preferred stock	-	224	1,575

Purchase of treasury stock		(235,418)		(565,609)		-
Net cash used in financing activities		(235,418)		(2,011,587)		(1,428,022)
INCREASE IN CASH AND CASH EQUIVALENTS		1,096,249		2,537,782		1,197,681
CASH AND CASH EQUIVALENTS, beginning of year		6,114,311		3,576,529		2,378,848
CASH AND CASH EQUIVALENTS, end of year	$	7,210,560	$	6,114,311	$	3,576,529

See accompanying notes to consolidated financial statements.

YP CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION AND BASIS OF PRESENTATION

YP Corp. (the "Company"), formally YP.Net, Inc. and RIGL Corporation, had previously attempted to develop software solutions for medical practice billing and administration. The Company had made acquisitions of companies performing medical practice billing services as test sites for its software and as business opportunities. The Company was not successful in implementing its medical practice billing and administration software products and looked to other business opportunities. The Company acquired Telco Billing, Inc. in June 1999, through the issuance of 17,000,000 shares of the Company's common stock. Prior to its acquisition of Telco, the Company had not generated significant or sufficient revenue from planned operations.

Telco was formed in April 1998, to provide advertising and directory listings for businesses on its Internet website in a "Yellow Pages" format. Telco provides those services to its subscribers for a monthly fee. These services are provided primarily to businesses throughout the United States. Telco became a wholly owned subsidiary of YP Corp. after the June 1999 acquisition.

At the time that the transaction was agreed to, the Company had 12,567,770 common shares issued and outstanding. As a result of the merger transaction with Telco, there were 29,567,770 common shares outstanding, and the former Telco stockholders held approximately 57% of the Company's voting stock. For financial accounting purposes, the acquisition was a reverse acquisition of the Company by Telco, under the purchase method of accounting, and was treated as a recapitalization with Telco as the acquirer. Consistent with reverse acquisition accounting, (i) all of Telco's assets, liabilities, and accumulated deficit were reflected at their combined historical cost (as the accounting acquirer) and (ii) the preexisting outstanding shares of the Company (the accounting acquiree) were reflected at their net asset value as if issued on June 16, 1999.

The accompanying financial statements represent the consolidated financial position and results of operations of the Company and include the accounts and results of operations of the Company, Telco and Telco of Canada, Inc, the Company's wholly owned subsidiaries, for the years ended September 30, 2006, 2005, and 2004. All amounts, except share and per share amounts, are rounded to the nearest thousand dollars.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

<u>Cash and Cash Equivalents:</u> This includes all short-term highly liquid investments that are readily convertible to known amounts of cash and have original maturities of three months or less. At times, cash deposits may exceed government insured limits. At September 30, 2006 and 2005, cash deposits exceeded those insured limits by $6,699,000 and $5,883,000, respectively.

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

<u>Customer Acquisition Costs.</u> In the fourth quarter of fiscal 2006, the Company enacted a change in accounting principle to expense customer acquisition costs when incurred. Prior periods have been restated to reflect the retroactive application of this change. See Note 3.

<u>Property and Equipment:</u> Property and equipment is stated at cost less accumulated depreciation. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets ranging from 3 to 5 years. Depreciation

expense was $247,000, $374,000, and $352,000 for the years ended September 30, 2006, 2005, and 2004, respectively.

Revenue Recognition: The Company’s revenue is generated by customer subscriptions of directory and advertising services. Revenue is billed and recognized monthly for services subscribed in that specific month. The Company utilizes outside billing companies to perform billing services through two primary channels:

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YP CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

- direct ACH withdrawals; and
- inclusion on the customer's local telephone bill provided by their Local Exchange Carriers, or LECs.

For billings via ACH withdrawals, revenue is recognized when such billings are accepted. For billings via LECs, the Company recognizes revenue based on net billings accepted by the LECs. Due to the periods of time for which adjustments may be reported by the LECs and the billing companies, the Company estimates and accrues for dilution and fees reported subsequent to year-end for initial billings related to services provided for periods within the fiscal year. Such dilution and fees are reported in cost of services in the accompanying Consolidated Statement of Operations. Customer refunds are recorded as an offset to gross revenue.

Revenue for billings to certain customers that are billed directly by the Company and not through the outside billing companies is recognized based on estimated future collections. The Company continuously reviews this estimate for reasonableness based on its collection experience.

Income Taxes: The Company provides for income taxes based on the provisions of SFAS No. 109, *Accounting for Income Taxes,* which, among other things, requires that recognition of deferred income taxes be measured by the provisions of enacted tax laws in effect at the date of financial statements.

Net (Loss) / Income Per Share: Net income per share is calculated using the weighted average number of shares of common stock outstanding during the year. The Company has adopted the provisions of SFAS No. 128, *Earnings Per Share*.

Financial Instruments: Financial instruments consist primarily of cash, accounts receivable, advances to affiliates and obligations under accounts payable, accrued expenses and notes payable. The carrying amounts of cash, accounts receivable, accounts payable, accrued expenses and notes payable approximate fair value because of the short maturity of those instruments. The carrying amount of the advances to affiliates approximates fair value because the Company charges what it believes are market rate interest rates for comparable credit risk instruments. The Company has applied certain assumptions in estimating these fair values. The use of different assumptions or methodologies may have a material effect on the estimates of fair values.

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

Significant estimates made in connection with the accompanying financial statements include the estimate of dilution and fees associated with LEC billings, the estimated reserve for doubtful accounts receivable, estimated customer retention period used for the amortization of customer acquisition costs, estimated forfeiture rates for stock-based compensation, and estimated useful lives for intangible assets and property and equipment.

Stock-Based Compensation: The Company from time-to-time grants restricted stock awards to employees and executives. Such awards are recorded as an increase to common stock and paid in capital on the grant date with an offsetting amount of deferred compensation in stockholders' equity. This deferred compensation cost is amortized on a straight-line basis over the vesting period.

The Company accounts for stock awards issued to non-employees in accordance with the provisions of SFAS 123 and Emerging Issues Task Force ("EITF") Issue No. 96-18 *Accounting for Equity Instruments that are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling Goods or Services*. Under SFAS 123 and EITF 96-18, stock awards to non-employees are accounted for at fair value at their respective measurement date.

YP CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Impairment of Long-lived Assets: The Company assesses long-lived assets for impairment in accordance with the provisions of SFAS 144, *Accounting for the Impairment or Disposal of Long-Lived Assets.* SFAS 144 requires that the Company assess the value of a long-lived asset whenever there is an indication that its carrying amount may not be recoverable. The carrying amount of a long lived asset is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. The amount of impairment loss, if any, is measured as the difference between the net book value of the asset and its estimated fair value. For purposes of these tests, long-lived assets must be grouped with other assets and liabilities for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. No long-lived assets were impaired during the years ended September 30, 2006, 2005, and 2004.

Recently Issued 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 became effective for fiscal years beginning after June 15, 2005 and allowed for several alternative transition methods. In light of this new standard, the Company decided to change its method of accounting for forfeitures of restricted stock, under current GAAP rules effective October 1, 2004. See Note 3. The Company adopted the provisions of SFAS 123R in the first quarter of fiscal 2006 on a prospective basis and does not have a material effect on its financial condition or results of operations.

In September of 2006, the FASB issued SFAS No. 157 "Fair Value Measurements" (SFAS No. 157). SFAS No. 157 establishes a framework for measuring fair value under generally accepted accounting procedures and expands disclosures on fair value measurements. This statement applies under previously established valuation pronouncements and does not require the changing of any fair value measurements, though it may cause some valuation procedures to change. Under SFAS No. 157, fair value is established by the price that would be received to sell the item or the amount to be paid to transfer the liability of the asset as opposed to the price to be paid for the asset or received to transfer the liability. Further, it defines fair value as a market specific valuation as opposed to an entity specific valuation, though the statement does recognize that there may be instances when the low amount of market activity for a particular item or liability may challenge an entity's ability to establish a market amount. In the instances that the item is restricted, this pronouncement states that the owner of the asset or liability should take into consideration what affects the restriction would have if viewed from the perspective of the buyer or assumer of the liability. This statement is effective for all assets valued in financial statements for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact of SFAS No. 157 to its financial position and result of operations.

In September of 2006, the Securities and Exchange Commission released Staff Accounting Bulletin No. 108 "Considering the effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements" (SAB 108). SAB 108 provides guidance on the consideration of the effects of prior year misstatements in quantifying current year misstatements for the purpose of a materiality assessment. SAB 108 suggests that a registrant's materiality evaluation of an identified unadjusted error should quantify the effects of the identified unadjusted error on each financial statement and related financial statement disclosure. SAB 108 was issued on September 13, 2006. The Company's adoption of SAB No. 108 is not expected to impact its financial position and results of operations.

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YP CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. ACCOUNTING CHANGES

Change in Accounting Principle Subsequent to Adoption of FAS 154 - Accounting for Customer Acquisition Costs

Historically, the Company has capitalized customer acquisition costs consisting of mailing lists and check mailers and amortized them on a straight-line basis over the average expected life of the related customers based on historical IAP advertiser attrition rates and other factors.

Prior to fiscal 2006, the majority of the capitalized customer acquisition costs related to the Company's mailing campaigns for which the Company amortized the costs based on historical IAP advertiser attrition rates attributable to its entire customer base. During fiscal 2006, the Company began increasing its expenditures for telemarketing campaigns. The capitalization of such costs requires that the Company amortize them over the average expected life of acquired customers, as determined on a cost-pool by cost-pool basis. The Company's systems do not allow us to efficiently and accurately monitor customer lives by method of acquisition. Therefore, the Company is unable to determine the average expected life of those customers acquired via telemarketing versus those acquired via mailing campaigns and cannot assess the value of the future benefits. As it cannot effectively evaluate such costs on a cost-pool by cost-pool basis, the Company determined in fiscal 2006 that the more preferable method of accounting for these costs is to expense them when incurred. The Company enacted this change in accounting principle during the fourth quarter of fiscal 2006 and, in accordance with FAS 154, it has restated all periods presented to reflect this new method of accounting for such costs.

The following tables set forth the impact of such a change on the Company's financial statements:

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Income Statement	**Year Ended September 30, 2006**		
	As computed prior to change	As reported after change	Effect of change
Sales and marketing expense	$ 8,959,000	$ 11,452,000	$ 2,493,000
Income tax expense (benefit)	$ 620,000	$ (312,000)	$ (932,000)
Net income (loss)	$ 511,000	$ (1,051,000)	$ (1,562,000)
Net income (loss) per common share:			
Basic	$ 0.01	$ (0.02)	$ (0.03)
Diluted	$ 0.01	$ (0.02)	$ (0.03)

	Year Ended September 30, 2005		
	As Originally Reported	As Adjusted	Effect of change
Sales and marketing expense	$ 7,455,000	$ 5,310,000	$ (2,145,000)
Income tax expense (benefit)	$ (429,000)	$ 372,000	$ 801,000
Net income (loss)	$ (618,000)	$ 725,000	$ 1,343,000
Net income (loss) per common share:			
Basic	$ (0.01)	$ 0.02	$ 0.03
Diluted	$ (0.01)	$ 0.02	$ 0.03

	Year Ended September 30, 2004		
	As Originally Reported	As Adjusted	Effect of change
Sales and marketing expense	$ 6,089,000	$ 7,328,000	$ 1,239,000
Income tax expense (benefit)	$ 4,840,000	$ 4,377,000	$ (463,000)
Net income (loss)	$ 8,961,000	$ 8,185,000	$ (776,000)
Net income (loss) per share:			
Basic	$ 0.19	$ 0.17	$ 0.02
Diluted	$ 0.19	$ 0.17	$ 0.02

Balance Sheet	**September 30, 2006**		
	As computed prior to change	As reported after change	Effect of change
Customer acquisition costs, net	$ 4,831,000	$ -	$ (4,831,000)
Deferred tax asset (liability), long term	$ (470,000)	$ 1,335,000	$ 1,805,000
Retained earnings	$ 18,354,000	$ 15,328,000	$ (3,026,000)
Total stockholders' equity	$ 25,402,000	$ 22,376,000	$ (3,026,000)

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YP CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	September 30, 2005		
	As Originally Reported	As Adjusted	Effect of change
Customer acquisition costs, net	$ 2,338,000	$ -	$ (2,338,000)
Deferred tax asset (liability), long term	$ 377,000	$ 1,250,000	$ 873,000
Retained earnings	$ 17,845,000	$ 16,380,000	$ (1,464,000)
Total stockholders' equity	$ 23,530,000	$ 22,065,000	$ (1,464,000)
	$ -	$ -	$ -

Statement of Cash Flows	**Year Ended September 30, 2006**		
	As computed prior to change	As reported after change	Effect of change
Net income (loss)	$ 511,000	$ (1,051,000)	$ (1,562,000)
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Deferred income taxes	$ (86,000)	$ (1,018,000)	$ (932,000)
Changes in assets and liabilities:			
Customer acquisition costs	$ (2,493,000)	$ -	$ 2,493,000
Net cash provided by operating activities	$ 2,420,000	$ 2,420,000	$ -

	Year Ended September 30, 2005		
	As Originally Reported	As Adjusted	Effect of change
Net income (loss)	$ (618,000)	$ 725,000	$ 1,343,000
Adjustments to reconcile net income to net cash provided by (used in) operating activities			
Deferred income taxes	$ (1,308,000)	$ (507,000)	$ 801,000
Changes in assets and liabilities:			
Customer acquisition costs	$ 2,145,000	$ -	$ (2,145,000)
Net cash provided by operating activities	$ 6,990,000	$ 6,990,000	$ -

	Year Ended September 30, 2004		
	As Originally Reported	As Adjusted	Effect of change
Net income (loss)	$ 8,961,000	$ 8,185,000	$ (776,000)
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Deferred income taxes	$ 2,137,000	$ 1,674,000	$ (463,000)
Changes in assets and liabilities:			
Customer acquisition costs	$ (1,239,000)	$ -	$ 1,239,000
Net cash provided by operating activities	$ 4,818,000	$ 4,818,000	$ -

Change in Accounting Principle Prior to Adoption of FAS 154 - Accounting for Forfeitures of Restricted Stock

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.

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YP CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 year ended September 30, 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 was to increase net income by $108,000 (net of income taxes of $64,000) for the year ended September 30, 2005.

The estimated pro forma effects of the accounting change on the Company’s results of operations for the year ended September 30, 2004 is as follows:

		Year Ended September 30, 2004
As reported:		
Net income	$	8,185,000
Basic net income per share	$	0.17
Diluted net income per share	$	0.17
Pro forma amounts reflecting the accounting change applied retroactively:		
Net income	$	8,301,000
Basic net income per share	$	0.18
Diluted net income per share	$	0.17
Weighted average common shares outstanding:		
Basic		47,375,927
Diluted		48,075,699

4. BALANCE SHEET INFORMATION

Balance sheet information is as follows:

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YP CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	September 30, 2006		September 30, 2005	
Receivables, current, net				
Accounts receivable, current	$	11,027,000	$	6,451,000
Less: Allowance for doubtful accounts		(4,285,000)		(1,112,000)
	$	6,742,000	$	5,339,000
Receivables, long term, net				
Accounts receivable, long term	$	1,374,000	$	982,000
Less: Allowance for doubtful accounts		(234,000)		(109,000)
	$	1,140,000	$	873,000
Total receivables, net				
Gross receivables	$	12,401,000	$	7,433,000
Gross allowance for doubtful accounts		(4,519,000)		(1,221,000)
	$	7,882,000	$	6,212,000
Components of allowance for doubtful accounts are as follows:				
Allowance for dilution and fees on amounts due from billing aggregators	$	2,288,000	$	923,000
Allowance for customer refunds		2,231,000		298,000
	$	4,519,000	$	1,221,000
Property and equipment, net				
Leasehold improvements	$	448,000	$	439,000
Furnishings and fixtures		296,000		295,000
Office, computer equipment and other		1,055,000		1,040,000
		1,799,000		1,774,000
Less: Accumulated depreciation		(1,620,000)		(1,377,000)
	$	179,000	$	397,000
Intangible assets, net				
Domain name	$	5,709,000	$	5,510,000
Non-compete agreement		3,465,000		3,465,000
Website development		1,009,000		781,000
Software licenses		428,000		53,000
		10,611,000		9,809,000
Less: Accumulated amortization of intangible		(4,888,000)		(3,700,000)
	$	5,723,000	$	6,109,000
Accrued liabilities				
Litigation accrual	$	2,958,000	$	382,000
Deferred revenue		188,000		291,000
Accrued expenses - other		169,000		130,000
	$	3,315,000	$	803,000

YP CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5. ACCOUNTS RECEIVABLE

The Company provides billing information to third party billing companies for the majority of its monthly billings. Two billing channels account for the majority of the Company's accounts receivable. Billings submitted are "filtered" by these billing companies and the LECs. Net accepted billings are recognized as revenue and accounts receivable. The billing companies remit payments to the Company on the basis of cash ultimately received from the LECs by those billing companies. The billing companies and LECs charge fees for their services, which are netted against the gross accounts receivable balance. The billing companies also apply holdbacks to the remittances for potentially uncollectible accounts. These amounts will vary due to numerous factors and the Company may not be certain as to the actual amounts on any specific billing submittal until several months after that submittal. The Company estimates the amount of these charges and holdbacks based on historical experience and subsequent information received from the billing companies. The Company also estimates uncollectible account balances and provides an allowance for such estimates. The billing companies retain certain holdbacks that may not be collected by the Company for a period extending beyond one year. These balances have been classified as long-term assets in the accompanying balance sheet.

The Company experiences significant dilution of its gross billings by the billing companies. The Company negotiates collections with the billing companies on the basis of the contracted terms and historical experience. The Company's cash flow may be affected by holdbacks, fees, and other matters, which are determined by the LECs and the billing companies.

The handling and processing of cash receipts pertaining to trade accounts receivable is maintained primarily by three third-party billing companies. The gross receivable due from such billing services providers represented 27%, 27% and 27%, respectively, of the Company's total gross accounts receivable at September 30, 2006.

Subscription receivables that are directly billed by the Company are valued and reported at the estimated future collection amount. Determining the expected collections requires an estimation of both uncollectible accounts and refunds. The net direct-billed subscriptions receivable at September 30, 2006 and 2005, respectively, were $260,000 and $372,000.

Certain receivables have been classified as long-term because issues arise whereby the billing companies change holdback terms and collection experience is such that collection can extend beyond one year. The breakdown of current and long-term receivables and their respective allowances is in Note 4 above.

6. INTANGIBLE ASSETS

The Company's intangible assets consist of licenses for the use of Internet domain names or Universal Resource Locators, or URLs, capitalized website development costs, and other information technology licenses. All such licenses are capitalized at their original cost and amortized over their estimated useful lives.

In connection with the Company's acquisition of Telco, the Company was required to provide an accelerated payment of license fees for the use of the URL Yellow-page.net. The URL is recorded at its cost of $5,000,000, net of accumulated amortization. The URL is amortized on an accelerated basis over the twenty-year term of the licensing agreement. Amortization expense on the URL was $238,000, $285,000, and $317,000 for the years ended September 30, 2006, 2005, and 2004, respectively.

In July 2003, the Company entered into a licensing agreement with a vendor to license the use of the URL www.yp.com in exchange for cash and restricted shares of the Company's common stock. Under the terms of this agreement, the licensor had the option of transferring the rights to the URL and the restricted shares to the Company in exchange for $300,000. In July 2006, the licensor exercised this option, and transferred ownership of the URL and the restricted shares to the Company. As this option was deemed to be a purchase commitment, no liability was reflected in the Company's financial statements prior to the exercise of the option. The Company capitalized the URL at its net acquisition price, computed as the $300,000 cash payment less the fair market value of the shares acquired (determined based on the stock price on the date of reacquisition) and will amortize this asset on a straight-line basis over its estimated useful life.

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YP CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following summarizes the estimated future amortization expense related to intangible assets:

Years ended September 30,		
2007	$	1,266,000
2008		1,185,000
2009		1,063,000
2010		590,000
2011		186,000
Thereafter		1,433,000
Total	$	5,723,000

7. STOCKHOLDERS' EQUITY

Common Stock Issued for Services

The Company historically has granted shares of its common stock to officers, directors and consultants as payment for services rendered. The value of those shares was determined based on the trading value of the stock at the dates on which the agreements were made for the services. During the year ended September 30, 2006, there were no shares granted to officers directors and consultants other than grants of restricted stock as described in Note 13. During the year ended September 30, 2005, the Company issued 100,000 shares to a consulting firm valued at $119,500. During the year ended September 30, 2004, the Company issued 1,010,000 shares of common stock to officers and directors, or entities controlled by those individuals, valued at $1,541,000.

Common Shares Received and Retired Under Legal Settlements

During the year ended September 30, 2004, the Company settled litigation with a former officer which involved, among other things, the return of 18,000 shares of the Company's common stock. This transaction resulted in a net gain of $54,000 included in other income in the accompanying consolidated statement of operations. These shares were canceled when received.

Common Stock Repurchased from Vendor

The Company recorded these shares as treasury stock based on their fair market value at the date of acquisition.

Series E Convertible Preferred Stock

During the year ended September 30, 2002, pursuant to an existing tender offer, holders of 131,840 shares of the Company's common stock exchanged said shares for an equal number of the Series E Convertible Preferred shares, at the then $0.085 market value of the common stock. The shares carry a $0.30 per share liquidation preference and accrue dividends at the rate of 5% per annum on the liquidation preference per share, payable quarterly from legally available funds. If such funds are not available, dividends shall continue to accumulate until they can be paid from legally available funds. Holders of the preferred shares are entitled, after two years from issuance, to convert them into common shares on a one-to-one basis together with payment of $0.45 per converted share.

Treasury Stock

The Company's treasury stock consists of shares repurchased on the open market or shares received through various agreements with third parties. The value of such shares is determined based on cash paid or quoted market prices. During fiscal 2004, all then-outstanding treasury shares, valued at $216,000 were retired. On April 1, 2005, the Company acquired 1,889,566 shares valued at $1,606,000 as partial settlement of amounts due from affiliates as described in Note 11. On May 18, 2005, the Company's Board of Directors authorized a plan to repurchase up to $3,000,000 of common stock from time to time on the open market or in privately negotiated transactions. In fiscal 2006 the Company acquired 252,600 shares for $134,000 and in fiscal 2005, the Company acquired 601,250 shares for $566,000 under this plan. In July 2006, the Company acquired 100,000 shares valued at $101,000 in connection with an option agreement as described in Note 6.

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Dividends

During the years ended September 30, 2006 and 2005, the Company paid dividends of $0 and $1,445,000, respectively, to holders of common stock, including restricted stock, and $1,900 and $1,400, respectively, to holders of Series E preferred stock. Dividends paid on unvested shares of common stock are charged to compensation expense. The amount of dividends charged to compensation expense in fiscal 2006 and 2005 were $0 and $76,000, respectively.

8. 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.

The following table presents the computation of basic and diluted loss per share from continuing operations:

	Year Ended September 30, 2006	Year Ended September 30, 2005	Year Ended September 30, 2004
Income (loss) before cumulative effect of accounting change	$ (1,051,000)	$ 625,000	$ 8,185,000
Less: preferred stock dividends	(2,000)	(1,000)	(2,000)
Income (loss) applicable to common stock before cumulative effect of accounting change	(1,053,000)	624,000	8,183,000
Cumulative effect of accounting change	-	100,000	-
Net income (loss) applicable to common stock	$ (1,053,000)	$ 724,000	$ 8,183,000
Basic weighted average common shares outstanding:	44,958,683	46,390,356	47,375,927
Add incremental shares for:			
Unvested restricted stock	-	186,470	510,745
Series E convertible preferred stock	-	73,577	104,032
Outstanding warrants	-	9,515	84,995
Diluted weighted average common shares outstanding:	44,958,683	46,659,918	48,075,699
Net income (loss) per share:			
Basic:			
Income (loss) applicable to common stock before cumulative effect of accounting change	$ (0.02)	$ 0.01	$ 0.17
Cumulative effect of accounting change	$ -	$ 0.00	$ -
Net income (loss) applicable to common stock	$ (0.02)	$ 0.02	$ 0.17
Diluted:			
Income (loss) applicable to common stock before cumulative effect of accounting change	$ (0.02)	$ 0.01	$ 0.17
Cumulative effect of accounting change	$ -	$ 0.00	$ -

Net income (loss) applicable to common stock	$	(0.02)	$	0.02	$	0.17

Note: Certain amounts may not total due to rounding of individual components

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

	September 30, 2006	2005	2004
Warrants to purchase shares of common stock	-	437,500	-
Series E convertible preferred stock	127,840	-	-
Shares of non-vested restricted stock	3,718,575	1,614,035	-
	4,346,415	1,614,035	-

9. COMMITMENTS AND CONTINGENCIES

The Company leases its office space and certain equipment under long-term operating leases expiring through fiscal year 2008. Rent expense under these leases was $341,000, $365,000, and $370,000 for the years ended September 30, 2006, 2005 and 2004, respectively.

At September 30, 2006, future minimum annual lease payments under operating lease agreements for fiscal years ended September 30 are as follows:

Fiscal 2007	$ 296,000
Fiscal 2008	160,000
Fiscal 2009	117,000
Fiscal 2010	117,000
Fiscal 2011	88,000
Thereafter	-
	$ 778,000

Termination and Employment Agreements with Related Parties

See Note 11.

Litigation

The Company is party to certain legal proceedings incidental to the conduct of its business. Management believes that the outcome of pending legal proceedings will not, either individually or in the aggregate, have a material adverse effect on its business, financial position, and results of operations, cash flows or liquidity.

During the second quarter of fiscal 2006, the Company settled outstanding litigation with a former vendor, resulting in a cash payment of $490,000. As $328,000 of the settlement was previously accrued, there was $162,000 of expense incurred in the year ended September 30, 2006 associated with this settlement. In connection with this payment, the Company is no longer required to maintain our bond that was previously reflected as restricted cash in the accompanying balance sheet included elsewhere in this Annual Report. Accordingly, the bond has been released and this amount has been reclassified from restricted cash to cash in the balance sheet as of September 30, 2006.

The Company has received numerous inquiries from the Attorney General offices of several states investigating its promotional activities, specifically, the use of its check mailer for customer activation. On December 14, 2006, the Company voluntarily entered into a settlement with thirty-four states' attorneys general to address their inquiries and bring finality to the process. The Company has voluntarily agreed to the following:

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- The Company will pay a settlement fee of $2,000,000 to the state consortium, which they may distribute among themselves;
- The Company will discontinue the use of activation checks as a promotional incentive;
- The Company will suspend billing of any active customer that was acquired in connection with the use of an activation check until a letter is mailed notifying the customer of their legal rights to cancel the service and providing them a 60-day opportunity to receive a refund equivalent to the customer's last two payments; and
- The Company will not employ any collection efforts with respect to past-due accounts of customers that were secured through the use of an activation check, nor will it represent its ability to do so.

The Company has recorded a charge of $3,525,000 in other income and expense in the accompanying consolidated statement of operations for fiscal 2006, consisting of a settlement accrual of $2,000,000, a reserve for refunds to existing customers covered by the 60 day opportunity mentioned above and other related costs of $1,250,000 and legal fees of $275,000. Management has analyzed the number of customers eligible and applied probabilities to estimate additional $1,250,000 in refunds and costs. Customers have through February 2007 to apply these refunds. Actual refunds may differ from these estimates.

Other Contractual Commitments

During the second quarter of fiscal 2006, the Company entered into a contractual arrangement with an attorney to settle previous claims and to engage the future services of this attorney. Under the terms of the arrangement, the Company made cash payments during the year totaling $145,000 and granted 100,000 shares of restricted stock. Under the terms of the agreement, the Company is obligated to make future payments over the next two years totaling $339,750 in exchange for future services. Future amounts payable under this agreement have not been accrued in the accompanying financial statements as such payments are for future services.

During the third quarter of fiscal 2006, we entered into a contractual arrangement with a consulting firm to provide strategic and operational related consulting services. Under the terms of the agreement, we are obligated to make future payments through July 2009 that vary based on the Company's billed customer count subject to a minimum of $20,000 per month. Current payments are approximately $100,000 per month. Future amounts payable under this agreement have not been accrued in the accompanying financial statements as such payments are for future services.

10. PROVISION FOR INCOME TAXES

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

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Income taxes for years ended September 30, is summarized as follows:

	2006	2005	2004
Current provision	$ 1,173,000	$ 880,000	$ 3,682,000
Deferred (benefit) provision	(1,485,000)	(508,000)	695,000
Net income tax (benefit) provision	$ (312,000)	$ 372,000	$ 4,377,000

A reconciliation of the differences between the effective and statutory income tax rates for years ended September 30, is as follows:

	2006		2005		2004	
	Amount	Percent	Amount	Percent	Amount	Percent
Federal statutory rates	$ (463,000)	34%	$ 339,000	34%	$ 4,271,000	34%
State income taxes	(46,000)	3%	34,000	3%	301,000	2%
Write off of deferred tax asset related to vested restricted stock	217,000	(16%)				
Other	(20,000)	1%	(1,000)	(0)%	(195,000)	(2)%
Effective rate	$ (312,000)	22%	$ 372,000	37%	$ 4,377,000	35%

At September 30, deferred income tax assets and liabilities were comprised of:

	2006	2005
Deferred income tax assets:		
Book to tax differences in accounts receivable	$ 1,315,000	$ 286,000
Book to tax differences in accrued expenses	467,000	119,000
Book to tax differences for stock based compensation	1,280,000	1,235,000
Book to tax differences in intangible assets	122,000	118,000
Total deferred income tax asset	3,184,000	1,758,000
Deferred income tax liabilities:		
Book to tax differences in depreciation	67,000	126,000
Book to tax differences in prepaid assets	-	-
Book to tax differences in customer acquisition costs	-	
Total deferred income tax liability	67,000	126,000
Net deferred income tax asset (liability)	$ 3,117,000	$ 1,632,000

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11. RELATED PARTY TRANSACTIONS

Changes in Officers and Directors

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 former executive officers. These agreements called for fees to be paid for the services provided by these individuals as officers of the Company, as well as their respective staffs. During fiscal 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 fiscal 2005, the Company terminated the remaining Executive Consulting Agreement with the entity controlled by a former Executive Vice President. These termination agreements provided for cash payments totaling $2,145,000 in exchange for consulting services and non-compete agreements. Approximately $1,643,000 of the settlement payments described above has been allocated to non-compete agreements. The values attributed to the non-compete agreements are being amortized on a straight line basis over the six-year life of the non-compete agreements. The remaining $502,000 was allocated to the consulting service portion of the termination agreements, which were originally expected to be rendered over a two-year period, In the fourth quarter of fiscal 2005, however, the Company concluded all matters with respect to these parties, made all remaining payments owed under the termination agreements, and expensed the remaining unamortized amount of $212,000 attributed to the consulting services. All amounts related to these agreements were paid by September 30, 2005.

During the fourth quarter of fiscal 2005, the Company entered into a separation agreement with its Chief Operating Officer. Under the agreement, the Company made a cash payment of $80,000. No further amounts are owed under this agreement.

On November 3, 2005, the Company entered into a Separation Agreement with its Chief Executive Officer. Under the terms of the agreement, the Company made a cash payment of $337,500 in the second quarter of fiscal 2006. The agreement also provides for the continued vesting of 700,000 shares of the Chief Executive Officers' restricted stock awards that were granted in fiscal 2004 and 2005.

At a meeting of the Board of Directors of the Company, held on January 8, 2006, John T. Kurtzweil, R.A. Johnson-Clague, Peter J. Bergmann and Paul Gottlieb each resigned from the Board of Directors of the Company and the respective committees of the Board of Directors on which they were serving. Subsequent to the foregoing resignations, Joseph F. Cunningham, Jr. and Elisabeth Demarse were elected to the Board of Directors of the Company. In addition, Daniel L. Coury, Sr., a current member of the Board of Directors, was elected Chairman of the Board and Mr. Cunningham was appointed to serve as the Chairman of the Audit Committee of the Board of Directors.

On January 19, 2006, the Company entered into a Separation Agreement & General Release with its Chief Financial Officer. Under the terms of the agreement, the Company made a cash payment of approximately $95,000 in the second quarter of fiscal 2006. The agreement also provides for the continued vesting of the Chief Financial Officers' restricted stock awards (totaling 150,000 shares) that were granted in fiscal 2004 and 2005.

On August 12, 2006, the Company elected Benjamin Milk and Richard Butler as new independent members of the Company's Board of Directors. Mr. Milk is a past Executive Director of the SEC and will sit on the Nominating and Corporate Governance Committee. Mr. Butler is a past president of two California financial institutions and will serve as Chairman of the Company's Compensation Committee.

Effective September 19, 2006, the Company appointed Mr. Coury to serve as its permanent Chief Executive Officer and President, subject to the terms of his employment agreement. Mr. Coury will remain a member of the Company's Board of Directors; however, he has resigned his position as Chairman of the Board. Joseph Cunningham, the Chairman of the Company's Audit Committee, will also assume the title of Chairman of the Board.

On September 19, 2006, the Company entered into an employment agreement with Daniel L. Coury, Sr., which calls for Mr. Coury to serve as the Chief Executive Officer and President of the Company. Mr. Coury has acted as interim Chief Executive Officer since January 25, 2006. As permanent Chief Executive Officer and President, Mr. Coury will receive a salary of $420,000, plus 10% annual salary increases, beginning with the Company's fiscal year ending September 30, 2008; an annual bonus of $150,000, provided the Company obtains certain performance measures as established by the Company's Board of Directors; a one time bonus of $150,000 if and when the common stock of the Company is listed on a national exchange; and a grant of 1,000,000 shares of restricted stock of the Company ("Restricted Shares"), which vest upon the earlier to occur of three years or a "change of control" (as defined in the Company's 2003 Stock Plan); provided, however, that Mr. Coury is obligated to return 1/3 of the Restricted Shares at the end of each fiscal year unless certain performance targets are reached for that fiscal year.

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Additionally, in the event that Mr. Coury terminates his employment for "good reason" or the Company terminates his employment other than for "Cause" or on account of his death or "disability," as each of those terms is defined in the employment agreement, Mr. Coury will receive 12 months of continuing salary, and all restricted stock granted to the employee prior to the employment agreement and the portion of the Restricted Shares that remain unvested and for which the annual risk of forfeiture has lapsed due to annual performance targets being achieved will be immediately accelerated.

On September 19, 2006, the Company also amended the employment agreements of Gary Perschbacher, the Company's Chief Financial Officer, and John Raven, the Company's Chief Operating Officer. Mr. Perschbacher's amended employment agreement provides for an extension of the term until September 20, 2009; 10% annual salary increases, beginning with the Company's fiscal year ending September 30, 2008; and a grant of 100,000 shares of restricted stock of the Company pursuant to the Company's 2003 Stock Plan. Mr. Raven's amended employment agreement provides for an extension of the term until September 20, 2009; an annual salary of $220,000, plus 10% annual salary increases, beginning with the Company's fiscal year ending September 30, 2008; a $25,000 cash bonus upon execution of the employment agreement; and a grant of 25,000 shares of restricted stock of the Company pursuant to the Company's 2003 Stock Plan.

On September 19, 2006, the Company also granted to Joseph Cunningham, a member of the Company's Board of Directors, 100,000 shares of restricted stock of the Company in connection with his appointment to serve as Chairman of the Board of Directors and Chairman of the Company's Audit Committee. Mr. Cunningham will receive an aggregate of $6,000 per month in lieu of all other director compensation for his service as Chairman of the Board and Chairman of the Audit Committee.

12. CONCENTRATION OF CREDIT RISK

The Company maintains cash balances at banks in Arizona and Nevada. Accounts are insured by the Federal Deposit Insurance Corporation up to $100,000. At September 30, 2006 and 2005, the Company had bank balances exceeding those insured limits of $6,699,000 and $5,883,000, respectively.

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 three third-party billing companies. The Company is dependent upon these billing companies for collection of its accounts receivable. The gross receivable due from such billing services providers represented 27%, 27% and 27%, respectively, of the Company's total gross accounts receivable at September 30, 2006.

13. STOCK BASED COMPENSATION

During the year ended September 30, 2003, the Company's board of directors and a majority of it stockholders voted to terminate the Company's 2002 Employees, Officers & Directors Stock Option Plan and approved the Company's 2003 Stock Plan. The 3,000,000 shares of Company common stock previously allocated to the 2002 Plan were re-allocated to the 2003 Plan. During the year ended September 30, 2004, an additional 2,000,000 shares were authorized by the board of directors and approved by the Company's stockholders to be issued under the 2003 Plan. All Company personnel and contractors are eligible to participate in the plan.

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As of September 30, 2006, 4,879,750 shares authorized under the 2003 Plan were granted and remain outstanding, of which 999,750 have vested and 3,879,750 are in the form of restricted stock. These shares of restricted stock were granted to the Company's service providers, executives and directors. Of the 3,879,750, 2,923,750 shares vest on a cliff basis 3 years from the date of grant, 537,500 vest on a cliff basis 5 years from the date of grant, and 419,000 vest on a cliff basis 10 years from the date of grant. Certain market performance criteria may accelerate the vesting of a portion of these awards if the stock price exceeds $5 per share. As of September 30, 2006, total unrecognized compensation cost related to nonvested awards was $2,854,122. The weighted average period over which such compensation cost is to be recognized is 3.2 years.

The vesting of substantially all shares of restricted stock accelerates upon a change of control, as defined in the 2003 Plan. Compensation expense is determined at the date of grant, is equal to the stock price at the date of grant, and is deferred and recognized on a straight-line basis over the vesting period. The weighted-average grant-date fair value of the shares outstanding is $1.34 per share.

During the year ended September 30, 2004, the Company issued an additional 1,000,000 shares of restricted common stock outside of the 2003 Plan to an officer of the Company valued at $1,540,000. At September 30, 2006, 600,000 of these shares remain outstanding. During the year ended September 30, 2004, the Company issued 10,000 shares to an employee valued at $1,000 that were not subject to any vesting provisions.

During the years ended September 30, 2006, 2005, and 2004, the Company recognized compensation expense of $1,599,000, $1,420,000, and $1,161,000, respectively, under the 2003 Plan and other restricted stock issuances.

At September 30, 2006, there were no options exercisable or outstanding. No options were granted in the years ended September 30, 2006, 2005 and 2004.

The Company has issued warrants in connection with certain debt and equity transactions. Warrants outstanding are summarized as follows:

	2006		2005		2004	
	Number of Warrants	**Weighted Average Exercise Price**	**Number of Warrants**	**Weighted Average Exercise Price**	**Number of Warrants**	**Weighted Average Exercise Price**
Warrants outstanding at beginning of year	500,000	$ 2.12	500,000	$ 2.12	500,000	$ 2.12
Granted	-	-	-	-	-	-
Expired	(500,000)	2.12	-	-	-	-
Exercised	-	-	-	-	-	-
Warrants outstanding at September 30,	-	$ -	500,000	$ 2.12	500,000	$ 2.12

The warrants were granted in the year ended September 30, 2001 in connection with the settlement with the former URL holder (See Note 6). The exercise prices of the warrants range from $1.00 to $3.00. The fair value of these options at the date of grant was negligible, estimated using the Black-Scholes option-pricing model. The 500,000 warrants outstanding at September 30, 2005, expire in September 2006.

14. EMPLOYEE BENEFIT PLAN

The Company maintains a 401(k) profit sharing plan for its employees and service providers who are eligible to participate in the plan upon reaching age 21 and completion of three months of service. The Company made contributions of $8,000, $7,000, and $7,000 to the plan for the years ended September 30, 2006, 2005, and 2005, respectively.

15. OTHER INCOME (EXPENSE)

In addition to interest income and interest expense, other income (expense) includes the following items:

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Year ended September 30, 2006

a. A loss of $3,525,000 consisting of a settlement accrual of $2,000,000, a reserve for refunds of $1,250,000 and legal fees of $275,000 related to the attorneys general settlement described in Note 9; and

b. A loss of $162,000 consisting of an additional accrual for the settlement of a matter with a former public relations vendor;

Year ended September 30, 2005

· A loss of $282,000 from the Transfer and Repayment Agreement as described above in Note 11 above. This amount is equal to the difference between the carrying value of Advances to Affiliates and the value of the consideration received;

· A loss of $328,000 from an arbitration judgment involving disputed fees associated with a former public relations firm described in Note 9 above; and

· The elimination of $287,000 in other income in fiscal 2005 as the result of a termination agreement with Simple.Net, Inc. See Note 11 above for further discussion.

Year ended September 30, 2004

· Other income of $287,000 from an agreement with Simple.Net, Inc. for technical services provided to an affiliate;

· $54,000 from the receipt of stock in accordance with the settlement of a dispute; and

· $600,000 relating to the reversal of previously accrued compensation cost for former executives, for which payment is no longer expected, offset by other miscellaneous amounts.

16. SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

Quarterly financial information for 2006 and 2005 follows:

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	Quarter Ended			
	December 31, 2005	March 31, 2006	June 30, 2006	September 30, 2006
Net revenues	$ 7,626,776	$ 8,999,196	$ 10,172,705	$ 10,082,487
Gross profit	6,510,430	7,410,732	7,843,120	7,047,642
Net income (loss)	(327,092)	129,998	826,847	(1,680,673)
Earnings (loss) per share information:				
Basic income (loss) per share	$ (0.01)	$ 0.00	$ 0.02	$ (0.04)
Diluted income (loss) per share	$ (0.01)	$ 0.00	$ 0.02	$ (0.04)

	Quarter Ended			
	December 31, 2004	March 30, 2005	June 30, 2005	September 30, 2005
Net revenues	$ 6,190,155	$ 6,444,609	$ 6,517,158	$ 6,052,936
Gross profit	5,055,571	5,583,676	5,591,353	4,993,639
Net income (loss) before cumulative effect of accounting change	560,703	627,135	(175,887)	(386,653)
Net income (loss)	660,551	627,135	(175,887)	(386,653)
Earnings (loss) per share information:				
Basic before cumulative effect of accounting change	$ 0.01	$ 0.01	$ (0.00)	$ (0.01)
Diluted before cumulative effect of accounting change	$ 0.01	$ 0.01	$ (0.00)	$ (0.01)
Basic income (loss) per share	$ 0.01	$ 0.01	$ (0.00)	$ (0.01)
Diluted income (loss) per share	$ 0.01	$ 0.01	$ (0.00)	$ (0.01)

17. SUBSEQUENT EVENTS

On December 14, 2006, the Company settled an outstanding matter with a consortium of attorneys general. See Note 9.

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ITEM 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosures

Not applicable.

ITEM 9A. 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 Annual Report on Form 10-K, is recorded, processed, summarized, and reported within the time periods specified by the Securities and Exchange Commission. Disclosure controls also are 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 chief executive officer and chief 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 Annual 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-K, 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-K, 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.

ITEM 9B. Other Information

On November 30, 2006, YP Corp. awarded its Chief Executive Officer, Daniel L. Coury, Sr., a cash bonus in the amount of $150,000 as a reward for his performance in fiscal 2006, pursuant to his Employment Agreement.

On December 15, 2006, YP Corp. awarded its Chief Operating Officer, John Raven, a cash bonus in the amount of $5,000 as a reward for his performance in fiscal 2006.

PART III

Certain information required by Part III is omitted from this Annual Report on Form 10-K because we will file our definitive Proxy Statement for our 2007 Annual Meeting of Shareholders to be filed pursuant to Regulation 14A of the Exchange Act (the "2007 Proxy Statement") not later than 120 days after the end of the fiscal year covered by this Annual Report. Certain information included in the 2007 Proxy Statement is incorporated herein by reference.

ITEM 10. Directors and Executive Officers

The information required by this Item relating to our executive officers and directors and the disclosure required by Item 405 of Regulation S-K concerning Section 16(a) Beneficial Ownership Reporting Compliance will be set forth under the captions “Election of Directors,” and “Section 16(a) Beneficial Ownership Reporting Compliance” in our 2007 Proxy Statement.

The Company has adopted a Code of Ethics that applies to its officers, directors and employees.

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ITEM 11. Executive Compensation

Information regarding director and executive compensation will be set forth under the captions “Election of Directors” and “Executive Officers and Compensation” in our 2007 Proxy Statement.

ITEM 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Information regarding security ownership of certain beneficial owners and management will be set forth under the captions “Security Ownership of Principal Stockholders and Management” and “Equity Compensation Plan Information,” respectively, in our 2007 Proxy Statement.

ITEM 13. Certain Relationships and Related Transactions

Information regarding certain relationships and related transactions of management will be set forth under the caption “Certain Relationships and Related Transactions” in the 2007 Proxy Statement.

ITEM 14. Principal Accountant Fees and Services

Information regarding this item will be set forth under the caption “Principal Accountant Fees and Services” in the 2007 Proxy Statement.

PART IV

ITEM 15. Exhibits and Financial Statement Schedules

(1) Financial Statements are listed on the Index to Consolidated Financial Statements on page 40 of this Annual Report.
(2) There are no financial statement schedules required to be filed with this Annual Report.
(3) The following exhibits are filed with or incorporated by reference into this Annual Report.

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Exhibit Number	Description	Previously Filed as Exhibit	File Number	Date Previously Filed
3.1	Amended and Restated Articles of Incorporation	Attached hereto		
3.2	Amended and Restated Bylaws	Attached hereto		
10.1	YP Corp. Amended and Restated 2003 Stock Plan	Exhibit 10 to the Registrant's Quarterly Report on Form 10-QSB for the fiscal quarter ended December 31, 2003	000-24217	2/11/04
10.2	Form of 2003 Stock Plan Restricted Stock Agreement	Exhibit 10 to the Registrant's Quarterly Report on Form 10-QSB for the fiscal quarter ending March 31, 2005	000-24217	5/16/05
10.3	Standard Industrial/Commercial Multi-Tenant Lease for Mesa facility, dated June 1, 1998, between the Registrant and Art Grandlich, d/b/a McKellips Corporate Square	Exhibit 10.5 to the Registrant's Annual Report on Form 10-KSB for the fiscal year ended September 30, 1999	000-24217	9/19/00
10.4	Amendment No. 1 to Standard Industrial/Commercial Multi-Tenant Lease for Mesa facility, dated August 17, 1998, between the Registrant and Arthur Grandlich, d/b/a McKellips Corporate Square	Attached hereto		
10.4.1	Amendment No. 2 to Standard Industrial/Commercial Multi-Tenant Lease for Mesa facility, dated January 7, 2003, between the Registrant and Arthur Grandlich, d/b/a McKellips Corporate Square	Exhibit 10.14 to Amendment No. 2 to the Registrant's Annual Report on Form 10-KSB/A for the fiscal year ended September 30, 2002	000-24217	7/8/03
10.4.2	Amendment No. 3 to Standard Industrial/Commercial Multi-Tenant Lease for Mesa facility, dated March 23, 2006, between the Registrant and J3 Harmon, LLC, successor in interest to The Estate of Arthur	Attached hereto		

	Grandlich			
10.4.3	Amendment No. 4 to Standard Industrial/Commercial Multi-Tenant Lease for Mesa facility, dated April 12, 2006, between the Registrant and J3 Harmon, LLC, successor in interest to The Estate of Arthur Grandlich	Attached hereto		
10.5	Standard Industrial Lease for Nevada facility, dated September 3, 2003, between the Registrant and Tomorrow 33 Convention, LP	Exhibit 10.4 to the Registrant's Annual Report on Form 10-KSB for the fiscal year ended September 30, 2003	000-24217	12/31/03
10.6	Amendment No. 1 to Standard Industrial Lease for Nevada facility, dated October 4, 2006, between the Registrant and Tomorrow 33 Convention, LP	Attached hereto		
10.7	Loan and Security Agreement, dated April 13, 2004, between the Registrant and Merrill Lynch Business Financial Services, Inc.	Exhibit 10.1 to Amendment No. 1 to the Registrant's Quarterly Report on Form 10-QSB for the fiscal quarter ended June 30, 2004	000-24217	12/29/04
10.8	Separation Agreement, dated January 19, 2006, between the Registrant and Chris Broquist	Exhibit 10.1 to the Registrant's Current Report on Form 8-K	000-24217	1/25/06
10.9	Employment Agreement, dated September 19, 2006, between the Registrant and Daniel L. Coury	Attached hereto		
10.10	Employment Agreement, dated September 19, 2006, between the Registrant and Gary Perschbacher	Attached hereto		
10.11	Wholesale Fulfillment Agreement, dated March 1, 2005, between Registrant and Fulfillment House and Company	Exhibit 10.1 to the Registrant's Current Report on Form 8-K	000-2417	5/4/06
10.12	Separation Agreement, dated November 3, 2005, between the Registrant and Peter J. Bergmann	Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ending December 31, 2005	000-24217	2/14/06

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10.13	Employment Agreement, dated February 6, 2006, between the Registrant and John Raven	Exhibit 10.1 to the Registrant's Current Report on Form 8-K	000-24217	2/21/06
10.13.1	First Amendment to Employment Agreement, dated September 19, 2006, between the Registrant and John Raven	Attached hereto		
10.14	Exclusive Domain Name Licensing Agreement, dated July 8, 2003, between the Registrant and Onramp Access, Inc.	Exhibit 10.1 to the Registrant's Current Report on Form 8-K	000-24217	7/22/03
10.15	Stock Repurchase and Domain Name Transfer Agreement, dated July 21, 2006, between Registrant and Onramp Access, Inc.	Attached hereto		
10.16	Processing Agreement, dated August 26, 2003, between the Registrant and Integrated Payment Systems Inc., d/b/a First Data	Exhibit 10.2 to the Registrant's Current Report on Form 8-K	000-24217	10/24/03
10.17	Master Services Agreement, dated August 1, 2002, between the Registrant and eBillit, Inc.	Exhibit 10.24 to Amendment No. 1 to the Registrant's Quarterly Report on Form 10-QSB/A for the fiscal quarter ended March 31, 2003	000-24217	7/8/03
10.18	Billings and Related Services Agreement, dated September 1, 2001, between the Registrant and ACI Communications, Inc.	Exhibit 10.33 to Amendment No. 2 to the Registrant's Annual Report on Form 10-KSB/A for the fiscal year ended September 30, 2002	000-24217	7/8/03
14	Code of Business Conduct and Ethics, Adopted December 31, 2003	Exhibit 14 to the Registrant's Quarterly Report on Form 10-QSB for the period ended March 31, 2004	000-24217	5/13/04
18	Preferability Letter	Attached hereto		
21	Company Subsidiaries	Exhibit 21 to Registrant's Annual Report on Form 10-K for the period ending September 30, 2005	000-24217	12/19/05
23	Consent of Epstein, Weber and Conover P.L.C	Attached hereto		

31	Certification pursuant to SEC Release No. 33-8238, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Attached hereto
32	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Attached hereto

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: December 28, 2006

/s/ Daniel L. Coury, Sr.
Daniel L. Coury, Sr.
Chief Executive Officer

BOARD OF DIRECTORS

Signature	Title	Date
/s/ Daniel L. Coury, Sr. Daniel L. Coury, Sr.	Chief Executive Officer *(Principal Executive Officer)*	December 28, 2006
/s/ Gary L. Perschbacher Gary L. Perschbacher	Chief Financial Officer *(Principal Financial Officer and Principal Accounting Officer)*	December 28, 2006
/s/ Joseph F. Cunningham, Jr. Joseph F. Cunningham, Jr.	Chairman of the Board	December 28, 2006
/s/ Richard D. Butler. Richard D. Butler	Director	December 28, 2006
/s/ Elisabeth DeMarse Elisabeth DeMarse	Director	December 28, 2006
/s/ Benjamin Milk. Benjamin Milk	Director	December 28, 2006