

U.S. SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-KSB

(Mark one)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended September 30, 2001

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.NET, INC.
(Name of Small Business Issuer in its Charter)

NEVADA
(State or other jurisdiction of
incorporation or organization)

85-0206668
(IRS Employer
Identification No.)

4840 EAST JASMINE STREET, SUITE 105
MESA, ARIZONA
(Address of principal executive offices)

85205
(Zip Code)

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

Securities registered under Section 12(b) of the Exchange Act: NONE
Securities registered under Section 12(g) of the Exchange Act:
COMMON STOCK, \$.001 PAR VALUE
(Title of Class)

Check whether the issuer (1) filed all reports required to be filed by
Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such
shorter period that the registrant was required to file such reports), and (2)
has been subject to such filing requirements for the past 90 days. Yes X No
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Check if there is no disclosure of delinquent filers in response to Item 405 of
Regulation S-B contained in this form, and no disclosure will be contained, to
the best of registrant's knowledge, in definitive proxy or information
statements incorporated by reference in Part III of this Form 10-KSB or any
amendment to this Form 10-KSB.

Registrant's revenues for its most recent fiscal year were 15,084,917

The aggregate market value of the common stock held by non-affiliates
computed based on the closing price of such stock on November 23, 2001 was
approximately \$3,110,714.

The number of shares outstanding of the registrant's classes of common
stock, as of November 23, 2001 was 43,813,680.

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PART I

ITEM 1. DESCRIPTION OF BUSINESS

Except for historical information contained herein, the following
discussion contains forward-looking statements that involve risks and
uncertainties. Such forward-looking statements include, but are not limited to,
statements regarding future events and our plans and expectations. Our actual
results could differ materially from those discussed herein. Factors that could
cause or contribute to such differences include, but are not limited to, those
discussed elsewhere in this Form 10-KSB or incorporated herein by reference,
including those set forth in "Factors Which May Affect Future Results," and
"Management's Discussion and Analysis of Financial Condition and Results of
Operations," below.

GENERAL

YP.Net, Inc., a Nevada corporation (the "Company," "we," "us," or "our"),
is in the business of providing Internet-based yellow page listing services on
our Yellow-Page.Net and yp.net websites. Our websites serve as a search engine

for yellow page listings in the United States and Canada. We charge our
customers for a "preferred" listing of their businesses on searches conducted by
Internet consumers on our websites. We currently have approximately 91,348
preferred listing customers subscribing on a monthly basis.

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

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

WEBSITES

We control the domain names Yellow-Page.Net and yp.net and maintain these

Web pages for Internet access. At these websites, consumers can search a listing database containing approximately 18 million United States and Canadian businesses. We provide yellow page listings for these businesses along with directories and maps to the business location. We also provide nationwide 800 and 888 directory listings and search engines for e-mail addresses of individual persons. Our site offers stock quotes, job searches, travel services, news and weather information, movie reviews and listings, entertainment, restaurant and shopping information.

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Our directory search service integrates yellow page information by utilizing yellow page category headings in combination with a natural word search feature to provide a user-friendly interface and navigation vehicle. We have enhanced accurate responses to user questions by utilizing category searches in the directory services. This allows users to search by specific city, state and business categories.

We currently derive all of our revenue from selling preferred listings for the search results on our websites. A preferred listing is displayed at the beginning of search results in response to a user's specific questions. A preferred listing is enhanced on the display of search results and includes a "mini-Web page" listing where the preferred lister can use up to 40 words to advertise and provide additional information regarding its business. A preferred listing customer can also link its own Web page to the search results. We are developing banner advertisements and outside marketing efforts as an additional source of revenue. We are also attempting to develop additional revenue sources and expand services to our customers through logo advertisements on our direct mailer.

TECHNOLOGY AND INFRASTRUCTURE

One of our principal strengths is our internally developed technology that we have designed specifically for handling our Internet-based data. Our technology architecture features specially designed capabilities to enhance performance, reliability and scalability of our listing data. These features consist of multiple proprietary software modules and processes that support the core internal functions of operations. The technologies include Customer Service Applications, Billing Applications, LEC Filtering Processes and Database Management.

Customer Service Applications. While we have designed proprietary Customer Service Applications to enable rapid object-oriented development and management of information related to our preferred listing customers in a variety of formats we are finding that it might be advisable to purchase a third party software package from a reliable vendor that can be modified for our needs. Our or any that is purchased would need to incorporate an automated retrieval system that integrates with our other technologies. This integration enables real-time updates to our database as our customer service representatives interact with and obtain data from our preferred listing clientele. This application provides detailed notes on each account as well as credit card and paper check payment processing. Customer Service Representatives (CSR's) quickly view all contact information for the subscriber, as well as Service description, pricing, LOA, and billing history. With these functions in place, CSR's have the ability to handle every aspect of the call.

Billing Applications. We bill primarily through local exchange carriers ("LECs") that are local telephone service providers. Our LEC billings are routed to the LEC's and appear on our preferred customers' telephone billing statements. To a lesser extent, we direct bill some of our preferred customers. Our Billing Applications technology facilitates both our LEC and direct billing functions.

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LEC Filtering Processes. The LEC Filtering Processes are core technologies developed to enhance the applications that support our systems. By using these processes, we are able to more accurately bill our preferred listings through the appropriate LEC. These processes are a vital component of our ability to aggregate content from multiple sources for our billing process. Information is sorted and updated with a method of maintaining an expanding a diverse database and allows different data sources to be combined and deployed through a single uniform interface, regardless of data structure or content. This allows a single database query to produce a single result set containing data extracted from multiple databases. Database clustering in this manner reduces the dependence on single data sources, facilitates data updates, and reduces non-conforming data submitted to the LECs.

Database Management. We have also developed a proprietary database technology to address specific requirements of our business strategy and information infrastructure services. This technology enables us to provide our services with fewer service personnel. Our database is integrated with the

applications modules and the LEC filtering processes. This database consists of our current and potential customers and is updated on a real-time basis as a customer's data is received from new listings or through our customer service representatives. We utilize this database to maintain customer service and monitor the quality of service provided by our customer service personnel. We also use the database to determine new products desired by our customers. Our technology has been specifically designed to function with a high degree of efficiency within the unique operating parameters of the Internet, as opposed to commonly used database systems.

Custom List Generation. We license the Axiom database technology that consists of over 18 million business listings throughout the United States, updated quarterly. Under this licensing agreement, we are able to custom craft mailing lists that suit our customer's needs. Customers have the ability to filter their custom list against an array of attributes ranging from gross sales of the company listed, SIC code, whether or not the listing is a publicly traded company, or if the company listed is minority owned. These lists can be generated in various ODBC and text formats. Lists are priced by record and the criteria provided for the query.

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STRATEGIC ALLIANCES

In order to service users more effectively and to extend our Yellow-Page.Net brand to other Internet sources, we have entered into strategic relationships with business partners offering content, technology and distribution capabilities. We utilize i411 as our data-listing provider. i411 provides the server for our web pages and our search engine capabilities.

We are members of the Yellow Page Publication Association and the Association of Directory Publishers. These organizations are trade associations for yellow page publishers that promote quality of published content and advertising methods.

In order to broaden Yellow-Page.Net's user base, we have established cross-linking relationships with operators of commercial websites and Internet access providers. There are over 400 affiliated websites that link to Yellow-Page.Net. We believe these arrangements are important to the promotion of Yellow-Page.Net, particularly among new Internet users who may access the Internet through these other websites. These co-promotional arrangements typically are terminable at will. We also utilize Fax4free.com in a co-promotional effort to provide services to our website users to allow these users to receive and send unlimited facsimiles, and receive voicemail and e-mail at no charge.

We have also managed a link partnership with Amazon.com that allows Yellow-Page.net to generate revenue by purchases made through the link on our home page. The University of California - Santa Cruz is also participating in a link exchange as well as having Yellow-Page.Net sponsor a men's college basketball tournament. We believe that this directly heightens our brand awareness.

BILLING SERVICE AGREEMENTS

In order to bill our preferred listing customers through their LECs, we are required to use one or more billing service integrators. These integrators have been approved by various LECs to provide billing, collection, and related services through the LECs. We have entered into customer billing service agreements with Integretel, Inc. ("IGT") and with Enhanced Services Billing, Inc. ("ESBI") for these services. Under these agreements, our service providers bill and collect our charges to preferred listing customers through LEC billings. These amounts, net of reserves for bad debt, billing adjustments, telephone company fees and billing company fees, are remitted to us on a monthly basis. Presently we are primarily billing through IGT and credit card processing.

We have entered into a billing agreement with OAN Billing, Inc. ("OAN"). This contract will provide us with another billing integrator that will allow us to broaden our billing area among all LECs. OAN is a reputable billing company that will provide us more flexibility and will reduce our concentration of billing risk with billing integrators.

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COMPETITION

We operate in a highly competitive and rapidly expanding Internet services market, however our primary market sector is business-to-business services instead of a pure technology industry. We compete with online services, website operators, and advertising networks. We also compete with traditional offline media such as television, radio, and traditional yellow page directory publishers, and print share advertising. Our services also compete with numerous directory website production, and Internet information service providers. Our largest competitors are the LECs service providers.

The principal competitive factors of these markets include personalization of service, ease and 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 with the suppliers of Internet navigational and informational services, high-traffic websites and Internet access providers, and with other media for advertising listings. 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.

Our competitors have greater capital resources than us. 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 have brand name recognition and access to potential customers since they have existing local access customers.

We believe we can successfully compete in this market by providing quality services at competitive prices and by actively developing new products for customers and seeking potential acquisitions to broaden services to our customers.

REGULATION

The Federal Trade Commission ("FTC") has aggressively pursued what it perceives as deceptive practices related to direct mailer and other promotions involving the Internet and/or LEC billing type practices. We have been involved in significant FTC enforcement action regarding these matters.

Existing laws and regulations or ones that may be enacted in the future could have a material adverse effect on our business. These effects could include substantial liability including fines and criminal penalties, preclusion from offering certain products or services and the prevention or limitation of certain marketing practices. As a result of such changes, our ability to increase our business through Internet usage could also be substantially limited.

On July 30, 2001, the Stipulated Final Judgment and Order for Permanent Injunction and other Equitable Relief (the "Order") was filed with the United States District Court. The FTC and the Company agreed to this stipulation and the complaint states a claim upon which relief may be granted against the Company. There have been no findings or admissions of any wrongdoing by us. We have been restrained from using the word "rebate" on their solicitation and must state that the mailer is a solicitation of goods and services. We have voluntarily agreed not to use the "walking fingers" logo and further have extended our refund policy to our new customers from 90 days to 120 days. Our test solicitation of 250,000 mail pieces incorporating all of the FTC changes in different formats, has brought in satisfactory results and based on that we have resumed our regular mail solicitation program in October 2001 to date over 8,000 customers have decided to order our services. We have replaced all direct mailers with the required stipulations as agreed with the FTC. All parties have been exonerated of the preliminary injunction filed on June 26, 2000. See "Legal Proceedings," below

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MARKETING

Our primary marketing efforts are through direct mail solicitations that utilize a promotional discount for listing. We market exclusively to businesses and focus on businesses that use traditional published yellow page services. We utilize our database as a source for our mailing list. We have also implemented a "customer satisfaction" program. Through this program we have retained a firm to contact each of our customers to update the customer information regarding their business and links to their Web page, if applicable.

We intend to increase market share in our current markets through strategic acquisitions providing value-added services to our core business, as well as other marketing campaigns. We intend to develop marketing strategies to increase the credibility and visibility of our Web page service to targeted markets. We also intend to promote value-added services and product areas. Our future success will depend on our ability to continue to integrate and distribute information services of broad appeal. Our ability to maintain and build new relationships with content providers will be critical to our success. These relationships and strategic acquisitions will, in addition to increasing revenue, lower dilution by creating a source for businesses to find the services they need. Our preferred customers will be able to obtain services at discounted prices as a consequence of their listing with us.

We have entered into a co-branded syndication with i411.com has provided our preferred customers and those using our site to find goods and services easier and faster. This arrangement allows us to have additional advertising space on our website which we believe will generate additional revenue. We believe this syndication will help attract more people to our websites. We now have the ability to sell syndicate yellow page sites. We are able to offer our clients visible storefronts. Through visible storefronts our clients will be able to set up "Web Stores" easily and cheaply; complete with the ability to utilize credit cards to process orders. We are currently testing these products and believe that they have the potential to increase income. Our management is also in the process of expanding its syndication revenue by offering web page designs and maps for Internet yellow page customers. We presently have approximately 3.5 million hits per month, which we believe will expand our customer base.

Management believes that our Direct Response Program whereby we contact our customers to obtain information for their mini-web-page and if partnered with other reputable companies, could be an additional source of revenue. Management is looking for products and services to sell as part of our direct response program.

EMPLOYEES

As of December 15, 2001, we employed 20 full time personnel, including a Director of Operations, a Director of Technology, five software developers, nine customer service representatives, and four administrative personnel. Our employees are not covered by any collective bargaining agreements.

ITEM 2. DESCRIPTION OF PROPERTY

Our corporate offices are located in Mesa, Arizona. We lease a 16,772 square foot facility for approximately \$120,000 annually on a long-term operating lease through June 2003. As part of the consideration related to our license of the Yellow-Page.Net URL, we sublease approximately 8,000 square feet of leased space to Business Executive Services, Inc., an entity controlled by an affiliate, for \$1.00 annually. See "Certain Relationships and Related Transactions," below.

We are also obligated on another lease for office space that was entered into prior to consolidating operations at our Mesa facility. The lease terminates in August 2002 and annual rent ranges from \$202,000 at inception to \$280,000 for the final rent payment. This space has been sublet for the full amount of the lease payment through its term. However, we remain liable on the lease if the sub-tenant defaults.

ITEM 3. LEGAL PROCEEDINGS

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

Due to the rapid growth of Internet communications, laws and regulations relating to the Internet industry have been adopted. Such laws include regulations related to user privacy, pricing, content, taxation, copyrights, distribution, and product and services quality. Concern regarding Internet user privacy has led to the introduction of federal and state legislation to protect Internet user privacy. In addition, the FTC has initiated investigations and hearings regarding Internet user privacy that could result in rules or regulations that could adversely affect our business. As a result, the adoption of new laws or regulations could limit our ability to conduct targeted advertising, or distribute or to collect user information.

We entered into a final settlement with the FTC regarding the allegations that we engaged in deceptive advertising. We entered into a Final Stipulated Order for Permanent Injunction or Other Equitable Relief with the FTC on July 30, 2001. There were no findings or admissions of any wrongdoing by us in this Order.

During the marketing moratorium from June 2000 to August 2001 we have been able to maintain most of our customer base, with only some attrition by developing a customer contact marketing strategy. We have been contacting our customers to update their websites and the descriptions of their businesses. Through these efforts, we have been able to maintain our customer base without the direct mail advertising efforts.

We paid Hudson Consulting Group, Inc. ("Hudson") \$82,000 for the settlement of a lawsuit. We entered into a settlement agreement with Hudson on July 16, 2001, where we agreed to pay Hudson \$82,000 in return for 1,425,334 shares of our common stock that were issued to Hudson by prior management for services that were not rendered to us. Our current management was informed that the SEC barred one of the principals of Hudson, Allen Wolfson, from working in the securities industry. Our current management has assured the NASD that prior management is no longer an employee, officer or director of us.

We are plaintiffs in pending law suites against Alan Z. Wolfson and Ruth Anderson regarding the issuance of common stock by prior management where no services by the dependents in this action.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Our annual meeting of shareholders was held on September 24, 2001, and the following matters were submitted to our shareholders to vote.

1. The election of seven directors.
2. The ratification of the selection of Marshall & Weber, CPAs, PLC as our independent auditor for the fiscal year ended September 30, 2001.
3. The transaction of such other business as may properly come before the meeting. No such other business came before the annual meeting.

The following individuals were elected to serve on our Board of Directors at our annual meeting of shareholders on September 24, 2001: Angelo Tullo, Walter Vogel, Gregory B. Crane, Daniel Coury, Harold Roberts, DeVal Johnson, and Pamela Thompson, by mutual agreement Wallace Olsen declined to service another term. See "Directors and Executive Officers, Promoters, and Control Persons; Compliance with Section 16(A) of the Exchange Act," below.

The firm of Weber and Company, P.C. was elected to serve as our independent auditor for the year ended September 30, 2001.

The following actions were taken by written consent by the majority stockholders in lieu of a special meeting of the stockholders of YP.Net, Inc. dated November 20, 2001. The stockholders voting represented 24,083,118 voting common shares of stock.

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That the capitalization of the Corporation be changed as follows:

Increase the authorized common stock to 50,000,000 to 100,000,000 shares.

Create three classes of authorized preferred shares:

50,000,000 of Blank Check Preferred

45,000,000 of Series C of Convertible Preferred Stock. Holders of the Series C convertible preferred stock shall receive dividends at the rate of 5% per annum on the liquidation preference of \$.30 per share payable each March 31st, June 30th, September 30th, and December 31st starting with the first date following the issuance of stock. This stock will be convertible any time after two years and before five years with the payment by the holder of \$1.00 per converted share.

45,000,000 of Series D Preferred Stock with no convertible feature. Holders of the Series D preferred stock shall receive dividends at the rate of 7% per annum on the liquidation preference of \$.50 per share payable each March 31st, June 30th, September 30th, and December 31st starting with the first date following the issuance of stock. This stock will be convertible any time after two years and before five years with the payment by the holder of \$1.00 per converted share.

The Company's outstanding shares of Common Stock, \$.001 par value per share would be allowed a reverse split of up to one-for-ten basis. The officers of the YP.Net have the authority to prepare and file an amendment to the company's Articles of Incorporation to proceed and effectuate the reverse split without further shareholders approval. Presently management has not elected to proceed in effectuating a reverse split.

Part II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Our Common Stock

Our common stock is traded in the over-the-counter market under the symbol "YPNT." Prior to March 23, 2000, our common stock was traded on the OTC Bulletin Board ("OTCBB"), but was delisted due to our failure to timely file required reports under the Exchange Act. We have taken corrective actions to regain our listing on the OTCBB. We are hopeful that our common stock will be relisted soon and we are working toward satisfying all OTCBB listing criteria.

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The following table sets forth the quarterly high and low bid prices per share for the common stock, as reported by the OTCBB for the periods prior to March 23, 2000 and by the National Quotation Bureau for the periods on and after March 23, 2000. 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
2000	December 31, 1999	\$.24	\$.21
	March 31, 2000	\$.52	\$.25
	June 30, 2000	\$.35	\$.30
	September 30, 2000	\$.50	\$.32
2001	December 31, 2000	\$.22	\$.21
	March 31, 2001	\$.45	\$.20
	June 30, 2001	\$.23	\$.18
	September 30, 2001	\$.17	\$.10

On September 30, 2001, there were approximately 574 shareholders of record of our common stock. The transfer agent for our common stock is Continental

Stock Transfer and Trust in New York City, New York.

DIVIDEND POLICY

Under Nevada law, dividends may only be paid out of net profits. Prior to our acquisition of Telco, no significant revenue had been generated. We have not paid, and do not intend to pay in the foreseeable future, cash dividends on our common stock. The current policy of the Board of Directors is to retain all earnings to provide funds for operation and expansion of our business. The declaration of dividends is subject to the discretion of the Board of Directors, which may consider such factors as our results of operations, financial condition, capital needs and acquisition strategies, among others.

SALES OF UNREGISTERED SECURITIES

During the three month ended period ended September 30, 2001, the following shares of our common stock were issued.

On July 10, 2001, we issued 25,000 shares of our common stock at \$0.14 per share to an investment banker that is assisting us with relisting on the OTCBB for services rendered. The restricted shares were issued which was the average bid and ask price as of July 10, 2001 and is in reliance on the exemption from registration provided by Section 4(2) of the Securities Act.

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On September 25, 2001, we issued 50,000 shares of our common stock at \$0.09 per share to the newly elected Secretary of the Company as compensation for services as Secretary for the current year. The restricted shares were issued which was the average bid and ask price as of September 25, 2001 and is in reliance on the exemption from registration provided by Section 4(2) of the Securities Act.

On September 25, 2001, we issued 4,000,000 shares of our common stock at \$0.09 per shares to Matthew Markson Ltd. as part of a settlement agreement for a payment of penalty fee for breach of a noncompliance provision in the original acquisition agreement between the Company and Telco, dated June 16, 1999. The restricted shares were issued which was the average bid and ask price as of September 25, 2001 and is in reliance on the exemption from registration provided by Section 4(2) of the Securities Act.

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Form 10-KSB, including documents incorporated herein by reference, contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements include, but are not limited to, projections of revenues, income or loss, capital expenditures, acquisitions, plans for future operations, financing needs or plans, the impact of economic and business factors and plans relating to our products or services, as well as assumptions relating to the foregoing. The words "believe," "expect," "estimate," "anticipate," "may," and "project" and similar expressions generally identify forward-looking statements. Forward-looking statements are inherently subject to risks and uncertainties, some of which cannot be predicted or quantified. Future events and actual results could differ materially from those set forth in, contemplated by, or underlying our forward-looking statements. Statements in this Form 10-KSB, including those set forth in "Risk Factors," as well as statements incorporated by reference herein that are included in "Business," and other sections of this Annual Report on Form 10-KSB describing factors, among others, that could contribute to or cause such difference.

Although we believe that the assumptions underlying the forward-looking statements in this Form 10-KSB are reasonable, any of these assumptions could prove inaccurate. In addition, our business and operations are subject to substantial risks, some of which are identified in this report and which increase the uncertainties inherent in the forward-looking statements included in this Form 10-KSB. There can be no assurance that the results contemplated in these forward-looking statements will be realized.

The inclusion of forward-looking information should not be regarded as a representation by us or any other person that the future events, plans or expectations contemplated will be achieved. We disclaim any obligation to subsequently revise forward-looking statements to reflect subsequent events or circumstances or the occurrence of unanticipated events.

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OVERVIEW

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

The Company was originally incorporated in Nevada in 1996 as Renaissance Center, Inc. Renaissance Center and Nuclear Corporation merged in 1997. Our articles of incorporation were restated in July 1997 and our name was changed to

Renaissance International Group, Ltd. Our name was subsequently changed to RIGL Corporation in July 1998. With the acquisition of Telco and shift of the focus of our business, our corporate name was again changed to YP.Net, Inc., effective October 1, 1999. The new name was chosen to reflect our focus on Internet-based yellow page services.

RESULTS OF OPERATIONS

Fiscal Year End September 30, 2001 Compared to Fiscal Year End September 30, 2000.

Revenue for the year ended September 30, 2001 ("Fiscal 2001") was \$15,984,917 compared to \$15,836,422 for the year ended September 30, 2000 ("Fiscal 2000"). The slight increase in revenue is principally the result of Telco generating revenues for the full fiscal period. Our revenue decreased marginally primarily due to the completion of the audited financial statements and at the recommendation of our auditor Weber & Company, PC, we applied the Staff Accounting Bulletin #101 ("SAB 101") to our subscription revenue.

The Staff Accounting Board at the Securities Exchange Commission promulgated SAB #101. Their staff reviewed revenue reorganization and created the criteria that has implemented as a guideline to SAB #101 and it is believed that revenue generally is realized or realizable and earned when all of the following criteria are met:

1. Pervasive evidence of an arrangement exists
2. Delivery has occurred or services have been rendered
3. The seller's price to the buyer is fixed or determinable AND
4. Collectibility is reasonably assured.

In regards to the subscription/direct invoice gross revenue, and at the recommendation of our auditor we believed that SAB #101 applies and there should be impairment to gross revenue since we meet all the criteria except item #4. The collectibility of subscription revenue, in the past, has been between 7% - 13% and we have recorded an allowance for bad debt to reflect the bad debt as required. Therefore this year our gross revenue for subscription revenues has been reduced by \$1,900,000 in compliance with SAB #101.

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Presently, our new operations department has reevaluated and re-filtered our subscription customers and we have experienced increases in cash collected from the invoice billings. Progressing forward through the year, we expect a higher collection of subscription receivable since new procedures and processes have been implemented in operations.

We utilize direct mailings as our primary marketing program and this program generates our principal revenue of the Company. Our subscribing customers increased to 114,409 at December 31, 1999, 129,457 at March 31, 2000, 143,292 at June 30, 2000 and 130,592 at September 30, 2000, a 21% increase for the fiscal year. Our subscribing customers decreased to 123,408 at December 31, 2000, 103,187 at March 31, 2001, 99,862 at June 30, 2001 and 91,348 at September 30, 2001. The decrease in our customers for Fiscal 2001 is primarily due to management's decision to stop all direct mail marketing efforts until we had entered into a final settlement agreement with the FTC. In August 2001 we entered into a settlement agreement and voluntarily complied with the order set forth by the FTC. See our Form 10-QSB for the period ended June 30, 2001.

Sales and marketing expenses for Fiscal 2001 was \$688,349 compared to \$1,619,113 for Fiscal 2000. The decrease was principally the result of our decreased or ceasing of all marketing efforts. The marketing expenses are attributed to our direct response marketing, which is our primary source of attracting new customers. The decrease in our marketing expenses for Fiscal 2001 is primarily due to management's decision to cease all direct mail marketing efforts until we had entered into a final settlement agreement with the FTC. In July 2001 we entered into a settlement agreement and voluntarily complied with the order set forth by the FTC. See our Form 10-QSB for the period ended June 30, 2001.

General and administrative expenses for Fiscal 2001 were \$5,320,709 compared to \$5,392,860 for Fiscal 2000. The decrease was principally the result of billing fees in connection with the operations of Telco and the increase in consulting fees, legal fees, and accounting fees. The general expenses are attributed to the additional costs incurred to become current on our SEC filings and legal fees incurred to reach a regulatory settlement with the FTC. Management does not expect the legal expenditures for those periods to continue in the amounts incurred in Fiscal 2002.

On July 16, 2001, we paid Hudson Consulting Group ("Hudson") \$82,000 for the settlement of a lawsuit. In connection with this settlement, Hudson has returned 1,425,334 shares of common stock, Tiger Lewis LLC has returned 82,5000 shares of common stock, Harold Rubenstein has returned 100,000 shares of common stock, and HK Elrod has returned 154,284 shares of common stock. The common stock issued to the above parties, issued by prior management, for services that were never rendered by the recipients of the common stock. The cancellation of these shares will decrease our total outstanding shares, which will affect our earnings per share. The return of the common shares was recorded as other income to the Company. See "Legal Proceedings," above.

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The cost of the Yellow-Page.Net URL was capitalized at its cost of

\$5,000,000. The URL is amortized on an accelerated basis over the twenty-year term of the licensing agreement. Amortization expense on the URL was \$447,087 for the year ended September 30, 2001. Annual amortization expense in future years related to the URL is anticipated to be approximately \$300,000.

Interest expense for Fiscal 2001 was \$571,248 compared to \$853,761 for Fiscal 2000. The decrease in interest expense was a result of decreased debt due to the acquisition of Telco and the acquisition of the URL Yellow-Page.Net.

The reduction in interest expense is also related to the payoff of Finovia Financial credit facility in June 2001

During Fiscal 2001, we have no available net operating loss carryforwards under the separate return limitation year and have unavailable net operating loss carryforwards of \$3,985,962. We may utilize the unavailable net operating loss carryforwards of \$3,985,962 upon generating taxable income in YP.Net or develop a new product in YP.Net. Therefore Telco is not allowed to utilize the unavailable net operating loss carryforward.

During Fiscal 2001, we had no available net operating loss carryforwards under the separate return limitation year and has unavailable net operating loss carryforwards of \$1,931,900. We may utilize the unavailable net operating loss carryforwards of \$1,931,900 upon generating taxable income in YP.Net or develop a new product in YP.Net. Therefore Telco is not allowed to utilize the unavailable net operating loss carryforward.

Net profits for Fiscal 2001 were \$1,812,281, or \$.04 per share, compared to \$2,847,977, or \$.07 per share for Fiscal 2000.

LIQUIDITY AND CAPITAL RESOURCES

Our cash balance increased to \$683,847 for Fiscal 2001 from a \$219,613 for Fiscal 2000. We funded working capital requirements primarily from cash generated from financing activities and utilized cash in operating activities and investing activities and the reduction of debt. We have no credit facility with Finovia Financial as that debt was paid off in June 2001.

Operating Activities. Cash provided by operating activities was \$3,880,158 for Fiscal 2001 compared to \$960,303 for Fiscal 2000. The principal source of our operations revenue is from sales of electronic yellow page advertising.

Investing Activities. Cash used by investing activities was \$165,672 for Fiscal 2001 compared to \$211,803 for Fiscal 2000. We purchased \$28,520 of computer equipment in Fiscal 2001 compared to \$211,803 of additional computer equipment to upgrade and replace incompatible equipment for Fiscal 2000. In Fiscal 2001 we advanced \$137,152 to an affiliate and the note was repaid in full in October 2001.

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Financing Activities. Cash flows used from financing activities were \$3,250,252 for Fiscal 2001 compared to \$784,211 for Fiscal 2000. We had cash outflow from the repaid our credit facility and Matthew Markson Ltd. of \$3,199,452 for Fiscal 2001 compared to \$1,657,781 for Fiscal 2000. We purchased treasury stock in the amount of \$50,800 for Fiscal 2001. We had cash inflow from the financing arrangements in the amount of \$789,241 for Fiscal 2000 and we realized inflow from the sale of common stock of \$84,329 for Fiscal 2000.

We incurred debt in the acquisition of the license right to the Yellow-Page.Net URL. A total of \$4,000,000 was borrowed, \$2,000,000 from Joseph

and Helen VanSickle and \$2,000,000 as a carry-back from Matthew & Markson Ltd. Management has dedicated payments in the amount of \$100,000 per month for the payment of the VanSickle note. Management has also dedicated payments to the Matthew & Markson note in the amount of \$100,000 per month, with the provision that no payment be made if we have less than 30 days operating capital reserved, or if we are in an uncured default with any of our lenders. A total of 4,500,000 shares of our common stock were issued to secure these notes and are held in escrow.

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

We market our products primarily through the use of direct mailers to businesses throughout the United States. We generally pay for these marketing costs when incurred and amortize the costs of direct-response advertising on a straight-line basis over eight months. The amortization lives are based on estimated attrition rates. During Fiscal 2001 we paid \$3,781,485 in advertising and marketing compared to \$3,206,576 in Fiscal 2000. Management anticipates the outlays for direct-response advertising to remain consistent over the next year.

We do not intend to incur significant capital expenditures in the near future.

FUTURE OUTLOOK

For fiscal year 2002 we expect to continue our customer direct response

program whereby we contact our existing customers for their many mini-web-page information and to develop and market new products. We also are generating a new revenue source to provide customer service and technical services to related and industry entities. We presently have agreements with Simple. Net, Inc. to provide both customer and technical services. Simple.Net is an Internet service provider ("ISP") that currently operates with us in a joint venture capacity.

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We have offered our customers a dial-up ISP and are currently gaining customers weekly. Our dial-up ISP backbone provider is Level 3 and is providing a Tier 1 network that will ultimately provide the dial-up service for YP.net dial-up customers and Simple. Net, Inc. through our joint venture arrangement. Under our current provider's network, over 65 percent of the US's population has the ability to dial to a local point of presence. The remaining population will be allowed access through an 800 number solution. This revenue stream will prove vital in expanding our ability to reach various customer needs.

Our future success will depend on our ability to integrate continually and distribute information services of broad appeal. Our ability to maintain our relationships with content providers and to build new relationships with additional content providers is critical to our marketing plan.

We have entered into a billing agreement with OAN Billing, Inc. ("OAN"). This contract will provide us with another billing integrator that will allow us to broaden our billing area among all LECs. OAN is a reputable billing company that will provide us more flexibility and will reduce our concentration of billing risk with billing integrators.

We have entered into a credit card processing agreement with Bank of American. This agreement will provide us with the ability to expeditiously process our subscription invoices on a recurring basis. That is we will be able to process monthly billing in a recurring batch by this method we will be able to have a higher collection of our subscription revenue.

We have filed a preliminary 14-C information statement to increase our authorized common stock and create Class B and Class C preferred shares. We intend to offer our shareholders class B and C preferred shares. The preferred offer was at the request of our shareholders that were looking for an avenue to receive income rather than waiting for the gains in equity. "See item 4, Submission of Matter to Vote to Security Holders" Having received no comments back from the SEC to our Preliminary 14-C Information Statement, management will file a 14-C definitive statement and do a formal offering. See our Form 14-C filed with the SEC on November 1, 2001

Management believes that the future of this company will be based on its ability to market business services to its proprietary business customer base. We are actively seeking potential acquisitions and mergers to broaden our services offered to our customer base. We are presently seeking companies that will provide a diversified revenue stream with a strong revenue model that will provide more services to our existing customers. Management believes its strong financial controls and operating philosophy will help generate profits from its future acquisitions for the benefit of its shareholders.

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FACTORS WHICH MAY AFFECT FUTURE OPERATING RESULTS

Set forth below and elsewhere in this Annual Report and in the other documents we file with SEC, including the most recent Form 10-QSB, are risks and uncertainties that could cause actual results to differ materially from the results contemplated by the forward-looking statements contained in the Annual Report.

Gross Margins May Decline Over Time: We expect that gross margins may be

adversely affected because we have determined that profit margins from the electronic yellow pages offerings that we have profited from in the past have fluctuated. We have experienced a decrease in revenue from the LEC from the effects of the Competitive Local Exchange Carriers (CLEC) that are participating in providing local telephone services to customers. We have begun to address this problem and we are implementing data filters to reduce the effects of the CLEC's. We have also sought other billing methods to reduce the adverse effects of the CLEC billings. These other billing methods may be cheaper or more expensive than our current LEC billing and we have not yet determined if they will be less or more effective. We continue to look for profitable Internet opportunities; however there are no assurances that we will be successful, and presently we have no acquisitions in progress.

Dependence on Key Personnel: Our performance is substantially dependant on

the performance of our executive officers and other key employees and 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 employees could have a material adverse effect on our business, results of operations or financial condition. 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.

Since our Growth Rate may slow, operating results for a particular quarter

are difficult to predict: We expect that in the future, our net sales may grow

at a slower rate on a quarter-to-quarter basis than experienced in previous periods. This may be a direct cause of the projected changes to our direct marketing pieces as well as the fact that we have not been performing our direct marketing at this time. See "Marketing," above. As a consequence, operating results for a particular quarter are extremely difficult to predict. Our ability to meet financial expectations could be hampered if we are unable to correct the billing through the CLEC markets seen in the fourth quarter continue in the future. Additionally, in response to customer demand, we continue to attempt develop new products to reduce our customer attrition rates.

We Expect to make Future Acquisitions where Advisable and Acquisitions

involve Numerous Risks: The Internet business is highly competitive, and as

such, our growth is dependent upon market growth, our ability to enhance our existing products and our ability to introduce new products on a timely basis. One of the ways we will address the need to develop new products through the acquisition of other companies. Acquisitions involve numerous risks, including difficulties in integrating the operations, technologies, and products of the acquired companies; the risk of diverting management's attention from normal daily operations of the business; risks of entering markets in which we have no or limited direct prior experience and where competitors in such markets have stronger market positions; insufficient revenue to offset increased expenses associated with acquisitions; and the potential loss of key employees of the acquired companies. Mergers and acquisitions of high-technology companies are inherently risky, and there is no assurance that our previous or future acquisitions will be successful and not have a material adverse affect on our business, operating results, or financial condition. We must also manage any growth effectively. Failure to manage growth effectively and successfully integrate acquisitions we may make could have a material adverse effect on our business and operating results.

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Regulatory Environment. Existing laws and regulations and any future

regulation may have a material adverse effect on our business. These effects could include substantial liability including fines and criminal penalties, preclusion from offering certain products or services and the prevention or limitation of certain marketing practices. As a result of such changes, our ability to increase our business through Internet usage could also be substantially limited.

ITEM 7. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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YP.NET, INC.

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INDEPENDENT ACCOUNTANTS' REPORT

To the Stockholders and Board of Directors of
YP.Net, Inc.:

We have audited the accompanying consolidated balance sheet of YP.Net, Inc. as of September 30, 2001 and the related consolidated statements of operations, stockholders' equity and cash flows for each of the two years in the period ended September 30, 2001. 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 audits.

We conducted our audits in accordance with generally accepted auditing standards. 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of YP.Net, Inc. as of September 30, 2001, and the consolidated results of its operations and cash flows for each of the two years in the period ended September 30, 2001, in conformity with generally accepted accounting principles.

/s/ WEBER & COMPANY, P.C.
 Scottsdale, Arizona
 December 20, 2001

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<TABLE>
 <CAPTION>
 YP.NET, INC.

CONSOLIDATED BALANCE SHEET
 SEPTEMBER 30, 2001

<S>	<C>
ASSETS:	
CURRENT ASSETS	
Cash	\$ 683,847
Accounts receivable, net of allowance of \$1,035,993	2,870,109
Customer acquisition costs, net of accumulated amortization of \$3,588,242	193,244
Prepaid expenses and other assets	20,169
Deferred income taxes	414,397

Total current assets	4,181,766
PROPERTY AND EQUIPMENT, net	374,885
DEPOSITS	23,287
INTELLECTUAL PROPERTY- URL, net of accumulated amortization of \$1,077,916	3,932,084
ADVANCES TO AFFILIATE	116,316

TOTAL ASSETS	\$8,628,338
	=====
LIABILITIES AND STOCKHOLDERS' EQUITY:	
CURRENT LIABILITIES:	
Accounts payable	\$ 314,904
Accrued liabilities	76,234
Notes payable - current portion	888,236
Income taxes payable	1,222,318

Total current liabilities	2,501,692
NOTES PAYABLE - long term portion	410,669
DEFERRED INCOME TAXES	17,439

Total liabilities	2,929,800

STOCKHOLDERS' EQUITY:	
Common stock, \$.001 par value, 50,000,000 shares authorized, 41,340,798 issued and outstanding	43,814
Paid in capital	4,556,806
Treasury stock at cost	(171,422)
Retained earnings	1,269,340

Total stockholders' equity	5,698,538

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$8,628,338
	=====

</TABLE>

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

<TABLE>
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YP.NET, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED SEPTEMBER 30, 2001 AND SEPTEMBER 30, 2000

	2001	2000
<S>	<C>	<C>
NET REVENUES	\$15,084,917	\$15,836,422
OPERATING EXPENSES:		
Cost of services	6,399,367	5,234,906
General and administrative expenses	5,320,709	5,392,860
Sales and marketing expenses	688,349	1,619,113
Franchising expense		
Depreciation and amortization	603,426	616,660
Total operating expenses	13,011,851	12,863,539
OPERATING INCOME	2,073,066	2,972,883
OTHER (INCOME) AND EXPENSES		
Interest expense and other financing costs	571,248	853,761
Interest income	(7,342)	(802)
Other Income	(1,533,568)	(82,846)
Total other expense	(969,662)	770,113
INCOME BEFORE INCOME TAXES	3,042,728	2,202,770
INCOME TAX PROVISION (BENEFIT)	1,230,447	(645,207)
NET INCOME	\$ 1,812,281	\$ 2,847,977
NET INCOME PER SHARE:		
Basic	\$ 0.04	\$ 0.07
Diluted	\$ 0.04	\$ 0.07
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:		
Basic	40,623,126	40,120,829
Diluted	40,623,126	40,120,829

</TABLE>

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

YP.NET, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY FOR THE
YEARS ENDED SEPTEMBER 30, 2001 AND SEPTEMBER 30, 2000

<TABLE>
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	COMMON STOCK		PREFERRED A		TREASURY	PAID-IN	ACCUMULATED
	SHARES	AMOUNT	SHARES	AMOUNT	STOCK	CAPITAL	DEFICIT
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
BALANCE OCTOBER 1, 1999	39,156,853	\$39,157	1,700,000	\$ 1,700	\$ (69,822)	\$4,892,538	\$ (3,390,918)
Common stock issued for consulting services	500,000	500				463,450	
Common stock issued for exercised options	53,611	54				84,275	
Common stock issued as board of directors' fees	550,000	550				114,950	
Common stock issued to former							

officer to convert preferred shares and as final compensation settlement	200,000	200	(200,000)	(200)		89,800	
Common stock issued to settle lease agreement	100,000	100				124,100	
Net income							2,847,977
BALANCE							
SEPTEMBER 30, 2000	40,560,464	\$40,561	1,500,000	\$ 1,500	\$ (69,822)	\$5,769,113	\$ (542,941)
	TOTAL						
<S>	<C>						
BALANCE OCTOBER 1, 1999	\$1,472,655						
Common stock issued for consulting services	463,950						
Common stock issued for exercised options	84,329						
Common stock issued as board of directors' fees	115,500						
Common stock issued to former officer to convert preferred shares and as final compensation settlement	89,800						
Common stock issued to settle lease agreement	124,200						
Net income	2,847,977						
BALANCE							
SEPTEMBER 30, 2000	\$5,198,411						

(CONTINUED)

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

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YP.NET, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY FOR THE
YEARS ENDED SEPTEMBER 30, 2001 AND SEPTEMBER 30, 2000 (CONTINUED)

<TABLE>
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	COMMON SHARES	STOCK AMOUNT	PREFERRED A SHARES	A AMOUNT	TREASURY STOCK	PAID-IN CAPITAL	ACCUMULATED DEFICIT
<S>	<C>						
BALANCE OCTOBER 1, 2000	40,560,464	\$40,561	1,500,000	\$ 1,500	\$ (69,822)	\$ 5,769,113	\$ (542,941)
Common stock issued for consulting services	850,000	850				147,950	
Common stock received and retired under legal settlements	(1,596,784)	(1,597)				(1,723,433)	
Common stock issued for extension on debt	4,000,000	4,000				356,000	
Cancellation of preferred stock			(1,500,000)	(1,500)			
Purchase of treasury stock					(101,600)		
Value of common stock warrants issued						7,176	
Net income							1,812,281
BALANCE							
SEPTEMBER 30, 2001	43,813,680	\$43,814	-	\$ -	\$ (171,422)	\$ 4,556,806	\$ 1,269,340
	TOTAL						

<S>	<C>
BALANCE OCTOBER 1, 2000	\$ 5,198,411
Common stock issued for consulting services	148,800
Common stock received and retired under legal settlements	(1,725,030)
Common stock issued for extension on debt	360,000
Cancellation of preferred stock	(1,500)
Purchase of treasury stock	(101,600)
Value of common stock warrants issued	7,176
Net income	1,812,281

BALANCE	
SEPTEMBER 30, 2001	\$ 5,698,538
	=====

</TABLE>

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

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<TABLE>
<CAPTION>
YP.NET, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE
YEARS ENDED SEPTEMBER 30, 2001 AND SEPTEMBER 30, 2000

CASH FLOWS FROM OPERATING ACTIVITIES:	2001	2000
<S>	<C>	<C>
Net income	\$ 1,812,281	\$ 2,847,977
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	156,343	144,993
Issuance of common stock as compensation for services	148,800	669,250
Penalties related to acquisition debt paid by issuance of debt, warrants and stock	917,967	-
Non-cash income recognized on recapture of common stock	(1,725,030)	
Deferred income taxes	268,556	(645,207)
Provision for uncollectible accounts	(760,859)	1,590,840
Amortization of intellectual property	447,083	471,667
Changes in assets and liabilities:		
Trade and other accounts receivable	1,617,467	(4,345,544)
Customer acquisition costs	37,654	403,002
Other receivables	-	77,182
Prepaid and other current assets	79,060	39,621
Other assets	(11,500)	-
Accounts payable	161,089	48,014
Accrued liabilities	(251,894)	(119,232)
Deferred Financing Costs	21,250	102,500
Income taxes payable	961,891	-
Deferred revenue	-	(324,760)
Net cash provided by operating activities	3,880,158	960,303
CASH FLOWS FROM INVESTING ACTIVITIES:		
Advances made to affiliate	(137,152)	-
Purchases of equipment	(28,520)	(211,803)
Net cash (used in) investing activities	(165,672)	(211,803)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal repayments on borrowings from line of credit	(1,577,547)	789,241
Principal repayments on notes payable	(1,621,905)	(1,657,781)
Purchase of treasury stock	(50,800)	
Proceeds from sale of common stock	-	84,329
Net cash (used)/provided by financing activities	(3,250,252)	(784,211)
(DECREASE)/INCREASE IN CASH	464,234	(35,711)
CASH, BEGINNING OF YEAR	219,613	255,324
CASH, END OF YEAR	\$ 683,847	\$ 219,613

</TABLE>

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

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YP.NET, INC.

CONSOLIDATED STATEMENT OF CASH FLOWS, (CONTINUED)
FOR THE YEARS ENDED SEPTEMBER 30, 2001 AND 2000

SUPPLEMENTAL CASH FLOW INFORMATION:

<TABLE>

<CAPTION>

	2001	2000
Interest Paid	\$421,013	\$833,993
Income taxes paid	\$ -0-	\$ -0-

</TABLE>

SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES:

<TABLE>

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	2001	2000
Common stock issued in settlement of lease	\$ -0-	\$124,200
Note payable issued in payment of debt extension fee	\$550,791	\$ -0-
Value of common stock issued as payment of debt extension fee	\$360,000	\$ -0-
Liability incurred for purchase of treasury stock	\$ 50,800	\$ -0-

</TABLE>

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

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YP.NET, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2001 AND 2000

1. ORGANIZATION AND BASIS OF PRESENTATION

YP.Net, Inc. (the "Company"), formally 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. ("Telco") in June 1999, through the issuance of 17,000,000 shares of the Company's common stock. Prior to its acquisition of Telco, RIGL 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 web site in a "Yellow Page" format.

Telco provides those services to its subscribers for a monthly fee. These services are provided primarily to all business throughout the United States. Telco became a wholly owned subsidiary of YP.Net, Inc. after the June 16, 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. Accordingly, the historical financial statements have been restated after giving effect to the June 16, 1999, acquisition of the Company. The financial statements have been prepared to give retroactive effect to October 1, 1998, of the reverse acquisition completed on June 16, 1999, and represent the operations of Telco. Consistent with reverse acquisition accounting: (i) all of Telco's assets, liabilities, and accumulated deficit, are reflected at their combined historical cost (as the accounting acquirer) and (ii) the preexisting outstanding shares of the Company (the accounting acquiree) are 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 includes the accounts and results of operations of the Company and Telco, its wholly owned subsidiary, for the years ended September 30, 2001 and September 30, 2000.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash 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, 2001, cash deposits exceeded those insured limits by \$580,000.

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

Customer acquisition costs represent the direct response marketing costs that are incurred as the primary method by which customers subscribe to the Company's services. The Company purchases mailing lists and sends advertising materials to prospective subscribers from those lists. Customers subscribe to the services by positively responding to those advertising materials which serve as the contract for the subscription. The Company capitalizes and amortizes the costs of direct-response advertising on a straight-line basis over eight months. The amortization lives are based on estimated attrition rates. The Company capitalized expenditures of \$575,000 and \$1,177,000 during the years ended September 30, 2001 and 2000 respectively. The Company amortized those capitalized amounts at \$613,000 and \$1,580,000 during the years ended September 30, 2001 and 2000 respectively.

The Company also incurs advertising costs that are not considered direct-response advertising. These other advertising costs are expensed when incurred. These advertising expenses were \$75,000 and \$30,000 for the years ended September 30, 2001 and 2000 respectively.

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 \$156,343 and \$144,993 for the years ended September 30, 2001 and 2000 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 transmit billing data, much of which is forwarded to Local Exchange Carriers ("LEC's") that provide local telephone service. Monthly subscription fees are generally included on the telephone bills of the customers. The Company recognizes revenue based on net billings accepted by the LEC's. Due to the periods of time for which adjustments may be reported by the LEC's and the billing companies, the Company estimates and accrues for dilution and fees reported subsequent to year-end for initial billings related to services provided for periods within the fiscal year.

Revenue for billings to certain customers whom are billed directly by the Company and not through the LEC's, is recognized on the basis of cash received due to poor experience associated with the collection of such billings. The Company recognizes revenue on these billings on estimated future collections which are determined on the basis of historical collections.

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

Financial Instruments: Financial instruments consist primarily of cash, accounts receivable, and obligations under accounts payable, accrued

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

Net income per share 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.

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.

Stock-Based Compensation: Statements of Financial Accounting Standards No. -----
123, Accounting for Stock-Based Compensation, ("SFAS 123") established accounting and disclosure requirements using a fair-value based method of accounting for stock-based employee compensation. In accordance with SFAS 123, the Company has elected to continue accounting for stock based compensation using the intrinsic value method prescribed by Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees." The proforma effect of the fair value method is discussed in Note 15.

Recently Issued Accounting Pronouncements: In December 1999, the Securities -----
and Exchange Commission issued Staff Accounting Bulletin ("SAB") No. 101, Revenue Recognition in Financial Statements. SAB No. 101 summarizes the staff's views in applying generally accepted accounting principles to revenue recognition in financial statements. Management believes that the Company's revenue recognition policies have complied with those prescribed in SAB 101 and therefore, the adoption of SAB No. 101 did not have a material effect on the Company's revenues or revenue recognition policy.

In June 2001, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards No.'s 141 Business Combinations and 142 Goodwill and Other Intangible Assets. The Company has reviewed the provisions of the new accounting pronouncements and does not believe the adoption of such will have a material effect on the financial position and results of operations of the Company. However, the Company will likely be required to review its process of analyzing the carrying value of its intangible assets.

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Impairment of long-lived assets is assessed by the Company for impairment whenever there is an indication that the carrying amount of the asset may not be recoverable. Recoverability of these assets is determined by comparing the forecasted undiscounted cash flows generated by those assets to the assets' net carrying value. The amount of impairment loss, if any, is measured as the difference between the net book value of the assets and the estimated fair value of the related assets.

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3. ACCOUNTS RECEIVABLE

The Company provides billing information to third party billing companies for the majority of its monthly billings. Billings submitted are "filtered" by these billing companies and the LEC's. Net accepted billings are recognized as revenue and accounts receivable. The billing companies remit payments to the Company on the basis of cash ultimately received from the LEC's by those billing companies. The billing companies and LEC's charge fees for their services which are netted against the gross accounts receivable balance. The billing companies also apply holdbacks for the remittances for potentially uncollectible accounts. These dilution amounts will vary due to numerous factors and the Company may not be certain as to the actual amounts of dilution on any specific billing submittal until several months after that submittal. The Company estimates the amount of these charges and holdbacks based historical experience and subsequent information received from the billing companies. The Company estimates uncollectible account balances and provides an allowance for such estimates.

The Company entered into a customer billing service agreement with Integreтел, Inc. Integreтел provides billing and collection and related services. Determining the net realizable value requires an estimation of both uncollectible receivables or any returns and allowances. The trade receivable due from Integreтел at September 30, 2001 was \$2,126,219. These receivables have been reduced by an allowance for doubtful accounts of \$637,866.

The Company also entered into a customer billing service agreement with

Enhanced Services Billing, Inc. (ESBI). ESBI provides billing and collection and related services very similar to Integretel discussed above. Determining the net realizable value requires an estimation of both uncollectible receivables or any returns and allowances. The trade receivable due from ESBI at September 30, 2001 was \$1,146,644 less aggregated amounts for telco fees, and reserve holdbacks based on dilution. This trade receivable has been reduced by an allowance for doubtful accounts of \$298,127.

Trade subscription receivables, which are directly administered and carried by the Company, are valued and reported at net realizable value, the net amount expected to be received. This amount may or may not be necessarily the amount received. Determining the net realizable value requires an estimation of both uncollectible accounts or any returns and allowances. The net trade subscriptions receivable at September 30, 2001 was \$395,000.

The Company experiences significant dilution from 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 can be affected by holdbacks, fees and other matters that are determined by the LEC's and the billing companies.

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4. INTELLECTUAL PROPERTY

In connection with the Company's acquisition of Telco, the Company was required to provide accelerated payment of license fees for the use of the Internet domain name or Universal Resource Locator (URL) Yellow-page. net.

Telco had previously entered into a 20-year license agreement for the use of the URL with one of its two 50% stockholders. The original license agreement required annual payments of \$400,000. However, the agreement stated that upon a change in control of Telco, a \$5,000,000 accelerated payment is required to maintain the rights under the licensing agreement. The URL holder agreed to discount the accelerated payments from \$8,000,000 to \$5,000,000 at the time of the acquisition. The Company agreed to make that payment upon effecting the acquisition of Telco.

The Company made a \$3,000,000 cash payment and issued a note payable for \$2,000,000 to acquire the licensing rights of the URL. The Company also issued 2,000,000 shares of its common stock to be held as collateral on the note. The note payable was originally due on July 15, 1999. The Company failed to make the \$2,000,000 payment when due. The repayment terms were renegotiated to extend the due date to January 15, 2000. An extension fee of \$200,000 was paid by the Company at that time. The Company again renegotiated the repayment terms on April 26, 2000, to a demand note, with monthly installments of \$100,000 subject to all operating requirements, which, management believes, have subsequently been met by the Company.

In the year ended September 30, 2001, the former URL holder claimed that it was due additional amounts for the prior loan extensions. The Company reached a settlement with the former URL holder that required the Company to issue to the former URL holder, 4,000,000 shares of the Company's common stock, warrants to purchase 500,000 shares of the Company's common stock and a note payable for \$550,000. The Company recorded an expense of approximately \$917,000 related to the settlement representing the principal amount of the note payable, \$360,000 as the fair value of the 4,000,000 common shares and \$7,176 as the fair value of the warrants. The value of the common stock was determined on the basis of the quoted trading price of the shares on the date of the agreement. The fair value of the warrants was determined on the using the Black-Scholes option pricing model.

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

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

will periodically analyze the net book value of this asset and determine if impairment has occurred. The URL is amortized on an accelerated basis over the twenty-year term of the licensing agreement. Amortization expense on the URL was \$447,083 and \$471,667 for the years ended September 30, 2001 and 2000 respectively.

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5. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at September 30, 2001:

Leasehold improvements	\$	319,150
Furnishings and fixtures		197,261
Office and computer equipment		275,364

Total		791,775
Less accumulated depreciation		(416,889)

Property and equipment, net \$ 374,886

=====

The Company has provided certain equipment and improvements to an affiliated entity at no cost to that affiliated entity. This arrangement was made as part of the Company's original default settlement with the prior owners of the URL discussed in Note 4. The Company retains title and control of these assets. However, they are not being utilized by the Company. The net book value of the office equipment and leasehold improvements being utilized by the affiliated entity was approximately \$136,000 at September 30, 2001.

6. NOTES PAYABLE AND LINE OF CREDIT

Notes payable at September 30, 2001 are comprised of the following:

<TABLE>

<CAPTION>

<S>	Term loan from bank. Original balance of \$40,525. Repayment terms require monthly installments of principal and interest of \$1,844. Interest at 8.5% per annum. Due January 13, 2001. Collateralized by equipment.	<C>	
		\$	1,805

	Note payable to stockholders, original balance of 2,000,000, interest at 10% per annum. Repayment terms require monthly installments of \$100,000 plus interest. Due January 11, 2001. Collateralized by 2,000,000 shares of the Company's common stock. Note is currently in default.		400,000
--	--	--	---------

	Note payable to former Telco shareholder for balance of URL purchase price (Note 4). Repayment terms require monthly installments of principal and interest at 20% per annum of \$100,000 and due upon demand. Collateralized by 2,000,000 shares of the Company's common stock. Note is currently in default.		346,309
--	--	--	---------

33

	Note payable to former Telco shareholder, original balance of \$550,000, interest at 10.5% per annum. Repayment terms require monthly installments of principal and interest of \$19,045 beginning December 15, 2001. Due September 25, 2004. Collateralized by all assets of the Company.		550,791
--	--	--	---------

Totals		-----	1,298,905
--------	--	-------	-----------

Less current portion		(888,236)	-----
----------------------	--	-----------	-------

Long-term portion		\$ 410,669	=====
-------------------	--	------------	-------

</TABLE>

7. 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.

The deferred tax consequences of temporary differences in reporting items for financial statement and income tax purposes are recognized, if appropriate. Realization of the future tax benefits related to the deferred tax assets is dependent on many factors, including the Company's ability to generate taxable income within the net operating loss period. The Company has considered these factors in reaching its conclusion as to the valuation allowance for financial reporting purposes.

At September 30, 2001 the Company has unused federal net operating losses of \$3,985,962 that may be unavailable under Internal Revenue Code 382 - change in control rules - expiring from 2011 through 2014. The Company may utilize the unavailable net operating loss carryforwards upon generating taxable income in that operating entity. At September 30, 2001 the Company had unused state net operating losses of \$1,931,900 that may be unavailable under the change in control rules expiring 2003.

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

<TABLE>

<CAPTION>

	2001	2000
<S>	<C>	<C>
Current Provision	\$ 961,891	\$ 1,527,389

Deferred Provision (Benefit)	268,556	(2,172,596)
	-----	-----
Net income tax (benefit) provision	\$1,230,447	\$ (645,207)
	=====	=====

</TABLE>

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

<TABLE>
<CAPTION>

	2001		2000		
	----		----		
<S>		<C>	<C>	<C>	<C>
Federal statutory rates		\$ 1,034,527	34%	\$ 748,942	34%
State income taxes		197,777	6%	132,166	6%
Utilization of valuation allowance		(1,527,389)	(69)%		
Other		(1,857)	-	1,074	-
		-----	-----	-----	-----
Effective rate		\$ 1,230,447	40%	\$ (645,207)	(29)%
		=====	=====	=====	=====

</TABLE>

34

Deferred tax assets totaling \$1,983,000 are comprised of \$512,000 for differences in book and tax bases of accounts receivable and intangible assets and approximately \$1,471,000 relates to net operating loss carryforwards which is offset by an equal valuation allowance resulting in a net deferred income tax asset of \$512,000. The valuation allowance was provided due to the uncertainty of future realization of federal and state net operating loss carryforwards that give rise to approximately \$1,471,000 of the deferred tax asset because of restrictions on the utilization of such carryforwards due to the change in control rules under Internal Revenue Code Section 382. The valuation allowance decreased \$1,070,000 in the year ended September 30, 2000, due to resolution of uncertainties as to the Company's ability to generate sufficient taxable income to utilize the net operating loss carryforwards that could be utilized. There was no change in the valuation allowance in the year ended September 30, 2001.

At September 30, 2001, there was a deferred tax liability of \$114,739 related to the differences in book and taxes bases of property and equipment.

8. LEASES

The Company leases its office space under long-term operating leases expiring through 2003. Rent expense under these leases was \$175,464 and \$176,637 for the years ended September 30, 2001 and 2000.

The Company consolidated office space from a variety of locations to a single facility effective with the Telco merger. The Company has subleased the former Telco office space.

Future minimum annual lease payments and sublease rentals under operating lease agreements for years ended September 30:

<TABLE>
<CAPTION>

	Rents	Sublease Rentals
	-----	-----
<S>	<C>	<C>
2002	\$392,862	\$203,500
2003	95,598	-
	-----	-----
	\$488,460	\$203,500
	=====	=====

</TABLE>

9. STOCKHOLDERS' EQUITY

Telco Acquisition

The Company issued 17,000,000 shares of its Common Stock in connection with the Telco acquisition. The transaction was valued at the book value of the net assets of RIGL as of the date of the transaction.

Common Stock Issued for Services

The Company has historically 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, 2001, the Company issued 850,000 shares of common stock to officers, directors and consultants valued at \$148,800.

During the year ended September 30, 2000, the Company issued 500,000 shares to consultants valued at \$464,950. Also in the year ended September 30, 2000, the Company issued 550,000 shares of its common stock valued at \$115,500 to members of the board of directors as consideration and payment for directors' fees.

Common Shares Rescinded

The Company made claims against numerous parties for return of common shares issued to consultants by former management. Some of these claims resulted in litigation. During the year ended September 30, 2001, the Company settled with six of those parties resulting in 1,596,784 shares of the Company's common stock being returned and retired. These transactions have been recognized as other income of \$1,725,030 in the accompanying statement of operations for the year ended September 30, 2001. The rescissions and returns of the common stock were recorded at the value of the original transactions that were rescinded, that is, the recorded expense for the original issuance of the shares was, in effect, reversed in the year ended September 30, 2001.

Common Stock Issued for Debt Extension

The former holder of the Yellow-page. net. URL made a claim against the Company in the year ended September 30, 2001. The former URL holder claimed that it was owed \$1,000,000 that represented a loan extension fee for an extension given in 1999. The Company disputed the claim but ultimately settled with the former URL holder. The settlement agreement required the Company to pay the former URL holder \$550,000, 4,000,000 shares of the Company's common stock and warrants for and additional 500,000 shares of the Company's common stock. The Company recorded an expense of approximately \$917,000 related to the settlement representing the principal amount of the note payable, \$360,000 as the fair value of the 4,000,000 common shares and \$7,176 as the fair value of the warrants. The value of the common stock was determined on the basis of the quoted trading price of the shares on the date of the agreement. The fair value of the warrants was determined on the using the Black-Scholes option pricing model.

Treasury Stock

During the year ended September 30, 2001, the Company acquired 254,000 shares of its common stock from a single stockholder. The Company agreed to purchase the common stock for \$101,600. The Company paid cash of \$50,800 prior to September 30, 2001 and accrued the remaining \$50,800 due at September 30, 2001

Other

During the year ended September 30, 2000, the Company issued 100,000 shares of its common stock to a sub lessee of certain office space for which the Company is the primary lessee. Management agreed to issue these shares as an inducement to the sub-lessee and allow the Company to eliminate the monthly obligation under that lease.

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Also in the year ended September 30, 2000, the Company agreed to settle all outstanding issues with a former officer by agreeing to convert 200,000 shares of Series B preferred stock held by this individual to 200,000 shares of common stock. The conversion was set at the original conversion rate for the preferred shares. However, under the original terms, the preferred shares were not convertible until the occurrence of certain "trigger events". Those "trigger events" had not occurred but the former officer was allowed to convert as part of the settlement agreement. The conversion was recorded at the estimated value of the common stock on the date of the conversion.

The Company granted 1,700,000 shares of Series B preferred stock to certain employees during the year ended September 30, 1999. The Series B preferred stock has no stated dividend. The preferred shares are convertible to common stock at the option of the holder. The shares are convertible at varying rates depending upon the trading price of the common stock at the time of conversion. The initial conversion rate is one share of common for each share of preferred. Conversion may not occur until certain "trigger events" occur and all rights with respect to the preferred shares terminate on November 30, 2004. "Trigger events" are defined as trading prices of the Company's common stock reaching or exceeding \$5 through \$10 per share and net income reaching or exceeding \$5,000,000. No value was assigned to the preferred shares in the accompanying balance sheet nor was any compensation expense recognized for the year ended September 30, 2000, because the preferred shares were not exercisable at the time of issuances because of the failure of the Company to meet the "trigger events". Subsequently, management has cancelled the Series B preferred stock and rescinded those issuances and all shares of the Series B preferred stock were returned as of September 30, 2001.

10. COMMITMENTS AND CONTINGENCIES

Telco Billing

The acquisition of Telco by the Company called for the issuance of 17,000,000 new shares of stock in exchange of the existing shares of Telco. As part of that agreement, the Company gave the former shareholders the right to "Put" back to the Company certain shares of stock at a minimum stock price of 80% of the current trading price with a minimum strike price of \$1.00. The net effect of which was that the former Telco shareholders could require the Company to repurchase shares of stock of the Company at a minimum cost of \$10,000,000. The agreement required the Company to attain certain market share levels.

New management has renegotiated the "Puts", by which the "Puts" were retired and the Company provided a credit facility of up to \$5,000,000 to the former Telco shareholders, collateralized by the stock held by the shareholders, with interest at least 0.25 points higher than the Company's average cost of borrowing. Additional covenants warrant that no more than \$1,000,000 can be advanced at any point in time and no advances can be made in excess with out allowing at least 30 days operating capital plus reserve or if the company is in an uncured default with any of its lenders.

Billing Service Agreements

The Company has entered into a customer billing service agreement with Integretel, Inc. (IGT). IGT provides billing and collection and related services associated to the telecommunications industry. The agreement term is for two years, automatically renewable in two-year increments unless appropriate notice to terminate is given by either party. The agreement will automatically renew on September 1, 2003, unless either party gives notice of termination 90 days prior to that renewal date. Under the agreement, IGT bills, collects and remits the proceeds to Telco net of reserves for bad debts, billing adjustments, telephone company fees and IGT fees. If either the Company's transaction volume decreases by 25% from the preceding month, less than 75% of the traffic is billable to major telephone companies, IGT may at its own discretion increase the reserves and holdbacks under this agreement. IGT handles all billing information and collection of receivables. The Company's cash receipts on trade accounts receivable are dependent upon estimates pertaining to holdbacks and other factors as determined by IGT. IGT may at its own discretion increase the reserves and holdbacks under this agreement.

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The Company has also entered into a customer billing service agreement with Enhanced Services Billing, Inc. (ESBI). ESBI provides billing and collection and related services associated to the telecommunications industry. The agreement term is for two years, automatically renewable in one-year increments unless appropriate notice to terminate is given by either party. The agreement automatically renews on December 3, 2001, unless either party gives notice of termination 91 days prior to that renewal date. Under the agreement, ESBI bills, collects and remits the proceeds to Telco net of reserves for bad debts, billing adjustments, telephone company fees and ESBI fees. If either the Company's transaction volume decreases by 25% from the preceding month, less than 75% of the traffic is billable to major telephone companies, ESBI may at its own discretion increase the reserves and holdbacks under this agreement.

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

United States Federal Trade Commission (FTC)

The Company was a subject of an FTC investigation pertaining to claims made of deceptive marketing practices. The Company has reached an agreement with the FTC requiring the Company to make certain changes to mailing and promotional materials and notify certain customers that a refund of past paid service fees is available. The settlement requires the Company to notify approximately 11,000 customers. Each of those customers may receive a refund of up to \$12.50. At September 30, 2001, the Company accrued \$45,413 which was all paid after September 30, 2001. Management does not believe that there will be any additional material refunds. The Company may also be required to pay certain expenses incurred in the FTC investigation. The Company intends to contest payment of these expenses but believes that if such is a requirement of any final settlement with the FTC, the amount could range from \$50,000 to \$70,000.

11. NET INCOME PER SHARE

Net loss per share is calculated using the weighted average number of shares of common stock outstanding during the year. Preferred stock dividends are subtracted from the net income to determine the amount available to common shareholders. There were no preferred stock dividends in the years ended September 30, 2001 and 2000. Warrants to purchase

500,000 shares of common stock were excluded from the calculation for the year ended September 30, 2001. The exercise price of those warrants was greater than the trading value of the common stock and therefore inclusion of such would be anti-dilutive.

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Preferred stock convertible to 1,500,000 shares of common stock were not considered in the calculation for diluted earnings per share for the year ended September 30, 2000 because the ability to convert is contingent upon the Company attaining certain stock price and profitability goals. None of which was met at September 30, 2000. Also, warrants to purchase 350,000 shares of common stock were not considered in the calculation for diluted earnings per share for the year ended September 30, 2000 because the exercise price of the warrants is greater than the average common stock price for the period, therefore the effect of their inclusion would be antidilutive. Also excluded from the calculation for the year ended September 30, 2000, were 890,334 shares of common stock that are in dispute.

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

<TABLE>
<CAPTION>

20012000

	Income	Shares	Per Share	INCOME	Shares	Per share
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Net Income (Loss)	\$1,812,281			\$2,847,977		
Preferred stock dividends						
Income from continuing operations	1,812,281			2,847,977		
BASIC EARNINGS PER SHARE:						
Income Loss available to common stockholders	\$1,812,281	40,623,126	\$ 0.07	\$2,847,977	40,120,829	\$ 0.07
Effect of dilutive securities	N/A			N/A		
DILUTED EARNINGS PER SHARE	\$1,812,281	40,623,126	\$ 0.07	\$2,847,977	40,120,829	\$ 0.07

</TABLE>

12. RELATED PARTY TRANSACTIONS

The Company from time to time advances and borrows funds from Board members and other related entities. At September 30, 2001, the Company was owed approximately \$116,000 along with \$6,190 in accrued interest and also owed \$10,386 to such entities.

The Company engaged an entity owned by the Chief Executive Officer for consulting services. The costs related to this engagement for the year ended September 30, 2001 were approximately \$158,000. The Company's Chief Financial Officer also provided other professional services to the Company through an entity wholly owned by this officer. The costs related to these services for the year ended September 30, 2001 were approximately \$67,000.

The Board of Directors' fees for the year ended September 30, 2001 were approximately \$45,000. The Company also compensated certain members of the Board of Directors for services other than routine duties of the Board. Fees paid to Board members for other services in the year ended September 30, 2001 were approximately \$147,000. Fees paid to Board members in the year ended September 30, 2000 were \$150,000. The Company also granted 550,000 shares of common stock to members of the Board of Directors as directors' fees in the year ended September 30, 2000.

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As part of the Company's original default settlement with the prior owners of the URL discussed in Note 4, the Company has provided certain equipment and improvements to an affiliated entity at no cost to that affiliated entity. The Company retains title and control of these assets. However, the assets are not being utilized by the Company. The net book value of the office equipment and leasehold improvements being utilized by the affiliated entity was approximately \$136,000 at September 30, 2001. The Company is also providing office space to this entity for substantially below market rental rates. This entity is affiliated through commonality of certain management members.

The Company has contracted the services of several related entities in its daily operations. The Company leases its employees from an entity in which certain officers have financial interests. The Company also has a contract with a related entity to provide dial-up services to the Company's customers. This affiliated entity's president is on the Company's Board of Directors. For the year ended September 30, 2001, the Company had recorded

\$10,000 in deposits due from this entity. Another affiliated entity provides customer service and technical support to the Company's customers, and this entity's president is also on the Company's Board of Directors. The Company has recorded revenues of \$22,813 and costs of sales of \$67,948 related to the activities contracted for form this entity for the year ended September 30, 2001.

13. CONCENTRATION OF CREDIT RISK

The Company maintains cash balances at banks in Arizona. Accounts are insured by the Federal Deposit Insurance Corporation up to \$100,000. At September 30, 2001, the Company had bank balances exceeding those insured limits of \$580,000.

Financial instruments that potentially subject the Company to concentrations of credit risk are primarily trade accounts receivable. The trade accounts receivable are due primarily from business customers over widespread geographical locations within the LEC billing areas across the United States. The Company historically has experienced significant dilution and customer credits due to billing difficulties and uncollectible trade accounts receivable. The Company estimates and provides an allowance for uncollectible accounts receivable. The handling and processing of cash receipts pertaining to trade accounts receivable is maintained by two third party billing companies. The Company is dependent upon those two billing companies for collection of its accounts receivable.

14. STOCK BASED COMPENSATION

From time to time, the Company issues stock options to executives, key employees and members of the Board of Directors. The Company has adopted the disclosure-only provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation," and continues to account for stock based compensation using the intrinsic value method prescribed by Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees". Accordingly, no compensation cost has been recognized for the stock options granted to employees. There were no options granted in the years ended September 30, 2001 and 2001 nor was there any additional vesting of options previously granted.

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Under the Employee Incentive Stock Option Plan approved by the stockholders in 1998, the total number of shares of common stock that may be granted is 1,500,000. The plan provides that shares granted come from the Corporation's authorized but unissued common stock. The price of the options granted pursuant to this plan shall not be less than 100 percent of the fair market value of the shares on the date of grant. The options expire from five to ten years from date of grant. At September 30, 2001, the Company had granted an aggregate of 1,212,000 options under this plan.

In addition to the Employee Incentive Stock Option Plan, the Company will occasionally grant options to consultants and members of the board of directors under specific stock option agreements. There were no such options granted in the years ended September 30, 2001 and 2000.

The summary of activity for the Company's stock options is presented below:

<TABLE>
<CAPTION>

	2001		2000		Weighted Average Exercise Price
	-----		-----		-----
<S>	<C>	<C>	<C>	<C>	<C>
Options outstanding at beginning of year	-0-	N/A	1,107,000		\$ 1.34
Granted	-0-		-0-		
Exercised	-0-	N/A	(53,611)		\$ 1.00
Terminated/Expired	-0-		(1,053,389)		
Options outstanding at end of year	-0-		-0-		
Options exercisable at end of year	-0-		-0-		
Options available for grant at end of year					
	1,341,389		1,341,389		
Price per share of options outstanding	N/A		N/A		
Weighted average remaining contractual lives					N/A
Weighted Average fair value of options granted during the year					N/A

</TABLE>

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

40

<TABLE>
<CAPTION>

		2001		2000	
		Weighted Average Exercise Price		Weighted Average Exercise Price	
<S>	<C>	<C>	<C>	<C>	<C>
Warrants outstanding at beginning of year	350,000	\$ 2.00	1,355,000	\$ 2.00	
Granted	500,000	\$ 2.12	-0-		
Expired	(350,000)	\$ 2.00	(1,005,000)	\$ 2.00	
Exercised	-0-		-0-		
Outstanding at September 30,	500,000	\$ 2.12	350,000	\$ 2.00	

</TABLE>

The warrants granted in the year ended September 30, 2001 were issued in connection with the settlement with the former URL holder (NOTE 4). The exercise prices of the warrants range from \$1.00 to \$3.00. The fair value of each warrant grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions for year ended September 30, 2001:

Dividend yield	None
Volatility	0.491
Risk free interest rate	4.18%
Expected asset life	2.5 years

The 500,000 warrants outstanding at September 30, 2001, expire in September 2006.

15. EMPLOYEE BENEFIT PLAN

The Company maintains a 401(k) profit sharing plan for its employees. Employees are eligible to participate in the plan upon reaching age 21 and completion of three months of service. The Company made no contributions to the plan for the years ended September 30, 2001 and 2000.

* * * * *

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ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURES

On March 14, 2000, we reported that we replaced McGladry and Pullen LLP as our principal certified public accountants. McGladry and Pullen LLP had been engaged as the independent auditors, but had not issued any audited reports.

On March 30, 2000, we appointed King, Weber & Associates, P.C., as our independent auditors to conduct the audit of our September 30, 2000 fiscal year financial statements. On December 31, 2000 King, Weber & Associates, P.C. changed its corporate name to Marshall & Weber, CPA's, PLC and subsequently changed its corporate name to Weber and Company P.C.

PART III

ITEM 9. DIRECTORS AND EXECUTIVE OFFICERS, PROMOTERS, AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(A) OF THE EXCHANGE ACT

Directors and Executive Officers

The following biographical information is provided for each of the Company's Directors and Executive Officers:

Angelo Tullo has served as our Chairman of the Board since February 2000. Mr. Tullo was hired as Chief Executive Officer and President on September 10, 2000. Mr. Tullo is the president of Sunbelt Financial Solutions, Inc., an investment banking and consultant firm in Scottsdale, Arizona. For over 20 years, Mr. Tullo has been active as a business consultant. Mr. Tullo has actively worked with commercial financing and factoring for the past ten years. He has owned and operated factoring companies, leasing companies, consulting companies, wholesale companies, professional employment organizations, insurance agencies, heating and air-conditioning contractors, retail oil companies, real estate companies and restaurants. He is a former member of the CEO Club in New York and is a currently a member of the Republican Presidential Roundtable.

In February 2000, American Business Funding Corp. filed for protection under Chapter 11 of the Bankruptcy Code in the Federal District Court of Arizona. Mr. Tullo had previously been a director, officer and shareholder of

American Business Funding prior to the time of its bankruptcy filing. Mr. Tullo and his former fellow shareholders have been involved in intense litigation regarding certain activities of one of the directors and a group of individuals that worked directly for a director.

Walter Vogel. Mr. Vogel has been a director since February 2000 and was previously a member of our board from March to October 1998. Mr. Vogel has been involved extensively in international business for many years. From 1996 to present, Mr. Vogel has been the owner and president of MC Management GmbH, a business-consulting firm in Ottenfing, Germany. Mr. Vogel has served as a director of several companies both in the United States and Europe.

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Gregory B. Crane. Mr. Crane has been a director of the Company since February, 2000 and also served as our Director of Operations from February 2000 to September 2000. From September 1998 to June 1999, Mr. Crane was the General Manager of Telco Billing, Inc. ("Telco"). Mr. Crane owned and operated several businesses, including residential and commercial builders, multi-state mail order, and document-preparation companies, and was also the creator of the Yellow-Page.Net concept. Mr. Crane is a former member of the Young

Entrepreneur's Organization ("YEO").

In connection with providing homestead declaration document preparation and filing services to the public, Mr. Crane and certain of his associated businesses have been subject to injunctive actions brought by the states of Arizona, Florida, Texas and Washington. These actions generally raised legal questions concerning mailer solicitations for document preparation services. Mr. Crane and various of the state plaintiffs have entered into consent orders in connection with these actions that required the modification of mailers and the payment of civil penalties, restitution, and attorneys' fees. The use of the mail solicitation for document preparation services was prohibited in the State of Washington. Mr. Crane voluntarily entered into an agreement with the State of Florida in connection with these matters and, due to an error in type size made by printer, which was a technical violation of that order, a judgment was placed based on that agreement. In connection with that violation of the Florida order, Mr. Crane is subject to a judgment in the amount of approximately \$1.4 million, plus accrued interest. Mr. Crane is attempting to resolve this Florida judgment.

Mr. Crane was also named in the action filed by the Federal Trade Commission ("FTC") against us and has been included in the stipulated preliminary order entered into by the FTC and us and approved by the FTC. The Stipulated Final Judgment and Order for Permanent Injunction and Other Equitable Relief by and between the FTC, Mr. Crane, Telco, us and others (the "Order") places certain restrictions on the way mail solicitations will appear. The Order has been approved by the U.S. District Court Judge and the matter is closed with no findings of wrong doing on the part of the company, its officers and directors or Mr. Crane.

Daniel L. Coury. Mr. Coury has served as a director of the Company since February 2000. For the last ten years, Mr. Coury's principal business has been Mesa Cold Storage, Inc. that owns and operates the largest cold storage facilities in Arizona. He is also involved in the ownership and operation of various real estate interests and business ventures.

Harold Roberts. Mr. Roberts has served as a director of the Company since February, 2000 and previously served as a director of its predecessor from 1994 to 1998. Mr. Roberts has practiced law in Santa Fe, New Mexico since 1955 and since 1975 has engaged primarily in matters regulated by various regulatory agencies, including the Securities and Exchange Commission. He has served as a director and president of SunRay Oil Company, a company engaged in drilling, exploration and distribution, from 1996 to present, as a director and officer of Candu, Inc., a company engaged in electronic marketing, from 1985 to the present, and as a director and president of Verilite Aircraft Corporation, a company engaged in aircraft development, from 1994 to the present. Mr. Roberts is a graduate of the University of Colorado Law School.

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DeVal Johnson. Mr. Johnson has served as a director since October 1999. Mr. Johnson was the graphics designer and director of Telco from September 1998 until June 1999, when the Company acquired it. Mr. Johnson was responsible for the design of the in-house sales presentation and creation of the corporate logo and image for YP.Net. From 1995 through 1998, Mr. Johnson was a graphics designer for Print Pro, Inc. Mr. Johnson is actively involved with Website promotion, interactive design and Internet advertising. Mr. Johnson also serves as an officer and board member of Simple.Net a national Internet service provider.

Pamela J Thompson. Mrs. Thompson was hired to serve as Chief Financial Officer, Secretary and Treasurer of the Company on January 15, 2001. Mrs. Thompson holds a Bachelor of Science from Moorhead State University in Accountancy and holds her licenses as a Certified Public Accountant in the State of Arizona. She is a member of the Arizona Society of Certified Public Accountants, American Institute of Certified Public Accountants, and Arizona Women's Society of Certified Public Accountants and is the founder and principle Executive Officer of The Thompson Group, CPA's. She is also a member of Behind the Bench: National Basketball Wives Association exclusive of wives of NBA players.

Prior to joining the Company, Mrs. Thompson practiced public accounting for the international firm of Arthur Andersen and Pannell Kerr Forester, and one of the larger regional firms Eide, Bailey and Company. She has had over 18 years of experience in tax, accounting, and SEC compliance for publicly traded companies. Ms. Thompson has been featured in Arizona Women's Success Magazine, National Basketball Players Association Magazine, and Behind the Bench: National Basketball Wives Association Magazine.

SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Based solely on review of reports under Section 16(a) of the Securities Exchange Act of 1934, as amended, that were filed by executive officers and directors and beneficial owners of 10% or more of our common stock during the fiscal year ended September 2000, to the best of the Company's knowledge, all 16(a) filing requirements have been made through the fiscal year ended September 30, 2000, and September 30, 2001. This information is based on a review of Section 16(a) reports furnished to us and other information.

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ITEM 10. EXECUTIVE COMPENSATION

DIRECTORS AND EXECUTIVE OFFICERS

The directors and executive officers of YP.Net, their ages and positions are as follows:

NAME	AGE	POSITIONS HELD(1)
Angelo Tullo	45	Chairman of the Board, Director, Chief Executive Officer and President
Walter Vogel	61	Director, Vice Chairman of the Board
Gregory B. Crane	37	Director
Daniel L. Coury, Sr.	47	Director
Harold A. Roberts	75	Director
DeVal Johnson	36	Director
Donald Reese	38	Director of Operations
Pamela J. Thompson, CPA	38	Chief Financial Officer, Treasurer, Secretary

(1) All current directors serve until the next annual shareholders meeting or their earlier resignation or removal.

OFFICER COMPENSATION

The following table reflects all forms of compensation for the fiscal years ended September 30, 2001, and September 30, 2000, for the Chief Executive Officer and the other two most highly compensated executive officers of YP.Net, Inc., whose salaries exceed \$100,000 annually, for the years stated.

NAME AND PRINCIPAL POSITION	Annual Compensation		
	FISCAL YEAR	SALARY	OTHER ANNUAL COMPENSATION
Angelo Tullo (1)	2001	\$ 210,000	\$ 44,000 (1)
Chairman, Chief Executive Officer, President	2000		\$ 21,000 (2)
Daniel Madero	2001	\$ 100,000	\$ 16,500 (3)
Director of Operations	2000	Resigned	
Pamela Thompson	2001	\$ 125,000	\$ 4,500 (4)
Chief Financial Officer, Secretary, Treasurer			
Donald Reese	2001	\$ 120,000	
Director of Operations			

(1) Includes a bonus of 200,000 shares of YP.Net stock valued at \$.22 per share.
(2) Includes 100,000 shares of YP.Net stock valued at \$.21 per share.
(3) Includes 75,000 shares of YP.Net stock valued at \$.22 per share.
(4) Includes 50,000 shares of YP.Net stock valued at \$.09 per share.

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COMPENSATION PURSUANT TO STOCK OPTIONS

No stock options were granted to executive officers during the fiscal years ended September 30, 2000, and September 30, 2001.

DIRECTOR COMPENSATION

Upon appointment to the Board, Mr. Tullo was awarded 100,000 shares of our common stock and Mr. Vogel was awarded 75,000 shares. All other directors were awarded 50,000 shares. The shares awarded were earned monthly for director services performed. The 425,000 shares of common stock paid to the directors as compensation for their services were valued at \$.22 per share for a total value of \$93,500 and the value is considered based upon the average bid and ask price as of date of issuance by the Board of Directors and is in reliance on the exemption from registration provided by Section 4(2) of the Securities Act. Additionally, the directors receive \$2,000 per meeting or per quarter for their service on the Board and may receive \$250 per hour for services related to any Board Committee on which they serve.

1998 Stock Option Plan

In June 1998, our Board of Directors adopted, and our shareholders approved, the 1998 Stock Option Plan (the "Plan"). The purpose of the Plan was to provide incentives to employees, directors and service providers to promote our success. The Plan provides for the grant of both qualified and non-qualified options to purchase up to 1,500,000 shares of our common stock at prices determined by the Board of Directors, but in the case of incentive options, at a price not less than the fair market value of the stock on the date of the grant. The Plan is administered by the Board of Directors or by a committee appointed by the Board. As of September 31, 2001, all outstanding options to purchase our stock have expired and there are no options currently outstanding under the Plan.

ITEM 11. SECURITY OWNERSHIP OF OWNERS AND MANAGEMENT

The following table sets forth, as of December 15, 2001, the ownership of each person known by us to be the beneficial owner of five percent or more of our common stock, each officer and director individually, and all officers and directors as a group. We have been advised that each person has sole voting and investment power over the shares listed below unless otherwise indicated.

<TABLE>
<CAPTION>

NAME AND ADDRESS OF BENEFICIAL OWNER	AMOUNT AND NATURE OF OWNERSHIP	PERCENT OF CLASS(1)
<S>	<C>	<C>
Angelo Tullo 4840 East Jasmine Street Suite 105 Mesa, AZ 85205	300,000	*
Walter Vogel 4840 East Jasmine Street Suite 105 Mesa, AZ 85205	195,000	*
Gregory B. Crane 4840 East Jasmine Street Suite 105 Mesa, AZ 85205	75,500	*
Daniel L. Coury, Sr. 4840 East Jasmine Street Suite 105 Mesa, AZ 85205	180,000	*
Harold A. Roberts P.O. Box 101 Santa Fe, NM 87504	258,000	*
Wallace Olsen, Jr. 4840 East Jasmine Street Suite 105 Mesa, AZ 85205	547,500	1.34%
DeVal Johnson 4840 East Jasmine Street Suite 105 Mesa, AZ 85205	125,000	*

NAME AND ADDRESS OF BENEFICIAL OWNER	AMOUNT AND NATURE OF OWNERSHIP	PERCENT OF CLASS(1)
Matthew & Markson Ltd. (3) Woods Centre, Frair's Road P.O. Box 1407 St. John's	11,600,000	27%

Antigua, West Indies

Morris & Miller Ltd. Woods Centre, Frair's Road P.O. Box 1407 St. John's Antigua, West Indies	9,325,000	23%
All Directors as a Group (7 persons)	1,133,500	3%

* Represents less than one percent (1%) of our issued and outstanding common stock.

(1) Based on 43,813,680 shares outstanding as of December 15, 2001. This amount excludes 4,500,000 shares issued and held as collateral for obligations of YP.Net under two promissory notes. Upon payment of the notes, the shares will be returned to YP.Net for cancellation.

(2) The number of shares held by Matthew & Markson, Ltd. excludes 2,000,000 shares issued as collateral for a note payable issued by YP.Net. These shares will be returned to YP.Net and cancelled upon payment of the note.

</TABLE>

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Note Conversion. We borrowed \$500,000 from Mr. Wallace Olsen, a shareholder who later became a member of the Board of Directors effective February 4, 2000. In September 1999, we repaid \$250,000 of the balance in cash and Mr. Wallace Olsen converted the remaining \$250,000, plus \$100,000 in accrued interest. This notes was exchanged into 400,000 shares of our common stock with a total value of \$200,000; the stock was issued at a price of 50 cents per share.

Acquisition of Telco. In June 1999, the Company's predecessor acquired all of the outstanding stock of Telco in exchange for 17,000,000 shares of our common stock. Matthew & Markson, Ltd. and Morrison & Miller, Ltd., as the shareholders of Telco, were issued 7,650,000 and 9,350,000 shares, respectively. As to these shares, the original acquisition agreement provided for certain Put rights that were later terminated. In exchange for cancellation of the Put rights, we agreed to provide the former Telco shareholders with a \$10,000,000 credit facility. Loans made to these shareholders under this facility are to be secured by a pledge of our stock. Interest for borrowings under this facility is to be at least 0.25% higher than our average borrowing costs. No advances in excess of \$1,000,000 may be made at any one time and no advances in excess of \$1,000,000 are to be made unless we have available at least 30 days operating capital plus other reserves. No advances are permitted to be made if we are in default with respect to any of our lender obligations. The credit facility has not been formally documented and no advances have been made or are expected until documentation is completed.

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Gregory B. Crane and DeVal Johnson were employees of and primarily involved in the start-up of Telco. Mr. Crane continues to serve as a liaison for Matthew & Markson, Ltd. and Morrison & Miller, Ltd. and negotiated the acquisition of Telco by the Company's predecessor entity on behalf of the former Telco shareholders.

License of URL. In connection with the acquisition of Telco, the Company's predecessor entity also agreed to pay Matthew & Markson, Ltd. \$5,000,000 as a discounted accelerated royalty payment for a 20-year license of the URL Yellow-Page. Net. The royalty was made under the terms of an Exclusive

Licensing Agreement dated September 21, 1998, between Telco and Matthew & Markson, Ltd. The payment was originally to be paid in full upon the acquisition of Telco. The Company paid \$3,000,000 as a down payment; however, the Company defaulted on payment of the \$2,000,000 balance on August 15, 1999. To extend the payment obligations, we agreed to provide, for the benefit of Mathew & Markson, \$250,000 in tenant improvements for approximately one-half of our Mesa facility. The premises were leased to Matthew & Markson's designee for \$1.00 per year throughout the term of the 5-year lease. The annual fair rental value of the lease premises is \$4,500 per month. A one million dollar (\$1,000,000.00) extension fee may also be due if exercised. On November 15, 1999, we paid an extension fee of \$200,000. The \$200,000 extension fee was applied against the \$5,000,000 accelerated royalty payment and an additional \$2,000,000 was paid on the royalty payment in July 1999. Matthew & Markson, Ltd. also agreed to take a \$2,000,000 note for the balance due that remains due and outstanding.

After we defaulted on the November 1999 extension agreement, on January 15, 2000, the note was renegotiated to a demand note with monthly installments of \$100,000 per month. The payments may be suspended if we do not have certain cash reserves or are otherwise in default under other obligations. The note is secured by 2,000,000 shares of our common stock held in escrow, to be returned for cancellation upon payment of the note.

On September 25, 2001, we agreed in settlement of the company's breach and noncompliance with the original acquisition agreement and extension agreement with Telco dated June 16, 1999 to pay Matthew Markson, Ltd., \$550,000 and issued 4,000,000 shares of our common stock at \$0.09, and the value is considered based upon the average bid and ask price as of September 25, 2001 and is in reliance on the exemption from registration provided by Section 4(2) of the Securities

Act.

The \$550,000 will be paid over a thirty-six month term at a 10.5% annual interest rate. Matthew Markson Ltd. has agreed and waived any future payments for the original default of the and extension fee for the acquisition of Telco. Matthew Markson Ltd will continue its security interest in the company and collateral shares held by Matthew Markson. Ltd.

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Business Executive Services, Inc. ("BESI"), as the nominal rent sublessee, leases portions of our Mesa facility to other businesses associated with other third parties. Mr. Crane is employed by BESI and receives a salary of approximately \$2,000 per month from BESI and bonuses in an undetermined amount.

We have entered into a joint venture with Simple. Net, Inc., an Internet service provider ("Simple") where we manage certain Simple operations for a fee. Such operations include customer service, technology and billing. The Thompson Group P.C. also performs accounting services for Simple. Matthew & Markson, Ltd. is Simple's primary investor.

Related Party Transaction Policy. The Company's general policy requires adherence to Nevada corporate law regarding transactions between the Company and a director, officer or affiliate of the corporation. Transactions in which such persons have a financial interest are not void or voidable if the interest is disclosed and approved by disinterested directors or shareholders or if the transaction is otherwise fair to the corporation. It is our policy that transactions with related parties are conducted on terms no less favorable to us than if they were conducted with unaffiliated third parties. During fiscal year ended September 30, 2000, through September 31, 2001, there have been no related party transactions.

ITEM 13. EXHIBITS AND REPORTS ON FORM 8-K

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EXHIBITS
<C>

- <S>
- 3.1 (1) Certificate of Restated Articles of Incorporation of Renaissance International, Inc.
 - 3.2 (4) Amended Articles - To change the name to YP.Net, Inc., and Authorized Capital Increase to 50,000,000 Form 8-K 7/6/98
 - 3.3 (4) Amended Articles - Name Change to YP.Net
 - 3.4 (4) Certificate of Designation - Series B preferred shares
 - 3.5 (1) Bylaws of Renaissance International Group, Ltd.
 - 3.5 (4) Amended Bylaws
 - 10.1 (2) 1998 Stock Option Plan
 - 10.18 (5) Agreement dated November 1, 2000 between Intelligenx, Inc. d/b/a i411.com and YP.Net

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- 10.19 (5) Forbearance Letter Agreement dated February 8, 2001 between Telco and Finova Capital Corporation
- 10.20 (7) Federal Trade Commission Settlement Agreement
- 10.21 (7) Hudson Consulting Group, Inc. Settlement Agreement
- 10.22 (6) S.G. Martin Securities LLC agreement with investment banker
- 10.23* OAN contract with billing integrator
- 10.24* Level 3, Inc. contract for ISP dial-up services
- 11 Statement Regarding Computation of Per Share Earnings: incorporated in Item 7 of the Audited Financial Statements for period ending September 30, 2000 and September 30, 2001
- 21 Subsidiaries of YP.Net, Inc.: Telco Billing, Inc.

<FN>

- 1 Incorporated by reference from Form 10-QSB as filed May 6, 1998.
- 2 Incorporated by reference from Form S-8 as filed July 10, 1998.
- 3 Incorporated by reference from Form 10-QSB for the quarter ended June 30, 2000.
- 4 Incorporated by reference from Form 10-QSB for the fiscal year ended September 30, 2000.
- 5 Incorporated by reference from Form 10-QSB for the quarter ended December 31, 2000
- 6 Incorporated by reference from Form 10-QSB for the quarter ended March 31, 2001
- 7 Incorporated by reference from Form 10-QSB for the quarter ended June 30, 2001
- * Filed herewith.

</TABLE>

One report on Form 8-K was filed in the fiscal quarter ended September 30, 2001. A Form 8-K filed on September 20, 2001 disclosed the resignation of Wallace Olsen from being a member of the Board of Directors.

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

YP.NET, INC.

Dated: December 29, 2001 By /s/ Angelo Tullo

Angelo Tullo, Chairman of the Board

BOARD OF DIRECTORS

Dated: December 29, 2001 By /s/ Angelo Tullo

Angelo Tullo

Dated: December 29, 2001 By /s/ Walter Vogel

Walter Vogel

Dated: December 29, 2001 By /s/ Gregory B. Crane

Gregory B. Crane

Dated: December 29, 2001 By /s/ Daniel L. Coury, Sr.

Daniel L. Coury, Sr.

Dated: December 29, 2001 By /s/ Harold A. Roberts

Harold A. Roberts

Dated: December 29, 2001 By /s/ DeVal Johnson

DeVal Johnson

<TABLE>
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BILLING AND RELATED SERVICES AGREEMENT

between

ACI COMMUNICATIONS, INC.

and

YP.NET, INC.

ACI Communications, Inc.
9255 Corbin Avenue
Northridge, California 91324

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BILLING AND RELATED SERVICES AGREEMENT

This Billing and Related Services Agreement (the "Agreement"), dated as of September 1, 2001 (the "Effective Date"), is between ACI Communications, Inc., a Delaware corporation ("Aff"), and YP.Net, Inc., a Nevada corporation ("Customer").

RECITALS:

WHEREAS, ACI is a party to various B&C Contracts (as defined below);

WHEREAS, Customer provides various telecommunications services directly or indirectly to End Users (as defined below) and desires to utilize the B&C Contracts to bill End Users for certain of such services provided by Customer and such other services as may be offered by ACI; and

WHEREAS, ACI desires to assist Customer, through the use of its B&C Contracts and other information technology capabilities, in billing End Users and providing other services, all upon the terms and subject to the conditions set forth in this Agreement.

NOW, THEREFORE, in consideration of the foregoing, and other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties agree as follows:

ARTICLE 1. AGREEMENT AND TERM

Section 1.01 Agreement

During the Term (as defined below), ACI will provide to Customer, and Customer will purchase from ACI, the Services, all upon the terms and subject to the conditions set forth in this Agreement.

Section 1.02 Term and Renewal

(a) The term of this Agreement shall be for thirty-six (36) calendar months commencing on the first day a Message is forwarded to ACI by Customer for Services (the "Services Commencement Date") (the "Term"). On or after the Effective Date, Customer will submit its Messages (as defined below) and related data to ACI for Services under this Agreement and ACI will, during the Term, be the provider of such Services to Customer. The last day of the Term as so determined will be referred to as the expiration date ("Expiration Date").

(b) Notwithstanding the provisions of Section 1.02(a), the Term will automatically be extended for successive one-year periods after the Expiration Date unless either of the parties notifies the other party in writing at least ninety (90) days prior to the Expiration Date, or at least ninety (90) days prior to the end of any such one-year extension period, as the case may be, that the Term will not be so extended.

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ARTICLE 11. DEFINITIONS

Section 2.01 Definitions

As used in this Agreement (including the Schedules attached to this Agreement), the terms set forth below will have the following respective meanings and will be equally applicable to both the singular and plural forms of the terms defined:

"ACI" has the meaning set forth in the preamble of this Agreement.

"ACI Software" means any Software that is owned by ACI (and not proprietary to any other party), including but not limited to the ProAct software, and operated by ACI in connection with the providing of Services pursuant to Section 6.01 of this Agreement.

"Additional Services" has the meaning set forth in Section.3.01.

"Agreement" has the meaning set forth in the preamble hereof.

"Approved Message Format" has the meaning set forth in Section 1(c) of Schedule 3.01.

"B&C Contract" means any contract or agreement to which ACI is a party relating to billing and collection services.

"B&C Processor" means a LEC (as defined below) or other entities with which ACI has a B&C Contract.

"B&C Processor-Calculated Taxes" has the meaning set forth in Section 3(a) of Schedule 3.01.

"B&C Processor Fees" means any fee charged by a B&C Processor.

"B&C Processor Policies" means those current and revised policies required by the B&C Processors on ACI and required of ACI's customers.

"Base Index" has the meaning set forth in Section 4.03.

"Billable Messages" means those Messages that: (i) consist of telephone calls to be billed to telephone numbers having NPA area code numbers and NXX code prefix numbers that (a) are listed on ACI's then current On-Net File and (b) have not been rejected by ACI and (c) are in an acceptable calltype, as identified in Schedule 2.01 hereto; or (ii) any other service(s) provided to End Users which are billed to an End User by the B&C Processors and which have been approved for billing by the applicable B&C Processor and ACI. Notwithstanding the foregoing, Messages that do not otherwise meet the terms of this Agreement will not be accepted by ACI for billing.

"Billing Services" has the meaning set forth in Section 3.01.

"Billing Services Charges" has the meaning set forth in Section 4.01.

"Billing-Related Services" has the meaning set forth in Section 3.01.

"Billing-Related Services Charges" has the meaning set forth in Section 4.01.

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"Business Day" means any day except a Saturday, Sunday, or other day on which national banking associations in Los Angeles, California are authorized or required by law to close.

"Certifications" has the meaning set forth in Section 5.04.

"Complaint Processing Services" has the meaning set forth in Section 2 of Schedule 3.02.

"Confidential Information" has the meaning set forth in Section 6.03.

"CPI" has the meaning set forth in Section 4.03.

"Current Index" has the meaning set forth in Section 4.03.

"Customer-Calculated Taxes" has the meaning set forth in Section 2(a) of Schedule 5.01.

"Customer Data" means the data specific to the business, customers, and End Users of Customer with respect to which Services are to be provided under this Agreement.

"Customer Representative" has the meaning set forth in Section 5.06.

"Data Files" has the meaning set forth in Section 1(e) of Schedule 3.01.

"Deduction" has the meaning set forth in Section 2(f) of Schedule 3.01

"Disbursements" has the meaning set forth in Section 2(b) of Schedule 3.01.

"Effective Date" has the meaning set forth in the preamble of this agreement.

"End User" means the ultimate customer of the telephone or information services provided by Customer.

"Equipment" has the meaning set forth in Section 4 of Attachment I to Schedule 3.0 1

"Expiration Date" has the meaning set forth in Section 1.02(a).

"FCC" means the Federal Communications Commission.

"Foreign Intrastate Taxes" means all local and state intrastate levies, surcharges, taxes, or tax-like charges applicable to each Message that originates and terminates within the same state and that is billed to an End User residing in any other state.

"Governmental Authority" means any nation or government, any state or other political subdivision thereof and any entity exercising executive, judicial, regulatory, or administrative functions of or pertaining to government (including, without limitation, the FCC and any PUC (as defined below)).

"Inquiry Services" has the meaning set forth in Section I of Schedule 3.02.

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"Late Payment Rate" means an annual rate of interest equal to the lesser of (a) 4% per annum more than the prime rate established from time to time by Citibank, N.A., New York, New York, or (b) the maximum rate of interest allowed by applicable law.

"Laws" has the meaning set forth in Section 5.04.

"LEC" means any Bell Operating Company, independent local exchange company, or provider of local telephone services that is a party to a B&C Contract through which ACI is able to provide Billing Services.

"License" means the license granted during the Term by ACI to Customer pursuant to Section I of Attachment 2 to Schedule 3.01.

"Licensed Program" means the ProAct program licensed to Customer by ACI.

"Message" means a call record for direct dialed calls, operator-assisted third party calls, collect calls, telephone calling card calls, person-to-person calls, and such other legally permitted telephone calls and services as the parties may mutually agree, each of which was originated by an End User through Customer.

"Minimum Message Requirement" means the obligation of Customer to submit to ACI for billing at least the number of Billable Messages each month during the Term specified in Section 1(b) of Schedule 4.01.

"On-Net File" means the listing from time to time of (a) NPA area code numbers and NXX prefix numbers and (b) Special Calling Card Numbers applicable to the LECs.

"Person" means any individual, corporation, partnership, joint venture, association, trust, or any other entity or organization of any kind or character, including a Governmental Authority.

"PUC" means the public utility commission, public service commission, or similar commission or agency of any state exercising authority over telecommunications services.

"Refund" has the meaning set forth in Section 2(f) of Schedule 3.01.

"Rejected Messages" has the meaning set forth in Section 1(d) of Schedule 3.01.

"Remittances" has the meaning set forth in Section 2(a) of Schedule 3.01.

"Reserve" means the reserve for bad debts established by ACI upon expiration or termination of this Agreement pursuant to Section 2(c) of Schedule 3.01.

"Reserve Event" has the meaning set forth in Section 2(c) of Schedule 3.01.

"Returned Messages" has the meaning set forth in Section 1(f) of Schedule 3.01.

"Services" means the services to be provided by ACI pursuant to this Agreement, consisting of the Billing Services, the Billing-Related Services, and the Additional Services.

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"Services Commencement Date" has the meaning set forth in Section 1.02(a).

"Software" means: (a) computer programs, including without limitation software, application programs, operating systems, files, and utilities; (b) supporting documentation for such computer programs, including without limitation input and output formats, program listings, narrative descriptions, and operating instructions; and (c) the tangible media upon which such programs and documentation are recorded, including without limitation hard copy, tapes, and disks.

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"Special Calling Card Numbers" means non-line number-based calling card numbers applicable to the LECs from time to time.

"Special Service Message" has the meaning set forth in Section 1(h) of Schedule 3.01.

"Sub-CIC" has the meaning set forth in Section 1(g) of Schedule 3.01.

"System" has the meaning set forth in Section 4(a) of Schedule 3.01.

"Taxes" means any taxes, however designed or levied, based upon amounts payable to ACI pursuant to this Agreement, including state, local and federal taxes, and any taxes or amounts in lieu thereof paid or payable by ACI in respect of the foregoing, exclusive, however, of franchise taxes, taxes based on the net income of ACI and taxes on any property owned or leased by ACL

"Tax Returns" means returns, declarations, reports, claims for refund, and informational returns or statements relating to Taxes, including any schedules or attachments thereto.

"Terin" has the meaning set forth in Section 1.02(a).

"True-Up Reconciliation" has the meaning set forth in Section 2(f) of Schedule 3.01.

"True-Up Reserve" has the meaning set forth in Section 2(c) of Schedule 3.01.

ARTICLE 111. ACI'S OBLIGATIONS

Section 3.01 Billing Services

With respect to the Billable Messages Customer delivers to ACI, ACI, as a limited agent for Customer, agrees to provide the billing and collection services described in Schedule 3.01 (the "Billing Services") to Customer pursuant to this Agreement. ACI may provide the billing inquiry and complaint processing services described in Schedule 3.02 (the "Billing-Related Services") and any other services mutually agreed upon in writing becoming a part of Schedule 3.03 ("Additional Services"). Customer acknowledges and agrees that ACI is not deemed a fiduciary, trustee, employee, or joint venturer in its performance of this Agreement.

Section 3.02 Safe2uarding and Retention of Customer Data

ACI will maintain safeguards against the destruction, loss, or alteration of the Customer Data in the possession of ACL

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ARTICLE IV. PAYMENTS TO ACI

Section 4.01 Compensation to ACT

In consideration for the Services, Customer shall pay to ACI the Billing Services Charges described in Section I of Schedule 4.01 (the "Billing Services Charges"), charges for any Billing-Related Services provided to Customer as described in Sections 2 and 3 of Schedule 4.01 (the "Billing-Related Services Charges") and any charges for Additional Services as set forth in any Schedule 3.03, as may be amended by ACI from time to time, (the "Additional Services Charges"). Customer acknowledges and agrees that ACI may deduct Billing Services Charges, Billing-Related Services Charges and Additional Services Charges from the Remittances it receives from the B&C Processors prior to forwarding the Disbursements to Customer. Any amounts owing to ACI pursuant to this Agreement that are not paid when due and payable will thereafter bear interest until paid at the Late Payment Rate.

Section 4.02 Other Expenses

Customer will pay all fees and expenses of ACI for reruns or otherwise necessitated: (a) by incorrect, incomplete, or omitted data or erroneous instructions supplied to ACI by or through Customer; (b) for the correction of programming, operator, and other processing errors caused by Customer, or its respective employees or agents; and/or (c) by incorrect reports that were not rejected by Customer within the applicable time periods set forth in Section 5.03.

Section 4.03 Cost of Living Adeustment

If the Consumer Price Index for All Urban Consumers, All Cities Average, 1982-84=100, as published by the Bureau of Labor Statistics of the Department of Labor (the "CPI"), is on January 1 of any year during the Term (the "Current Index") higher than the highest CPI on January 1 of any prior year during the Term (the "Base Index"), then, effective as of such January 1, all amounts payable to ACI pursuant to this Agreement, as previously adjusted pursuant to this Section 4.03, may be increased thereafter by the percentage that the Current Index will have increased from the Base I~dex, and such amounts as increased pursuant to this Section 4.03 will be deemed incorporated herein. If the Bureau of Labor Statistics stops publishing the CPI or substantially changes the content or format thereof, the parties will substitute therefor another comparable measure published by a mutually agreeable source; provided, however, that if such change is merely to redefine the base year for the CPI from 1982-84 to some other year(s), the parties will continue to use the CPI but will, if necessary, convert either the Base Index or the Current Index to the same basis as the other by multiplying such Index by the appropriate conversion factor.

Section 4.04 Reimbursement of Expenses

Any addition to any other payments specified in this Agreement, Customer will

pay, or reimburse ACI for, all actual out-of-pocket costs and expenses, including without limitation travel and travel-related expenses, incurred by ACI in connection with the performance of its obligations under this Agreement provided such expenses are approved in advance by Customer which approval cannot be unreasonably withheld or delayed.

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Section 4.05 Pass-Through of Certain Taxes

There will be added to any amounts due under this Agreement, and Customer will pay directly (or if ACI has for any reason made payment, promptly reimburse ACI) for any Taxes, however designated or levied by any Governmental Authority solely by reason of the performance, sales, license or use of any Service (or Software) or any other items pursuant to this Agreement. To the extent ACI receives or becomes entitled to any refund, rebate or abatement with respect to Taxes paid directly (or reimbursed) by Customer, ACI shall promptly pay to Customer the entire refund, rebate or abatement.

Section 4.06 Invoice and Time of Payment.

Any amount due ACI pursuant to this Agreement for which a time for payment is not otherwise specified will be due and payable thirty (30) days after receipt by Customer of the invoice from ACI therefore, all invoiced amounts due ACI pursuant to, and not paid in accordance with, this Agreement may be deducted by ACI from the Remittances it receives from the B&C Processors prior to forwarding the Disbursements to Customer. Any amount owing to ACI pursuant to this Agreement that is not paid when due and payable will thereafter bear interest until paid at the Late Payment Rate.

ARTICLE V. CUSTOMER OBLIGATIONS

Section 5.01 Billing Obligations

In connection with the Services to be provided by ACI and in addition to any of Customer's obligations described in Schedule 3.01, Customer will timely perform those obligations described in Schedule 5.01 and Schedule 5.07.

Section 5.02 Validation Obligations

During the Term, Customer will at all times perform, or cause to be performed where appropriate, call validation and Customer will only submit Messages to ACI that have received a positive validation as provided below:

During the Term, Customer will validate, or cause to be validated, using an ACI-approved method, or will cause to be validated by an ACI-approved vendor, the following: (a) All telephone calls for which validation is mandated by a Governmental Authority; (b) All telephone calls for which validation is specifically required by a B&C Processor pursuant to a B&C Contract; (c) All operator assisted third party calls (whether automated or assisted by telephone operator), collect calls, telephone calling card calls, person-to-person calls; and (d) All telephone calls, the collection for which is deemed to be below industry standards or not in accordance with industry practice.

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Section 5.03 Inspection of Reports and Remittances

Customer will inspect and review all reports and Remittance information submitted by ACI to Customer for review, which includes, but is not limited to, reports generated through the Licensed Program, and will notify ACI of its rejection of any incorrect reports and Remittance information within thirty (30) days after receipt thereof provided that any such incorrect information is identifiable within the report and/or Remittance information. Failure to so reject any such report or information will constitute acceptance thereof.

Section 5.04 Compliance with Law and B&C Processor Policies

Customer will: (a) obtain and maintain all licenses, franchises, privileges, permits, consents, exemptions, certificates (including without limitation certificates of public convenience and necessity), registrations, orders, approvals, authorizations and similar documents and instruments (collectively, the "Certifications") that are required by any Governmental Authority having

jurisdiction over the business and operations of Customer; (b) comply with all laws and all applicable rules, regulations and other requirements of any Governmental Authority (collectively "Laws"); and (c) B&C Processor Policies. Customer will, upon the execution of this Agreement, provide ACI with a copy of each such Certification or other written evidence of compliance with such requirements by Customer. Customer will promptly notify ACI in writing of any expiration, amendment, or renewal of any such Certification. In connection with the provision of services to End Users, Customer will comply in all respects with the Certifications and Laws related thereto. ACI may terminate this Agreement pursuant to Section 8.01 upon the failure of

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Customer to obtain or maintain in full force and effect, or to comply with, any such Certification and/or Laws.

Customer understands and agrees that any program, service, and/or product that it desires to bill via any B&C Processor must be first approved by ACI and the applicable B&C Processor. Customer agrees to submit any and all information relating to any and all such programs, services, and/or products of Customer requested by ACI. Customer understands and agrees that ACI may provide all the information set forth in the previous section to any B&C Processor, which such provision is not a breach of Section 6.03 of this Agreement.

Section 5.05 Data Transmission Fees

Customer is responsible for all charges attributed to the transmission of data between ACI and the Customer and ACI and the B&C Processor. In addition, Customer is responsible for the acquisition and provision of any equipment including, without limitation, terminals, printers and modems (but excluding any data telecommunication lines or equipment at or between any ACI data centers), that are necessary or appropriate for Customer to access Customer data at any ACI data center. Customer is solely responsible for entering into arrangements with data telecommunication network carriers for the provision of access to such networks and pay any usage costs or charges relating thereto, as may be necessary or appropriate for Customer to access Customer data at any ACI data center.

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Section 5.06 Customer Representative

Upon the Effective Date, Customer will designate and furnish to ACI the name of, and will at all times during the Term maintain, a representative of Customer (the "Customer Representative") who will be an officer or employee of Customer and who will be authorized to act as the primary point of contact for ACI in dealing with Customer with respect to the Services. Customer will notify ACI in writing of any change in the person acting as the Customer Representative at least ten (10) days prior to the effectiveness of such change. The Customer Representative will be responsible for directing, insofar as ACI is concerned, all activities of Customer affecting the provision by ACI of the Services. ACI will be entitled to rely upon any instructions or information provided to ACI by the Customer Representative or other representative of Customer, and ACI will incur no liability in so relying. Customer hereby agrees and confirms that Customer is fully responsible financially and otherwise for all instructions, data, and/or information provided to ACI, whether or not such instructions, data, and/or information is accurate, complete, truthful, or genuine.

Section 5.07 Representations and Warranties

Customer hereby represents and warrants to ACI as follows:

(a) Organization; Authority. Customer is duly organized, validly existing, and in good standing under the laws of its state of organization and has the power and authority to enter into this Agreement and to perform its obligations hereunder.

(b) Binding Obligation. This Agreement constitutes the legal, valid, and

binding agreement of Customer, enforceable against Customer in accordance with its terms, except as the same may be limited by bankruptcy, insolvency, reorganization, moratorium, or similar laws now or hereafter in effect relating to creditors' rights and general principles of equity.

(c) No Conflicts. Neither the execution and delivery of this Agreement by Customer nor the performance by Customer of its obligations hereunder will (i) conflict with or result in a breach of any

provision of the organizational or other governing documents of Customer, (ii) result in a violation of or default under any of the terms, conditions, or provisions of any material license, agreement, lease, or other obligation to which Customer is a party or by which it is bound or (iii) violate any material order, writ, injunction, decree, statute, rule, or regulation applicable to Customer or its properties or assets.

(d) Governmental Consents. Customer has filed all tariffs and has obtained all governmental and regulatory authorizations, approvals, and other consents, all of which are in full force and effect, that are required by law or any Governmental Authority for the provision by Customer of telecommunications services to End Users.

(e) Additional Representations Warranties, Covenants and Agreements of Customer. Customer represents, warrants, and covenants as to those items in Schedule 5.07.

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(f) Continuing Warranty. Each submission by Customer of a Message to ACI for processing is a reaffirmation of each representation and warranty of Customer as of the date of each such submission.

Section 5.08 Priorities and Cooperation.

Customer will cooperate with ACI: (a) to establish the Services to be provided to Customer; and (b) act in good faith in the performance of Customer's activities contemplated by this Agreement, Customer, among other things, will make available, as reasonably requested by ACI, such information, facilities, management decisions, approvals, authorizations and acceptances in order that ACI's provision of Services under this Agreement may be accomplished in a proper, timely and efficient manner.

ARTICLE VI. PROPRIETARY RIGHTS, SOFTWARE, AND DATA

Section 6.01 ACI Software

The ACI Software, any developments, improvements, modifications, additions, or enhancements made by or for ACI to any ACI Software and any new Software developed or created by or for ACI pursuant to this Agreement will be and will remain solely ACI's property, as appropriate. Customer will have no ownership rights or other rights to any of such items, except as expressly set forth in Attachment 2 of Schedule 3.01 with respect to the License.

Section 6.02 Maintenance and Security of Customer Data

Customer will establish one year's backup of the Customer Data sub-fitted to ACI for billing and will keep backup data and data files in its possession; provided, however, that ACI will have such access to any such backup data and data files as is reasonably required by ACI in connection with the performance of the Services. ACI will require users of the Software operated by ACI to enter a valid password in order to gain access to certain applications, functions and databases that contain the Customer Data. ACI will secure the Customer Data using Software that restricts access to the Customer Data and assists in the administration of the security of the Customer Data. ACI will have the right to retain copies of any Customer Data that ACI deems necessary or appropriate for the purpose of performing any services under this Agreement including, without limitation, with respect to remittance processing services performed in accordance with Section 2 of Schedule 3.01 hereto.

Section 6.03 Confidentiality

Except as otherwise provided in this Agreement, each of the parties agree that all information communicated to it by the other party, whether before or after the Effective Date, will be designated confidential information ("Confidential Information"), and will be deemed to have been, received in strict confidence and will be used only for the purposes of carrying out the obligations of, or as otherwise contemplated by, this Agreement. Without obtaining the prior written consent of the other party, neither party will disclose any such Confidential Information received from the other party; provided, however, that this Section 6.03 will not prevent a party from disclosing any such information that: (a) was already in the possession of such party without being subject to other confidentiality obligations; (b) is or becomes generally available to the public other than as a result, directly or indirectly, of a disclosure of such Confidential Information by such party or by other persons to whom such party disclosed such information; (c) is or becomes available to such party on a nonconfidential basis from a source other than the other party or its representatives, provided that such source is not bound by a confidentiality agreement with the other party; (d) is independently developed by such party without the use of the other party's Confidential Information; (e) is required to be disclosed pursuant to an arbitration proceeding conducted in accordance with Article VII, provided that such disclosure is made in accordance with the approval and at the direction of the Arbitrator; (f) is required to be disclosed pursuant to a requirement of any Governmental Authority or any statute, rule, or regulation, provided that such party gives the other party prompt notice of such requirement prior to any such disclosure; or (g) is reasonably necessary to be disclosed in connection with a billing inquiry by an End User.

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ARTICLE VII. CLAIM REVIEW AND ARBITRATION

Section 7.01 Claim Review

In the event of any dispute, controversy, or claim between the parties of any kind or nature, including but not limited to disputes arising under or in connection with this Agreement (including disputes as to the creation, validity, interpretation, breach, or termination of this Agreement) (the "Claim"), then, upon the written request of either party, each of the parties will appoint a senior manager designated to meet for the purpose of endeavoring to resolve such Claim. The designated representatives will meet as often as the parties reasonably deem necessary to gather and furnish to the other all information with respect to the matter in issue that the parties believe to be appropriate and germane in connection with its resolution. Such representatives will discuss the Claim and negotiate in good faith in an effort to resolve the Claim. During the course of such negotiation, all reasonable requests made by one party to the other party for information will be honored in order that each of the parties may be fully advised as to the facts and circumstances surrounding the Claim. However, the parties acknowledge and agree that it is costly and time consuming to retrieve certain historical data. Therefore, the parties acknowledge and agree that only data routinely provided from one party to another during a designated Claim period shall be required. The specific format for such discussions will be left to the discretion of the designated representatives but may include the preparation of agreed upon statements of fact or written statements of position furnished to the other party. No formal proceedings for the resolution of such Claim may be commenced until the earlier to occur of: (a) the designated representatives conclude in good faith that an amicable resolution through continued negotiation of the matter in issue does not appear likely; or (b) the sixtieth (60'th) day after the initial request to negotiate such dispute, controversy, or claim. The Parties agree that no Claim(s) older than one (1) year from inception or discovery of such Claim(s) shall be pursued in any manner.

Section 7.02 Arbitration

(a) If the parties are unable to resolve any Claim in accordance with Section 7.01, the parties agree to submit such Claim to binding arbitration by a single arbitrator pursuant to the Commercial Arbitration rules of the American Arbitration Association. A party may demand such arbitration in accordance with the procedures set out in those rules.

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(b) Discovery shall be controlled by the arbitrator and shall be governed by the Federal Rules of Civil Procedure. If decided by the Arbitrator, the party

seeking discovery shall reimburse the responding party for the cost of the production of documents, including search time and reproduction costs. The arbitration shall be held in Los Angeles County, California. The arbitrator shall control the scheduling so as to process the matter expeditiously. The parties may submit written briefs. The arbitrator shall rule on the Claim by issuing a written opinion within thirty (30) calendar days after the close of the hearings. The time frames specified in this Section 7.02 may be extended upon mutual agreement of the parties or by the arbitrator upon a showing of good cause.

(c) Except as provided in (b) above, each party shall bear its own fees, costs and expenses of arbitration, including its own legal and expert witness fees. The parties shall equally split the fees of the arbitration and the arbitrator. The arbitrator may award reimbursement of costs and/or fees to the prevailing party.

(d) Any award rendered by the arbitrator will be final, conclusive, and binding upon the parties, and any judgment thereon may be entered and enforced in any court of competent jurisdiction.

Section 7.03 Exclusive Remedy

Other than those matters involving injunctive relief as a remedy or any action necessary to enforce the award of the Arbitrator, the parties agree that the provisions of this Article VII are a complete defense to any suit, action, or other proceeding instituted in any court or before any administrative tribunal with respect to any dispute, controversy, or claim arising under or in connection with this Agreement or the provision of Services by ACI. Nothing in this Article VII will prevent the parties from exercising their rights to terminate this Agreement in accordance with Article VIII.

Section 7.04 Tax Disputes

Notwithstanding the provisions of this Article VII, if Customer disputes ACI's determination that any Taxes are payable by ACI on ACI's behalf or on behalf of Customer, disagrees with an assessment of any additional Taxes due by ACI or by Customer as a result of ACI's performance of any obligation under this Agreement or disagrees with a determination that any Taxes are applicable to ACI's billing to Customer for Services under this Agreement, Customer will, at Customer's option and expense (including without limitation payment for any Taxes prior to final resolution of the issues), have the right to seek administrative relief, a ruling, judicial review (original and appellate level), or other appropriate review as to the applicability of any such Tax or to protest any such Tax, but Customer will be liable for any Tax ultimately determined to be due. ACI will, when requested by Customer and at Customer's expense, cooperate or participate with Customer in any such proceeding, protest or legal challenge and may participate, at ACI's expense, in any such proceeding, protest or legal challenge if Customer does not so request.

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ARTICLE VIII. TERMINATION

Section 8.01 Termination for Cause

Subject to Section 10.01, if either party materially or repeatedly defaults in the performance of any of its duties or obligations under this Agreement, which default is not substantially cured within twenty (20) business days after written notice is given to the defaulting party specifying the default, then the nondefaulting party may, by giving written notice thereof to the defaulting party, terminate this Agreement as of the date of receipt by the defaulting party of such notice or as of a future date specified in such notice of termination.

Section 8.02 Special Termination Rights

Without notice, ACI may stop processing all or some of the Messages of Customer, or terminate the Agreement (subject to Section 8.07 of the Agreement), if ACI determines in its sole discretion that the processing of Messages on behalf of Customer, or the continuation of the processing of Messages, in whole or in part, has or shall:

(a) Negatively effect the goodwill, reputation, profitability, or business of

ACI.

(b) Threaten the termination of or negatively impact any B&C Contract of ACI.

(c) Negatively impact ACI's relationship with any B&C Processor.

(d) Result in or has already resulted in the scrutiny (informal or formal investigation, or otherwise) of Customer, ACI, or any Person, by any Governmental Authority (including but not limited to, the FCC, FTC, PUCs and attorney generals).

(e) Has resulted in or may result in the violation of any rule, ordinance, Law, order, decision, judgment, or policy of any Government Authority, any B&C Processor and/or ACI.

(f) Has resulted in or may result in a legal proceeding, including but not limited to litigation, arbitration or administrative proceeding involving ACI either as a party or as a non-party (including, but not limited to, ACI having to provide documents and/or deponents).

Section 8.03 Termination for Bankruptcy and Related Events

If either party is declared bankrupt, is the subject of any proceedings relating to its liquidation, insolvency, or for the appointment of a receiver or similar officer for such party, makes an assignment for the benefit of all or substantially all of its creditors, or enters into an agreement for the composition, extension, or readjustment of all or substantially all of its obligations, the liquidator, trustee, receiver, conservator, new owner, manager, or other agent or representative of such party, subject to applicable law, will have sixty (60) days from the date of any initial declaration, commencement of proceedings, or such assignment or agreement to notify the other party, subject to applicable law, that it is terminating this Agreement as of a date within such sixty (60) day period. If the other party is not so notified, this Agreement will not be terminated but will continue in full force and effect on all of the terms and conditions stated in this Agreement.

Section 8.04 Termination for Certain Force Majeure Events

If either party is excused from performance under this Agreement pursuant to Section 10.01 for any period exceeding thirty (30) consecutive days, the other party may, by giving written notice thereof to the party whose performance will have been excused within ten (10) days after the expiration of such thirty (30) consecutive day period, terminate this Agreement as of the date of receipt of such notice or as of a future date specified in such notice of termination. The parties expressly acknowledge and agree that any such nonperformance will not be considered a default under this Agreement or impose any liability whatsoever upon either of the parties.

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Section 8.05 Termination for Regulatory Event and/or LEC Policies

ACI may terminate this Agreement if any statute, rule, regulation, interpretation, Law, LEC Policy violation, judgment, order, or injunction is enacted, enforced, promulgated, amended, issued, or deemed applicable: (a) to ACI or any of its affiliates; or (b) to this Agreement, the transactions contemplated by this Agreement, or the provision of the Services by ACI, by any Governmental Authority that (i) renders illegal the consummation of the transactions contemplated by this Agreement, (ii) renders illegal or materially inhibits the provision of the Services by ACI, or (iii) would, in ACI's sole discretion, have a material adverse effect on the business, operations, reputation, affairs, condition (financial or otherwise), results of operations, properties, assets, liabilities, or prospects of ACI. To terminate this Agreement pursuant to this Section 8.05 ' ACI will give Customer written notice thereof at least thirty (30) days prior to the date on which ACI desires to terminate this Agreement, unless statutes, regulations or B&C Processor Policies require immediate termination.

Section 8.06 Rights Upon Termination

Billable Messages received by ACI on or before the Expiration Date or the effective date of termination of this Agreement will be processed by ACI and included on the next Outclearing Tapes prepared in accordance with Section 1(e)

of Schedule 3.01, and the Disbursements relating to the Remittances collected from the B&C Processors will be disbursed to Customer, less amounts representing the Reserve. Upon expiration or termination of this Agreement for any reason, Customer will (a) promptly return the Licensed Program (including the related documentation) to ACI and destroy all copies, whether authorized or unauthorized, in Customer's possession, and (b) pay ACI for all Services provided and expenses incurred through the effective date of such expiration or termination, as well as for all Services provided and expenses incurred thereafter in connection with the processing of Billable Messages received on or before the effective date of such expiration or termination. The provisions of this Section 8.06, Section 6.03, Articles VII and IX, Schedule 3.01 and Schedule 3.02 will survive the expiration or termination of this Agreement for any reason.

Section 8.07 Suspension of Service

Notwithstanding anything to the contrary in this Agreement, in lieu of termination of this Agreement by ACI, ACI in its sole discretion may suspend its Services, in whole or in part, without prejudice to its right to subsequently terminate this Agreement for the same reason or different reason that gave rise to the suspension.

ARTICLE IX. INDEMNITIES AND LIABILITY

Section 9.01 Indemnities

Customer will indemnify, and defend ACI and will hold ACI harmless from and against any and all claims, actions, acts of third parties, liabilities, litigations, losses, expenses (including but not limited to attorney's fees whether in-house or outside), all damages (including but not limited to consequential and/or punitive, and/or damages for loss of profits and/or for loss of revenue), costs and expenses (including without limitation reasonable attorney fees), and liability for any equitable remedies (including but not limited to injunctive relief and/or specific performance), due to, relating to, or arising out of: (i) the Messages processed on behalf of Customer, and/or (ii) any acts or omissions of Customer, and/or (iii) the occurrence of any of the items set forth in Section 8.02 of this Agreement, and/or (iv) any violation of any representation, covenant or warranty of Customer set forth in this Agreement, or any other Agreement between Customer and ACI, and/or (v) any breach by Customer of any provision of this Agreement or any other agreement between ACI and Customer, and/or (vi) the incorrectness or incompleteness of any data or information supplied to ACI by Customer under this Agreement, and/or (vii) ACI's use, in accordance with this Agreement, of, and reliance upon, information provided by Customer.

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Section 9.02 Indemnity Procedures

Any party entitled to indemnification under this Article IX will give the party from which it is seeking indemnification prompt written notice of any matters in respect of which the indemnity may apply and of which the party claiming indemnification has knowledge; provided, however, that if a party claiming indemnification fails to give the other party prompt written notice, such other party will only be relieved of its obligations under this Article IX if and to the extent that such party is prejudiced thereby. If ACI is named by a third party in a legal proceeding resulting from Customer's Billed Messages, acts or omissions pursuant to this Agreement, ACI shall, due to ACI's expertise in the billing industry, solely control its own defense and Customer shall be liable for all costs and expenses including attorneys' fees. ACI shall provide Customer with invoices of actual costs and expenses incurred on a monthly basis, prior to deducting such costs and expenses. Should deductions be insufficient, ACI shall invoice Customer for sums due and such invoice shall be due and payable upon receipt.

Section 9.03 Limitation of Liability and Disclaimer of Warranties

If ACI is at any time liable to Customer as a result of any breach, dispute, controversy, or claim of any kind or nature arising under or in connection with this Agreement, the amount of damages recoverable against ACI for any and all events, acts, or omissions will not exceed, in the aggregate, an amount equal to the total Billing Services Charges paid to ACI during the three-month period immediately preceding the initial occurrence of the first such event, act, or

omission to occur. NOTWITHSTANDING ANY OTHER PROVISIONS OF THIS AGREEMENT TO THE CONTRARY, AND REGARDLESS OF THE FORM OF CLAIM, WHETHER IN CONTRACT OR IN TORT OR WHETHER FROM BREACH OF THIS AGREEMENT, IRRESPECTIVE OF WHETHER ACI HAS BEEN ADVISED OR SHOULD BE AWARE OF THE POSSIBILITY OF SUCH DAMAGES, IN NO EVENT WILL THE MEASURE OF DAMAGES RECOVERABLE BY CUSTOMER AGAINST ACI INCLUDE ANY AMOUNTS FOR INDIRECT, CONSEQUENTIAL, OR PUNITIVE DAMAGES OF ANY PERSON OR FOR LOSS OF ANTICIPATED PROFITS OR OTHER ECONOMIC LOSS OF ANY PERSON OR FOR DAMAGES THAT COULD HAVE BEEN AVOIDED, USING REASONABLE DILIGENCE, BY CUSTOMER. In addition, Customer may not assert any cause of action against ACI that accrued more than one year prior to the filing of a suit alleging such cause of action. The limitation set forth in this Section 9.03 will not apply to the duty of ACI to deliver, in accordance with this Agreement, to Customer any Disbursements due Customer that are being held by ACI.

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EXCEPT AS OTHERWISE EXPRESSLY PROVIDED IN THIS AGREEMENT, ACI MAKES NO REPRESENTATIONS OR WARRANTIES, EXPRESS OR IMPLIED, TO CUSTOMER OR TO ANY OTHER PERSON, INCLUDING WITHOUT LIMITATION ANY WARRANTIES REGARDING TITLE TO OR THE MERCHANTABILITY, SUITABILITY, ORIGINALITY, FITNESS FOR A PARTICULAR PURPOSE, OR OTHERWISE (IRRESPECTIVE OF ANY PREVIOUS COURSE OF DEALING BETWEEN THE PARTIES OR CUSTOM OR USAGE OF TRADE) OF ANY SOFTWARE, SERVICES, OR MATERIALS PROVIDED UNDER THIS AGREEMENT.

Section 9.04 Acknowledgment

Customer and ACI expressly acknowledge that the limitations contained in Section 9.03 represent the express agreement of the parties with respect to the allocation of risks between the parties, including the level of risk to be associated with the provision of the Services as related to the payments to be made to ACI for such Services, and each party irrevocably accepts such limitations.

ARTICLE X. MISCELLANEOUS

Section 10.01 Force Maieure

Each party will be excused from performance under this Agreement for any period, and the time of any performance will be extended, to the extent reasonably necessary under the circumstances, any act of God or any Governmental Authority or any outbreak or escalation of hostilities, war, civil disturbance, court order, labor dispute, third party nonperformance (including without limitation the acts or omissions of common carriers, interexchange carriers or B&C Processors, but excluding any employees of the party seeking to be excused from performance hereunder) or any other cause beyond its reasonable control, including without limitation failures or fluctuations in electrical power, heat, light, air conditioning or telecommunications equipment or lines or other equipment. Such nonperformance on the part of either party will not be considered a default under this Agreement or, except as otherwise provided in Section 8.04, a ground for termination of this Agreement, provided that the party whose performance has been excused performs such obligation as soon as is reasonably practicable after the termination or cessation of such event or circumstance.

Section 10.02 Compliance with Laws

In performing its obligations under this Agreement, ACI will not be required to undertake any activity that would conflict with LEC Policies, the requirements of any applicable statute, rule, regulation, interpretation, judgment, order or injunction of any Governmental Authority or Law.

Section 10.03 Media Releases

All press and media releases, public announcements and public disclosures by either of the parties relating to this Agreement or its subject matter, including without limitation promotional or marketing material (but not including any announcement intended solely for internal distribution by a party to its directors, officers and employees or any disclosures required by legal, accounting, regulatory or stock exchange requirements beyond the reasonable control of such party) will be coordinated with and approved by both parties prior to the release thereof.

Section 10.04 Notices

Except as otherwise expressly provided in this Agreement, all notices, requests, claims, demands, designations, approvals, consents, acceptances and other communications under this Agreement will be in writing and will be deemed to have been duly given if delivered personally, telecopied or mailed by certified or registered mail, return-receipt requested, postage prepaid, or overnight mail to the parties at the addresses specified below and will be deemed given on the third Business Day after the day it is deposited in a regular depository of the United States mail. If delivered personally, it will be deemed given upon delivery, if delivered by telecopy with a copy subsequently mailed, it will be deemed given when the mailed copy is postmarked and if delivered by mail, in the manner described above. All notices and other communications under this Agreement are addressed as provided below.

<p>If to ACI, address to: ACI Communications, Inc. 9255 Corbin Avenue Northridge, California 91324 Attention: President Telecopy: (818) 709-1825</p>	<p>With copies to: ACI Communications, Inc. 9255 Corbin Avenue Northridge, California 91324 Attention: General Counsel Telecopy: (818) 709-1940</p>
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If to Customer, address to:

YP.Net, Inc.
4840 E. Jasmine Street, Suite 105
Mesa, AZ 85205
Attention: Angelo Tullo, CEO
Telecopy: (480) 654-9727

Section 10.05 Rights of ACI to Provide Services to Others.

Customer acknowledges and agrees that ACI may provide billing and collection services and other information technology services to other Persons.

Section 10.06 Relationship of Parties.

In furnishing the Services to, or on behalf of, Customer, ACI is acting only as an independent contractor. ACI does not undertake by this Agreement or otherwise to perform any obligation of Customer, whether regulatory or contractual, or to assume any responsibility for Customer's business or operations. ACI will not be considered or be deemed to be an agent, employee, joint venturer or partner of Customer, and no other relationship is intended or created by and between ACI and Customer. ACI has the sole right to supervise, manage, contract, direct, procure and provide, or cause to be provided, all Services to be provided pursuant to this Agreement.

Section 10.07 Authorization.

Customer hereby authorizes ACI to include Customer's name, address, phone number, and any other information required by any B&C Processor or Government Authority, and billing information in each Outclearing Tape or bill; to collect and hold for Customer the Disbursements, if any, payable to Customer; to disburse to Customer the Disbursements, if any, as provided in this Agreement; and to take

all other actions that ACI deems reasonably necessary to discharge its duties and responsibilities under this Agreement, as fully as Customer could do if personally present, and Customer hereby ratifies and confirms all that ACI lawfully does or causes to be done by virtue of the rights contained in this Section 10.07. The authority granted to ACI under this Section 10.07 is coupled with an interest and is irrevocable except by expiration or termination of this Agreement and subject to Section 8.07.

Section 10.08 Severability

(a) Subject to the provisions of Section 10.08(b), if any provision of this

Agreement, or the application of any such provision is declared judicially to be invalid, unenforceable or void, such decision will not have the effect of invalidating or voiding the remainder of this Agreement, it being the intent and agreement of the parties that this Agreement will be deemed amended by modifying such provision to the extent necessary to render it valid, legal and enforceable while preserving its intent or, if such modification is not possible, by substituting; therefore, another provision that is legal and enforceable and that achieves the same objective. In addition, if such invalid, unenforceable or void provision does not materially affect the payments to be made to ACI under this Agreement, and if the remainder of this Agreement will not be affected by such declaration and is capable of substantial performance, then each provision not so affected will be enforced to the maximum extent permitted by law.

(b) If any provision referred to in Section 10.08(a) is declared judicially to be invalid, unenforceable or void, and the fact thereof, or any amendment or modification thereto as set forth in Section 10.08(a), materially affects the payments to be made to ACI under this Agreement, then ACI may, at its sole discretion, terminate this Agreement in its entirety.

Section 10.09 Waivers

The observance of any term of this Agreement may be waived (either generally or in a particular instance and either retroactively or prospectively) by the party entitled to enforce such term, but such waiver will be effective only if it is in a writing signed by the party against which such waiver is to be asserted. Unless otherwise expressly provided in this Agreement, no delay or omission on the part of any party in exercising any right or privilege under this Agreement will operate as a waiver thereof, nor will any waiver on the part of any party of any right or privilege under this Agreement operate as a waiver of any other right or privilege under this Agreement nor will any single or partial exercise of any right or privilege preclude any other or further exercise thereof or the exercise of any other right or privilege under this Agreement.

Section 10.10 Entire Agreement

This Agreement (including the Schedules attached hereto) constitutes the entire agreement between the parties with respect to the subject matter hereof and supersedes all prior and contemporaneous agreements and understandings, whether written or oral, between the parties with respect to the subject matter of this Agreement, and there are no representations, understandings or agreements relating to this Agreement that are not fully expressed herein. This Agreement may not be modified or amended except by a written instrument executed by or on behalf of each of the parties to this Agreement. All Schedules attached to this Agreement are expressly made a part of, and incorporated by reference into, this Agreement.

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Section 10.11 Assignment

No party may assign this Agreement without obtaining the prior written consent of the other party; provided, however, that such consent will not be unreasonably withheld or delayed; and provided

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further, that a party will notify the other party regarding whether such consent will be withheld or delayed within thirty (30) days after the other party has requested such consent. Notwithstanding the foregoing, ACI may assign this Agreement, and its rights and obligations hereunder, to any of its affiliates.

Section 10.12 No Third Party Beneficiary

This Agreement will be binding upon and inure to the benefit of the parties to this Agreement and their respective successors and assigns. This Agreement is not intended, nor will it be construed, to create or convey any right in or upon any person or entity not a party to this Agreement. ACI will not be responsible, financially or otherwise, for the Services provided hereunder to any party other than Customer.

Section 10.13 Governing Law/Jurisdiction

This Agreement will be construed in accordance with, and the rights of the

parties will be governed by, the substantive laws of the State of California, without giving effect to any choice-of-law rules that may require the application of the laws of another jurisdiction. Any permitted action brought in connection with this Agreement shall be brought in Los Angeles County, California, and the parties hereby waive any objection to venue.

Section 10.14 Construction

The Article and Section headings and the table of contents used in this Agreement are for convenience of reference only and in no way define, limit, extend or describe the scope or intent of any provisions of this Agreement. In addition, as used in this Agreement, unless otherwise expressly stated to the contrary; (a) all references to days, months or years are references to calendar days, months or years; and (b) any reference to a "Section Article" or "Schedule" is a reference to a Section or Article of this Agreement or a Schedule attached to this Agreement. The provisions of this Agreement are qualified in their entirety by reference to the information and the terms set forth in the Schedules. To the extent that the provisions of this Agreement and the Schedules to this Agreement are inconsistent, the provisions of the Schedules to this Agreement will govern and control.

Section 10.15 Counterparts

This Agreement may be executed in multiple counterparts, each of which will be deemed an original and all of which taken together will constitute one instrument.

IN WITNESS WHEREOF, the parties have duly executed and delivered this Agreement as of the date first set forth above.

ACI COMMUNICATION INC. YP NET

By Name: Title: Date: By Name: Title: Date:

SCHEDULE 2.01
of
Billing and Related Services Agreement

ACCEPTABLE CALL TYPES

Schedule 2.01 Acceptable Call Types

The following EMI billing formats are acceptable for immediate processing according to the terms and conditions of this Agreement:

Record ID	Description
01-01-01	North American Originated, Terminated and Billable Message Telephone Service Charge
01-01-32	North American Originated, Terminated and Billable Directory Assistance Charge
01-02-01	North American Originated and Billable, Overseas Terminated Message Telephone Service Charge
01-05-01	Overseas Originated and North American Terminated and Billable Message Telephone Service
01-07-01	Overseas Originated and Terminated, North American Billable Message Telephone Service

The following EMI billing formats are available for billing, but are subject to the approval of ACI prior to processing. There also may be additional ACI and/or LEC charges associated with the processing of the following record types:

01-01-18 North American Originated, Terminated and Billable Specialized
Service/Service Provider Charge

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41-50-01 Customer Credit Line Summary Non Detail Credit

42-50-01 Miscellaneous Charge Record Line Summary Non-Detail Charge

SCHEDULE3.01
of
Billing and Related Services Agreement

BILLING SERVICES

Schedule 3.01 Billina Services

1. Billin2 Services

(a) B&C Contracts. ACI will provide Billing Services relating to the B&C Processors. Customer hereby acknowledges that ACI has provided it with a listing of the current B&C Processors. ACI may amend or supplement from time to time such listing and will provide Customer with a copy of the amended or supplemented listing as soon as reasonably practicable.

(b) On-Net File. Customer hereby acknowledges that ACI will provide Customer with a copy of the On-Net File. ACI may revise the On-Net File from time to time and will provide Customer with a copy of the revised On-Net File as soon as reasonably practicable.

(c) Approved Message Format. Upon receipt of a Message tape from Customer, ACI will determine whether the Message data contained thereon is in the standard exchange message interface format or another format that has been chosen by ACI (the "Approved Message Format"). Customer hereby acknowledges that ACI has provided it with the current Approved Message Format. ACI may from time to time revise the Approved Message Format based on reasonable business needs (as determined in good faith by ACI), the requirements of any B&C Contract, or the requirements of any Governmental Authority and will provide Customer with a copy of the revised Approved Message Format. Customer will comply with such new format within ninety (90) days after receipt of a copy of the updated or revised Approved Message Fon-nat; provided, however, that Customer will comply with such new format within thirty (30) days after receipt of a copy of the updated or revised Approved Message Format if ACI notifies Customer that such new format was revised to comply with industrystandard formats.

(d) Editin2, Balancing, and Formatting. If Customer's Messages are in the Approved Message Format, ACI will edit, balance, and format such Messages in accordance with the requirements of the appropriate B&C Processors. If any of Customer's Messages are not in the Approved Message Format or if such Messages are rejected by ACI or ACI discovers other errors as the result of editing, balancing, or reviewing the format (such Messages are referred to as "Rejected Messages"), ACI will send such Rejected Messages (in standard machine readable form) to the Customer Representative within seven (7) Business Days after the receipt of the Messages from Customer. Customer shall use its best efforts to reformat and resubmit such Rejected Messages to ACI following Customer's receipt of the Messages from ACI.

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(e) Data Files. After editing, balancing, and formatting, the Billable Messages shall be forwarded to the appropriate B&C Processor within five (5) business days of receipt (the "Data Files") for billing to, and collection from, End Users in accordance with the applicable B&C Contract.

(f) Returned Messages. If any of Customer's Billable Messages are returned as unbillable by a B&C Processor that is providing ACI with automated return item processing in the appropriate format such Messages will be deemed to be "Returned Messages". In the event ACI is unable to provide for the billing of any Returned Messages (after Customer has made changes to the Messages if such

changes are possible) ACI will return such Message data to Customer and Customer may direct bill such Returned Messages.

(g) Sub-Carrier Identification Codes. A sub-carrier identification code ("Sub-CIC") for the purpose of identifying the Customer's name on the B&C Processors' bills and tracking Billable Messages arising from End Users shall be assigned to Customer. At Customer's request, additional Sub-CICs may be assigned for Customer for reasonable business needs and shall herein constitute Additional Services hereunder.

(h) Special Service Message Processing, ACI will provide Special Service Message ("SSM") processing in LEC jurisdictions that allow for such messages. For purposes hereof, SSM means charges for telecommunications related services, other than telephone calls, which are to be billed to an End-User by the B&C Processor and which have been approved for such billing by the applicable B&C Processor and ACI. The implementation of any SSM processing is subject to the written approval of ACI and the respective LEC. Customer agrees to subfit all information required by ACI and the respective LEC prior to initiation of the approval and implementation process. Such information will include, but not be limited to, the intended use of the SSM service, copies of all marketing materials with respect to such service, and any other information required by either ACI or the LEC in order to initiate the approval implementation process.

Charges for SSM processing ("SSM Fees") will appear on the B&C Processor's End User bill.

In connection with the Services to be provided by ACI hereunder, Customer agrees to fulfill the obligation set forth below:

Obligation To Provide Code Assignment. The Approved Message Format used for most common types of calls (i.e., collect, billed to third party, and most line number format calling card calls) is referred to as the "01-01-01 format". This record will also be used as the base record for billing SSMs. Customer will receive a five-digit code (3NNNN) for each approved phrase. This code will be placed in positions 123 - 134 and 135 - 146 of the EMI record. ACI will translate to the proposed Special Service Message code phrase and reformat the record for output to the appropriate B&C Processor.

Customer Testing. Customer testing is required for the first set-up on SSMs.

2. Remittance Processing

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(a) Remittance by B&C Processor. The B&C Processors shall remit to ACI pursuant to the B&C Contracts less fees, charges, adjustments and those amounts held as bad debt reserves. The actual net amount so remitted to ACI by each B&C Processor is referred to as the "Remittances."

(b) Disbursement by ACI.

Calculation of Disbursement. Upon the receipt by ACI of the Remittances from the B&C Processors, ACI: (i) will deduct from the Remittances the Billing Services Charges, the Billing-Related Services Charges, Additional Services Charges and any other charges specified in or as necessitated by this Agreement, including without limitation any amounts due ACI from time to time pursuant to Sections 4.04 and 4.05 and Article IX; (ii) will add to or deduct from the Remittances any adjustment resulting from the reconciliation of the bad debt withholdings effected by B&C Processors (as described in Section 2(f) of this Schedule 3.01); (iii) will deduct from the Remittances any adjustments effected by ACI in connection with the Inquiry Services; (iv) will deduct ACI's charges or for processing call records on behalf of Customer; (v) will deduct any amount ACI, in its sole discretion, withholds as an allowance for bad debts; (vi) will deduct the B&C Processor-Calculated Taxes collected by the B&C Processors that will be paid to the appropriate taxing authorities from the Remittances; (vii) will deduct the B&C Processor's fees and other charges, as well as any adjustments that may be effected by a B&C processor or ACI, from the amounts collected from End Users for Billable Messages; and (viii) will, upon completion of the deductions or additions described in (i) through (vii) above, disburse the remainder of the Remittances to Customer (such disbursements to Customer, are referred to herein as the "Disbursements"). If requested in writing by Customer, ACI will make Disbursements to Customer by wire or electronic funds transfer to the bank or other depository designated in writing

by Customer. Customer shall be responsible for all wire and related charges.

(c) Reserve.

W Pursuant to notice, if ACI reasonably determines that the aggregate amount of Remittances due from B&C Processors in respect of Customer's Billable Messages at any time during the Term is less than the aggregate amount of Deductions effected by, or anticipated by ACI to be effected by, such B&C Processors, or effected by adjustments or credits to be provided to End Users (each of the events referred to as a "Reserve Event"), then ACI will have the right to withhold amounts from any Disbursements that would otherwise be payable to Customer on and after the occurrence for the purpose of reimbursing ACI for the anticipated amounts to be charged and withheld by any B&C Processor, or for adjustments or credits (the "Reserve"). An example of such a Reserve Event would be Billable Messages by Customer dropping by seventy-five percent (75%), or the termination or anticipated termination of this Agreement. In the event any invoice, as provided for in this Agreement, is not timely paid by Customer and the entire amount of such invoice cannot be paid out of Disbursements, then such amount shall be added to the Reserve as set forth herein.

(ii) In addition, ACI shall establish a reserve for reconciliation of bad debt charges effected by such B&C Processors pertaining to Customer's Billable Messages (the "True-Up Reserve"). The initial True-Up Reserve, as soon as LEC Billing Services are commenced, shall be five percent (5%). ACI may at any time increase or decrease the True-Up Reserve based on actual bad debt withheld by the B&C Processors and/or based upon Customer's actual or anticipated bad debt related to its Billable Messages to offset any shortfalls that may be incurred by ACI.

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(iii) If at any time the Reserves and/or True-Up Reserve are insufficient, ACI will invoice Customer for the amount of the shortfall, and Customer shall remit full payment to ACI within ten (10) business days of the date of the invoice. Any excess of Reserves and/or True-Up Reserves shall be remitted to Customer by ACI upon ACI's reasonable determination that there is no longer a need for a Reserve and/or True-Up Reserve.

(d) Reports. ACI will provide reports to Customer that reflect the amounts due from the B&C Processors, the results of Rejected Messages, Returned Messages and other adjustments, the amounts remitted by the B&C Processors, the amounts withheld by the B&C Processors for bad debts, and the actual bad debts incurred. ACI will transmit Call Acceptance Transmittal (CAT) reports within seven (7) Business Days after the receipt of Message data from Customer, will transmit Remittance reports at the time that ACI makes the Disbursements to Customer, and will transmit bad debt true-up reports to Customer in the month following receipt of LEC bad debt true-up data by ACI.

(e) Adjustments and Unbillables. Customer acknowledges that deductions from amounts remitted to ACI from B&C Processors in respect of Returned Messages and adjustments will be charged to Customer through an allocation: (i) to Customer to the extent that such deduction can be solely attributed to Customer based on data provided to ACI by the applicable B&C Processor; or (ii) pro rata among Customer and other customers of ACI if such deduction cannot be attributed to specific customers. Pro rata allocations of any such deduction in accordance with the foregoing will be calculated based on the amount of Customer's deductions solely attributed to Customer (as defined above) as a percentage of all deductions solely attributed to all ACI Customers during the period to which such deduction relates or such other method as ACI determines in its sole discretion is appropriate based on empirical data available to ACI.

(f) Bad Debt Reconciliation and Allocation.

(i) Reconciliation. ACI will, as provided in the B&C Contracts, periodically reconcile the amount withheld by each B&C Processor for bad debts with the actual amount of bad debts incurred by such B&C Processor (a "True-Up Reconciliation"). The determination of whether a bill has become a bad debt will be made by each B&C Processor. ACI will advise Customer of the results of such Reconciliation.

(ii) Pro Rata Allocations. If any Reconciliation results in a refund to ACI of amounts previously deducted by such B&C Processor (a "Refund"), and, based on data provided to ACI by the applicable B&C Processor, ACI is unable to

determine the amount of such Reconciliation directly attributable to specific customers, then the Refund will be remitted pro rata among Customer and other customers of ACI. Customer's share of any such Refund will be applied in the following order: (i) as an offset against any amounts owed by Customer to ACI pursuant to this Agreement; and (ii) as a cash payment to Customer within thirty (30) days after the receipt of the Refund by ACI.

Likewise, if any Reconciliation results in a deduction in the Remittance paid to ACI in addition to amounts previously deducted by such B&C Processor (a "Deduction"), and, based on data provided to ACI by the applicable B&C Processor, ACI is unable to determine the amount of such Reconciliation directly attributable to specific customers, the amount of any such Deduction will be charged to Customer through a pro rata allocation among Customer and other customers of ACI.

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Pro rata allocations of any Refund or Deduction in accordance with the foregoing will be calculated based on either: (x) the amount of revenue represented by the call records submitted by ACI on behalf of Customer to the applicable B&C Processor during the period to which such Refund or Deduction relates compared to the total revenue represented by all call records submitted by ACI on behalf of all of its customers to such B&C Processor during such period; or (y) such other method as ACI determines in its sole discretion is appropriate based on empirical data available to ACI.

Customer-Specific Allocations. Notwithstanding the foregoing, if, based on data provided to ACI by the applicable B&C Processor, ACI is able to directly attribute the amount of any such Reconciliation to its customers on a customer-by-customer basis, then ACI will charge to Customer, or refund to Customer, the applicable amount attributable to Customer as a result of such Reconciliation. The amount of any such refund will be applied in the following order: (i) as an offset against any amounts owed by Customer to ACI pursuant to this Agreement and (ii) as a cash payment to Customer within thirty (30) days after the receipt of such refund by ACI.

3. Taxes

(a) Federal, State, and Local Taxes. ACI will use reasonable efforts to cause the B&C Processors, to the extent that the following services with respect to the calculation of certain taxes are available from such B&C Processors, (i) to calculate all taxes applicable to each Message (the "B&C Processor-Calculated Taxes"), (ii) to furnish the information relating to such B&C Processor-Calculated Taxes to ACI, and (iii) to bill the End Users for all B&C Processor-Calculated Taxes and to the extent that such services with respect to the calculation of Foreign Intrastate Taxes are available from such B&C Processor, Foreign Intrastate Taxes. ACI will calculate Foreign Intrastate Taxes for those B&C Processors that are capable of receiving Foreign Intrastate Tax calculations from ACI. Customer acknowledges and agrees that ACI is acting only as Customer's agent with respect to arranging for the billing and collection of taxes. To the extent that any B&C Processor: (A) does not provide services, or that ACI does not provide such services, with respect to the calculation of the B&C Processor-Calculated Taxes; or (B) is not capable of receiving Foreign Intrastate Tax calculations from ACI, Customer will be responsible for the calculation of such taxes hereunder.

(b) B&C Processor Responsibilities. ACI will have the authority, on behalf of Customer, to authorize the B&C Processors: (i) to calculate the B&C Processor-Calculated Taxes in the same manner as the B&C Processors calculate taxes for their end users; (ii) to bill and collect Foreign Intrastate Taxes as calculated and processed by ACI; and (iii) to establish the tax exempt status of End Users in the same manner as the B&C Processors establish such status for their end users.

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(c) Payment of Taxes. Based solely upon the information received from the B&C Processors with respect to the B&C Processor-Calculated Taxes billed and collected by the B&C Processors, ACI will, on behalf of Customer and other subscribers of ACI, prepare and file in a timely manner with the applicable taxing authorities all returns covering the B&C Processor-Calculated Taxes and ACI-calculated Foreign Intrastate Taxes and will, on behalf of Customer and other subscribers of ACI, pay promptly and in full all of the B&C Processor-Calculated

Taxes and ACI-calculated Foreign Intrastate Taxes collected by the B&C Processors from End Users to the appropriate taxing authorities.

(d) Liability. Customer acknowledges and agrees that ACI will have no liability whatsoever to Customer if. (i) the B&C Processors fail to calculate, or incorrectly calculate, the B&C Processor-Calculated Taxes; (ii) the B&C Processors fail to furnish the information relating to the B&C Processor-Calculated Taxes to ACI; (iii) the B&C Processors fail to bill, or incorrectly bill, the End Users, (iv) the B&C Processors fail to establish the tax exempt status of End Users in the same manner as the B&C Processors calculate taxes or establish the tax exempt status for their End Users; or (v) ACI miscalculates any End User's Taxes whether resulting from the use by ACI of inaccurate or incomplete tax or End User information supplied to ACI by or through Customer, or a third party or otherwise, including, but not limited to, the tax status of an End User or the applicable tax rates. Customer will indemnify and defend ACI and will hold ACI harmless from and against any and all claims, actions, damages, liabilities, costs and expenses, including without limitation reasonable attorneys' fees and expenses, that are asserted against or incurred by ACI as a result of or in connection with any of the matters referred to above.

4. Bulletin Board

(a) Bulletin Board System. In connection with the provision of services by ACI pursuant to this Agreement, ACI shall provide Customer with access to ACI's proprietary Bulletin Board System (the "System") for the purpose of electronically transmitting certain data to ACI and otherwise communicating electronically with ACI, and Customer is required to use such System. ACI will provide Customer with access to the System, and Customer will comply with the terms and conditions relating to such access, as described in Attachment 1 to this Schedule 3.01 and in accordance with the other terms and provisions of this Agreement.

(b) Confidential Information. Customer agrees and acknowledges that, as between Customer and ACI, information available through use of the System, other than Customer Data, constitutes confidential and proprietary information of ACI subject to the restrictions on disclosure thereof set forth in Section 6.03 of this Agreement. In addition to such obligations, Customer agrees to hold any user identification codes and/or passwords provided to Customer for the purpose of utilizing the System in strict confidence and Customer will not disclose such codes and/or passwords to any other Person except employees of Customer who have a need to know such codes and/or passwords. Customer hereby agrees to indemnify and hold harmless ACI, its employees, agents, representatives, directors, and officers from any and all losses, liabilities, costs, and expenses (including, without limitation, reasonable attorneys' fees and expenses) arising from, or relating to, Customer's failure to comply with the provisions of this Section 4(b) of Schedule 3.01.

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ATTACHMENT 1 to SCHEDULE 3.01

of

Billing and Related Services Agreement

BULLETIN BOARD SYSTEM: TERMS AND CONDITIONS

Attachment 1 to Schedule 3.01 Bulletin Board System: Terms and Conditions

1. General. In general, the System will permit Customer to either: (a) electronically transmit data to or from ACI; or (b) electronically transmit E-Mail messages to or from ACI or other designated customers of ACI by dialing into the ACI network from remote stations.

2. Customer Use of System; Data. Customer will be solely responsible for being proficient in the use of the System and following such procedures as may be required by ACI from time to time for use of the System. Customer will be responsible for its data and material while such data and material are in transit to or from ACL ACI may refuse to process, and may return to Customer, any materials or data that in Affs opinion: (a) are not of a quality or condition suitable for processing; (b) do not comply with Affs applicable standards and procedures; or (c) are otherwise not in machine-readable form. Customer will be responsible for correcting rejected data and submitting the same for reentry.

3. Dial-Up Lines; User Identification and Password. ACI will establish and maintain telephone number(s) to be utilized by Customer in connection with use of the System. ACI will also provide to Customer a unique user identification code and password to be used by Customer when accessing the System.

4. Equipment. Customer will be solely responsible for the acquisition and maintenance of any hardware, software, or other materials (collectively, "Equipment") required by Customer for the purpose of utilizing the System. Set forth below is a list of hardware and software recommended by ACI for use with the System:

- - IBM or EBM Compatible 233 MHz Pentium (minimum)
- - 32MB of RAM or higher
- - Hard disk drive with a minimum of 1 GB of spare storage space
- - VGA or Super VGA color monitor
- - Mouse
- - Modem with at least 28.8Kb speed (33.6 recommended)
- - LaserJet Printer or equivalent
- - DOS Version 5.0 or above
- - Microsoft Windows Version 3.1 or above, Windows 95 or Windows NT
- - ProComin Plus (Windows version recommended)
- - Informaker, Version 6.5 (Required for optional custom reports)

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Customer represents and warrants to ACI that any Equipment used by Customer in connection with the System will not impair the System or interfere with the performance thereof. Upon notice from ACI that any Equipment is causing or is likely to cause such interference, Customer will promptly remove or replace such Equipment so that such interference will not occur. ACI reserves the right to require that all Equipment be approved in writing by ACI prior to use with the System.

5. Availability of System. The System may be accessed by Customer during such time periods as ACI may designate from time to time. Customer acknowledges that the System may not be available for access on occasion due to performance of maintenance on the System.

6. Functionality of System. Customer acknowledges that the performance of the System is subject to the functionality of the System from time to time and that, while ACI may in its sole discretion determine to upgrade or enhance the System, ACI is under no obligation to do so.

ATTACHMENT 2 to SCHEDULE 3.01
of
Billing and Related Services Agreement

LICENSED PROGRAM: CONDITIONS AND RESTRICTIONS

Attachment 2 to Schedule 3.01 Licensed Program: Conditions and Restrictions

1. Grant of License to ProAct

(a) Licensed Program. During the Term, ACI hereby grants to Customer and Customer hereby accepts from ACI, a non-exclusive, non-transferable license to use one copy, in object code form, of the management reporting system software known as ProAct and related user documentation (the "Licensed Program"). Customer agrees to comply with the obligations and restrictions relating to the Licensed Program as described herein, and in accordance with the other terms and conditions of this Agreement.

(b) Ownership of Licensed Program. The Licensed Program consists of valuable trade secrets of ACI and is and will remain ACI's exclusive property. Customer agrees to notify ACI promptly of any unauthorized disclosure, possession or use of the Licensed Program. If the Licensed Program, in whole or in part, comes into the possession of any unauthorized third party as a result of a breach by Customer of any provision of this Agreement, Customer will be responsible for retrieving the Licensed Program at Customer's own expense and will reimburse ACI for whatever reasonable expenses ACI incurs if ACI assists Customer in such efforts.

2. Restrictions.

A license to the Licensed Program is granted to Customer only in accordance with the terms and conditions contained in this Agreement and subject to the following restrictions:

(a) Customer will be permitted to copy the Licensed Program for its use in accordance with this Agreement and for backup purposes.

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(b) Customer acknowledges and agrees that the Licensed Program constitutes confidential and proprietary information of ACI, and Customer will maintain the Licensed Program in strictest confidence and will provide access to the Licensed Program solely to its employees requiring such access. Customer will instruct those employees that the Licensed Program, and all components thereof, are proprietary to, and the trade secrets of, ACI and are subject to Section 6.03 of this Agreement.

(c) Customer will not, and will not permit its employees or agents to sell, assign, lease, license, sublicense, or otherwise transfer or provide the Licensed Program, or any component thereof, rights therein, or access thereto, to any other party for any purpose.

(d) Customer will not remove, alter, or deface any copyright notice or proprietary marking contained on or in the Licensed Program or any copy.

(e) Customer will not modify the Licensed Program or combine it or merge it into any other program. All modifications and derivative versions of the Licensed Program, even though unauthorized, will be the exclusive property of ACI.

(f) Customer will not de-compile, disassemble or reverse engineer the Licensed Program or create, recreate or attempt to create or recreate the source code or other aspects of the Licensed Program.

3. Customer's Responsibilities Related to the Licensed Program.

Customer will be solely responsible for the acquisition and maintenance of all hardware, software or other materials required to utilize the Licensed Program. Customer accepts responsibility for: (i) the selection of the Licensed Program; (ii) the installation of the Licensed Program; (iii) the use of the Licensed Program; and (iv) the results obtained from the Licensed Program. ACI does not warrant that the operation of the Licensed Program will be uninterrupted or effort-free. Customer acknowledges and agrees that the Licensed Program is provided by ACI hereunder "as is" and without warranty.

4. Licensed Program Support.

During the Term, ACI will provide the following support in connection with the Licensed Program:

(a) Telephone Support. ACI will provide telephone support to Customer for requesting operational assistance as it relates specifically to installation and operation of the Licensed Program application (excluding any hardware or system environment problems or operation problems related to Customer's business processes) during regular business hours (8:00 a.m. to 5:00 p.m. Pacific Time), Monday through Friday (excluding Afters holidays).

(b) Routine Maintenance. ACI will provide to Customer maintenance support which will consist of the repair or replacement of the Licensed Program so as to correct any replicable defect or error in its functioning which causes the Licensed Program to fail to conform in all material respects to the Licensed Program documentation. Any other modifications to the Licensed Program will be

provided by ACI as an Additional Service pursuant to Section 3.03. As a condition to ACI's maintenance obligation, Customer must notify ACI of the defect or error in sufficient detail to permit the identification, replication and correction thereof.

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From time to time, ACI may, in its sole discretion, make updates, improvements or changes to the Licensed Program which may be made available to Customer in separate releases to the Licensed Programs; provided however, ACI has no obligation to make any such updates, improvements or changes.

SCHEDULE 3.02
of
Billing and Related Services Agreement

BILLING RELATED SERVICES

Schedule 3.02 Billing Related Services

1. Inquiry Services.

(a) During the Term, ACI may determine, in its sole discretion and in lieu of inquiry services provided by one or more B&C Processor, to (a) establish toll-free telephone numbers to be used by End Users for the purpose of making inquiries regarding charges for Billable Messages reflected on bills issued by such B&C Processors and (b) provide operators to assist End Users in connection with such inquiries (collectively, the "Primary Inquiry Services"). Customer acknowledges that ACI's election to provide Primary Inquiry Services will be made on a B&C Processor-by-B&C Processor basis and will include all Billable Messages sent to that B&C Processor by or through Customer and other customers of ACI. To the extent that ACI determines to provide such Primary Inquiry Services, ACI will make available such quantity of toll-free telephone numbers as ACI deems necessary for use by End Users in connection with inquiries regarding charges for services that were rendered by Customer and transmitted by ACI to a B&C Processor and will instruct each B&C Processor to refer all inquiries from End Users to such toll-free telephone numbers.

In connection with any Primary Inquiry Services that ACI may provide, ACI will establish and maintain written guidelines that describe the manner in which ACI will respond to End User inquiries, including without limitation the manner in which credits or other appropriate adjustments are to be made, with such supplements and amendments as may be necessary from time to time. ACI will provide Customer with a copy of such written guidelines and any supplements or amendments thereto upon Customer's request. ACI will be responsible for responding to all End User questions and problems related to Billable Messages and will provide appropriate credits and adjustments, all in accordance with the procedures that it establishes. ACI will promptly notify Customer of all credits and adjustments issued by ACI on behalf of Customer. Customer will designate a service representative who will cooperate with ACI to the fullest extent possible in resolving any questions or problems.

(b) Upon the written request of Customer in connection with any Primary Inquiry Services that ACI provides, ACI, in its sole discretion, may automatically transfer End User inquiries to Customer's call center for handling by Customer, provided Customer complies with the following with respect to the handling of all such End User inquiries:

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G) Customer must maintain a toll-free customer service telephone number to handle all End User inquiries which are automatically transferred to Customer's call center;

(ii) All End User inquiries must be handled only by live operators and not by message machine or other devices, at a service level that meets or exceeds parameters set from time to time by ACI;

(iii) ACI has the right at any time and from time to time to monitor calls to verify that End User inquiries are being handled appropriately by Customer's call center;

(iv) ACI will handle all End User credits or other adjustments and Customer will, within three Business Days of the End User inquiry, provide to ACI all information necessary for ACI to provide such End User credits or adjustments in accordance with its established procedures. All such credit and adjustment information will be provided to ACI in a format approved by ACI. Customer agrees that it will not issue End User credits or adjustments of any type in a manner other than stated above in this Schedule 3.02, Section(b) (iv);

(v) Customer will be responsible for providing to ACI updated subscriber account information (name, address, service type, etc.) in a format approved by ACI, on a regular basis as determined by ACI; but in no event less than monthly; and

(vi) Customer acknowledges that the determination of ACI to transfer End User inquiries to customer will be made on a customer identification number-by-customer identification number basis and will include all inquiries related to any such customer identification number.

Notwithstanding anything above in this section to the contrary, ACI may, in its sole discretion and at any time, discontinue the transferring of End User inquiries to Customer's call center if Customer fails to satisfactorily handle any End User inquiry. The transfer of End User inquiries to Customer does not abridge Affs right to issue End User adjustments or credits in accordance with its established procedures.

2. Complaint Processing Services.

ACI will process regulatory and legislative complaints relating to Customer (the "Complaint Processing Services") as described in this Section 2 of Schedule 3.02. The Complaint Processing Services consist of the following:

(a) Logging and tracking complaints by type for the purpose of identifying and alerting customers regarding existing or potential problems;

(b) Retrieving call details and adjustment histories for carrier identification;

(c) Generating letters to consumers or inquiring federal or state agencies acknowledging receipt of complaints and identifying carriers, with copies to all relevant parties; and

(d) Providing carriers with all of the foregoing information for resolution.

(e) Upon complaint resolution by carriers, generating letters acknowledging responses from carriers to consumers and/or inquiring agencies, commissions or legislative bodies, with copies to all relevant parties.

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SCHEDULE 3.03
of

Billing and Related Services Agreement

ADDITIONAL SERVICES

Schedule 3.03 Additional Services

Service	Charge
LOCATION LOOKUP FEATURE	No Charge
ACCOUNT LOOKUP FEATURE	No Charge
SUB-CARRIER IDENTIFICATION CODE (Sub-CIC) Set	\$3,500 Each
UP CUSTOMER IDENTIFICATION NUMBER	\$ 100 Each Set Up
ON-SITE CUSTOMER TRAINING	Actual travel and actual out-of-pocket expenses.

PROFESSIONAL SERVICES [I Hour Minimum] \$ 1501Ho

SCHEDULE 3.04
of
Billing and Related Services Agreement

SAFEGUARDING AND RETENTION OF CUSTOMER DATA

Schedule 3.04 Safe2uarding and Retention of Customer Data

1. Retention Schedule.

ACI will store any Customer Data that is sent off-site for disaster recovery purposes in a protected vault for up to one year.

2. Off-Site Data Storage.

The off-site storage facility will employ security and environmental protection systems that guard against theft and fire and that control humidity and temperature.

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3. Facility Security.

ACI will perform the Billing Services at locations that employ controlled access systems and alarm systems that guard against theft, fire, heat and water.

4. Contin2ency Plan.

ACI will maintain an up-to-date contingency plan to facilitate continued processing of Billable Messages in the event of a catastrophe or other event of natural force majeure or in the event of single processor failure within an ACI data center or the failure of the entire ACI data center.

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SCHEDULE 4.01

of

Billing and Related Services Agreement

TERM AND COMPENSATION TO ACI

Schedule 4.01 Term and Compensation to ACI

1. Billine Services Charges.

(a) Special Service Message Fee. The Special Service Message (SSM) fee will apply to all billable SSMs. This fee will be calculated based on the average revenue per transaction of all

SSMs processed within a calendar month.

Average End-User Charge Per Message	Per Message Fee
\$00.01 - 10.00	1.5%
\$10.01 - 20.00	1.7%
\$20.01 - 30.00	2.0%
\$30.01 - 40.00	2.4%
\$40.01 - 50.00	2.8%
\$50.01-	Fee to be established by ACI on an individual case basis

Special Service Message Approval Process and Implementation. (First Charge Phrase). \$1,000
 Implementation fee for each charge phrase \$500

By way of example, and for informational purposes only, if the average amount of ',,rocess "and

each charge to the End-User is \$10.00, the charge as calculated in accordance with the above table would be as follows:

SSM Processing Fee/message: \$00.15
 Billing and Collection Fee: IQQM
 Total Billing Services Charge/message: \$00.15

(b) Minimum Message Requirement. Notwithstanding Section 1(a) of this Schedule 4.0 1, Customer will submit to ACI for processing hereunder not less than the amount reflected in the table below for the applicable period of the Term (the "Minimum Requirement"):

YP.Net, Inc.	34		
Period Following Services Commencement Date	Minimum Requirement		
Months I - 36	\$1,000	Per	Month
Each Month Thereafter	\$1,000	Per	Month

(c) Excess Rejected Messages. The service charges reflected above are applicable only to Billable Messages; if, however, more than two percent of the Messages submitted by Customer and its Clients to ACI during any particular month are Rejected Messages, and such Rejected Messages are deemed as such due to errors or omissions of Customer and/or its Clients, Customer will pay to ACI for each such Rejected Message an amount equal to the charge for a Billable Message set forth in Section 1 (a) of this Schedule 4.0 1.

2. Inquiry Services Charges.

Customer will pay ACI \$4.25 (plus any applicable charge of the B&C Processor) for each inquiry handled by ACI in respect of Special Service Messages. Such charges are subject to adjustment from time to time by ACI upon 60 days' prior notice to Customer.

With respect to each End User inquiry that ACI automatically transfers to Customer's call center for handling by Customer pursuant to Section I (b) of Schedule 3.02, Customer will pay ACI a fee of \$50. With respect to each End User Inquiry that ACI manually transfers to Customer's call center for handling by Customer, Customer will pay ACI a fee of \$1.50. With respect to each End User inquiry that ACI refers (by giving the End-User Customer's toll-free telephone number) to Customer's call center for handling by Customer, Customer will pay ACI a fee of \$ 1.00. In addition, Customer will pay ACI a fee of \$0.35 for each credit or adjustment request submitted to ACI by Customer in ACI's prescribed electronic format. A one-time set-up fee of \$200 will be charged upon initiation of service and again anytime a change or addition is requested.

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3. Complaint Processing Charges.

With respect to each legislative or regulatory complaint for which ACI provides Complaint Processing Services, Customer will pay ACI the amount of fifty dollars (\$50.00) plus any out-of-pocket expenses incurred by ACI in connection with providing the Complaint Processing Services. Charges due ACI for Complaint Processing Services are subject to adjustment from time to time by ACI upon sixty (60) days' prior notice to Customer.

4. Calculation of B&C Processor Fees.

Special Service Messages. During the Term of the Agreement, provided that the number of Customer's Billable SSMs per month is equal to or more than 1.5 per LEC per End User telephone bill, each B&C Processor's charges for processing Billable SSMs will be calculated to reflect the Customer's actual number of Billable SSMs per bill per B&C Processor.

By way of example, if the Ameritech number of Billable Messages per bill is 1.4, then the B&C Processor charge will be calculated as follows:

@ 1.4 Billable Messages per bill = \$0.400 Render fee
 1.4 Messages x . 10 Processing Fee = \$0.140 Message Processing Fee
 = \$0.540 Total Fee therefore;
 B&C Processor Fee = \$0.3857 per Message

Data Transmission Fee = \$0.0045 per Message
= \$0.3902 Total Fee per Message

If the actual number of Billable SSMS per bill is less than 1.5, or if the B&C Processor does not provide a discount calculated in the foregoing manner, each B&C Processor's charges passed through to Customer will be equal to the average charge for all similar customers processing 0+ Billable Messages.

Notwithstanding anything in this Section 4 to the contrary, in no event will the B&C Processor's charges passed through to Customer be less than the fee paid by ACI to such B&C Processors.

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SCHEDULE 5.01
of
Billing and Related Services Agreement

CUSTOMER BILLING OBLIGATIONS

Schedule 5.01 Customer Billing Obligations

1. Billing Obligations.

(a) Preliminary Processing and Delivery of Messages. Customer will acquire Message data and will perform all of the preliminary processing of the Messages, which will include ensuring that the charge for each Message has been computed, arranging Message data in the Approved Message Format and providing the applicable batch control totals, including the total number of Messages and the total dollar amount of the charges per submission. After such preliminary processing has been completed, Customer will, at Customer's expense, deliver to ACI the Message data in a form or manner that is determined by ACI Software. Customer acknowledges that ACI will have no obligation to accept for processing any Message data that does not conform to the Approved Message Format.

(b) Singular Billing. With respect to the Message data submitted by Customer, ACI will be the sole, exclusive billing service provider for such Message data, and no Message data submitted will be forwarded to, billed by, or processed by any other billing agent or clearinghouse.

(c) Tariff Information and Rate Tables. Upon request, Customer will provide ACI with copies: (i) of all effective tariffs filed by Customer with Governmental Authorities; and (ii) of its current rate tables, in each case with such supplements and amendments as may be necessary from time to time.

(d) Charges and Assessments. Customer will be responsible for, and will be obligated to pay: (i) any charges or assessments by any B&C Processor as a result of uncollectible charges for Messages billed, including any amounts owed if the amount of uncollectible charges exceeds the amount of the bad debt withholding; (ii) any charges or assessments by any taxing authority or Governmental Authority as a result of the nonpayment of Taxes by Customer; (iii) all costs and expenses related to each item that is to be provided by or through Customer pursuant to this Agreement and for which the financial responsibility has not been expressly assigned to ACI; and (iv) any other charges or assessments owing by ACI for which Customer has agreed to indemnify ACI pursuant to this Agreement.

2. Taxes.

(a) Customer Calculated Taxes. Customer will be solely responsible for calculating, and advising ACI with respect to any Taxes that are not calculated by ACI as described herein ("Customer Calculated Taxes").

(b) Tax Returns. Customer will be solely responsible for preparing and filing in a timely manner with the applicable taxing authorities and Governmental Authorities all returns covering Customer-Calculated Taxes and for promptly paying in full and remitting to such taxing authorities and Governmental Authorities all Customer-Calculated Taxes owed. At the request of ACI from time to time, Customer will provide ACI with copies of any and all tax returns that Customer has prepared and filed and other applicable information relating to the payment of the Customer-Calculated Taxes; provided,

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 Draft Date: 10/1/2001

Initials

however, that Customer will not be required to provide ACI with any information regarding Customer's federal, state or local income taxes. Notwithstanding the foregoing, Customer will not be deemed to be in breach of this Section 2(b) if it is contesting in good faith the imposition of any unpaid Customer Calculated Taxes in appropriate administrative or judicial proceedings.

SCHEDULE 5.07 of Billing and Related Services Agreement

REPRESENTATIONS AND WARRANTIES

Schedule 5.07 Representations and Warranties

Customer represents warrants, covenants and agrees:

1. Customer does not and will not engage in unfair and/or deceptive trade practices.

2. Customer does not and will not make false or misleading representations about its products and/or services.

3. Customer will submit to ACI for billing only those products or services that directly pertain to a properly consenting End User's own telephone line or number. Without limiting the foregoing, Customer will not submit to ACI for billing any services or products relating to each of the following, or combination thereof:

- a) Box, sweepstakes or contest-type entry forms.
- b) Negative option sales offers, including negative option "free trial" periods.
- c) 800 number pay per call.
- d) Collect call back.
- e) Phantom billing - or billing for calls or services never provided.
- f) Club or membership fees (including, but not limited to psychic, sports, prescription and/or travel card clubs).

4. For each new End User after the Effective date, prior to submitting for billing any records in compliance with the above, each order or request for a program, product or service so billed will be authorized by the End User, and confirmed, by one of the following methods, subject to applicable law:

a) independent Third Party Verification provided by an entity completely separate and not affiliated with Customer or any of its owners, officers, or employees; compensation to the independent entity will not be based on the number of positive authorizations or sales.

b) Letter of Authorization or sales order.

c) Voice recording of telephone sales authorization.

5. Any authorization and confirmation noted in Section 4 above will, at a minimum, contain

the following:

- a) The date.
- b) The name, address and telephone number of the End User.
- c) Assurance that the End User is qualified to authorize billing.
- d) A description of the product or service.
- e) A description of the applicable charges.
- f) An explicit End User acknowledgement that the charges for the product or services will appear on their next telephone bill.
- g) The acceptance by the End User of the offer.

6. In addition, authorization verified by an independent third party must include:

a) An initial statement that the purpose of the verifications is to confirm the consumer's intention to accept the sales offer.

b) A statement that the service provider is not affiliated with a LEC, where there is no affiliation.

c) A unique consumer identifier.

d) A review by third party personnel of the entire verification where the verification

is automated.

e) An independent third party verifier must meet the following criteria:

(i) It must be completely independent of the service provider and the telemarketer.

(ii) It must not be owned, managed, controlled or directed by the service provider or the telemarketer.

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(iii) It must not have any financial incentive in the completion of the sale.

(iv) It must operate in a location physically separate from the service provider and the telemarketer.

7. If requested, Customer shall supply to ACI:

a) Names of officers and principals of Customer.

b) Proof of corporate or partnership status of Customer.

c) Copies of certifications as required.

d) Foreign corporation filings as required.

e) Any information regarding whether Customer or its affiliates and/or its officers or principals have been subject to prior conviction for fraud or have had billing services terminated.

f) That any tariffs of Customer be made available on request.

g) The names, addresses, officers and principals of any telemarketing companies to be used by the service provider.

h) The names, addresses, officers and principals of any third party verification companies to be used by the service provider.

8. If requested Customer shall provide to ACI for each of its products, and/or services or programs for which services are billed:

a) Marketing materials.

b) Advertisements (print or other media).

c) Applicable fulfillment package (which must include cancellation information if not included elsewhere and a toll free customer service telephone number).

d) Scripts for both sales and verification.

e) Honest, clear, and understandable text phrase for telephone bill.

f) Prior notification of any material change in the above information.

9. Messages submitted to ACI for billing:

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a) Strictly meet and/or adhere to the requirements of all federal, state, and local laws, rules regulations, ordinances, orders, and/or judgments, including but not limited to those of the Federal Communications Commission, the Federal Trade Commission, and any state Public Service[Utility Commission or attorney general;

b) Strictly meet and adhere to the requirements of any policy of ACI, B&C Processor or Laws;

c) Is the valid, legally enforceable and unconditional obligation of the Person who is indicated by Customer to be obligated on such a Message for products and/or services previously rendered;

d) Is genuine and in all respects what it purports to be, and is not evidenced by a judgment;

e) Arises out of the completed delivery of telecommunications services in the ordinary course of Customer's business and in accordance with the terms and conditions of any contracts or other documents related thereto;

f) Is for a specific amount due and owing so reflected and is not evidenced by a chattel paper, promissory note or other instrument;

g) Is not subject to any offset, deduction, or agreement for offset or deduction, or any defense, dispute, counterclaim, or any other claim, defense or adverse condition, and is absolutely owing to Customer, and is not contingent in any respect or for any reason except for matters for which discounts, credits or allowances are granted by Customer in the ordinary course of business consistent with past practices which have been reflected on the information submitted to ACI for processing;

h) There are no facts, events or occurrences that in any way impair the validity or enforceability thereof, or tend to reduce the amount payable reflected in a Message;

i) Without limiting any other provisions of the Agreement, the End User: (i) had the capacity to enter into at the time any contract or other document relating to such Message; and (ii) such End User is solvent;

j) There is no fact or circumstance which would impair the validity or collectability of, or the charges on, the Message, by Customer and/or its permitted assignee or designee, and there are no proceedings or actions which are threatened or pending against or on behalf of the End User which might result in any material adverse change in the collectability of the charges on a Message;

k) All supporting documents and other evidence of Messages delivered to ACI are complete and correct and valid and enforceable in accordance with their terms, and all signatures and endorsements that appear thereon are genuine;

l) Customer has the full and unqualified right to submit Messages to

ACI for processing;

in) Each message: (i) has not been previously billed or submitted to any Person other than ACI for billing and collection; (ii) is not subject to any Liens or factoring arrangements, except exclusively through ACI; and (iii) does not relate to services performed more than ninety (90) days prior to the date said message was received by ACI for processing; and

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n) Such message does not arise out of services performed for: (i) Customer; (ii) any subsidiary or Affiliate of Customer; (iii) any End User located outside the United States of America; or (iv) any Governmental Authority, domestic or foreign.

10. Customer nor its affiliates, parents, subsidiaries, officers, directors, members, owners, partners, shareholders (excluding non-controlling shareholders for public companies), employees, agents, representatives, joint venturers, successors and permitted assigns have been convicted of fraud, or have had billing services terminated.

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Important Questions To Ask Providers When Purchasing Dial-Up Services

Overview

A 2001 Bandwidth Buyers Survey conducted by Morgan Stanley Dean Witter revealed that quality of service outranks price sensitivity when potential customers consider products and services from network providers.

In this guide, you will find important questions that architects and engineers believe you should ask providers when making buying decisions for dial-up services. The answer to each question also explains why the question should be asked. Then we include a response from Level 3. We hope this guide will become a staple reference for you when researching and evaluating network service providers.

Contents

1. Network Architecture Questions
2. Product Architecture
3. Scalability - Capacity
4. Coverage
5. Installation
6. Pricing
7. Performance
8. Operations

Page 1

GENERAL NETWORK AND INTERNET ARCHITECTURE

Question 1

- On what platform is your network built?
- Is your network constructed through acquisitions or via exchanges with other providers?

Complete network ownership allows providers to have control over potential problems. Unified platforms, constructed with consistent technologies, means technicians have fewer variables when troubleshooting network components. This directly translates into operations efficiency and minimizes the potential for component failure.

LEVEL 3 HAS BUILT AND SOLELY OPERATES OUR ENTIRE GLOBAL NETWORK. OUR OPTRONICS AND OPTICAL FIBER ARE COMPLETELY UBIQUITOUS AND CONSISTENT THROUGHOUT OUR ENTIRE NETWORK. OUR COMPLETED NETWORK DOES NOT HAVE ANY ACQUIRED PORTIONS, AND WE MAINTAIN COMPLETE OPERATIONS AND MANAGEMENT CONTROL THROUGHOUT OUR NETWORK. WE USE CORNING LEAF(R) FIBER THROUGHOUT EUROPE AND NORTH AMERICA FOR THE LONG DISTANCE NETWORK, AND CORNING SMF-28 FIBER FOR THE METRO LOOPS. OF COURSE, THERE IS SPECIALIZED FIBER FOR THE UNDERSEA CABLES FROM ASIA TO THE U.S. AND THE U.S. TO EUROPE. WE ALSO USE SOME SMF-28E AND METROCOR IN SPECIFIC LOCATIONS IN OUR METRO NETWORK.

PRODUCT ARCHITECTURE

Question 1

- Do you use a circuit switch or a Softswitch?
- Is your traffic carried across primary rate interfaces (PRIs) or co-carrier trunks?
- Is the network architecture consistent throughout the global network?

How your platform connects to the Local Exchange Carrier network is important. Most carriers lease PRI circuits from Local Exchange Carriers or operate class 5 switches themselves - and still connect using PRIs. Expensive PRI leases add extra cost to the completion of each call. Extra class 5 switches add additional points of failure and delays in answering calls. Softswitch-based solutions allow connection via SS7 directly to the exchanges from which end-users call. Using co-carrier trunks and a Softswitch reduces call set-up time and improves reliability.

LEVEL 3 OPERATES ONE OF THE LARGEST SOFTSWITCH-BASED NETWORKS IN THE WORLD - SUPPORTING THE TOP NINE (9) ISPS IN NORTH AMERICA, AND WE ARE ONE OF THE LARGEST CLECS (LICENSED IN ALL 50 STATES). SINCE WE OWN OUR OWN CLEC INTERCONNECTION WITH THE LOCAL EXCHANGE CARRIER IN 56 MARKETS, WE CAN ACHIEVE THE LOWEST POSSIBLE PRICE POSITION FOR YOU.

WE CONNECT TO THE LECS USING SS7 CO-CARRIER FACILITIES, WHICH MEANS THERE ARE FEWER SWITCHING POINTS BETWEEN LEVEL 3 AND YOUR CUSTOMERS. YOU GET ALL THE BENEFITS OF A SHARED ENVIRONMENT, INCLUDING IMPROVED COST EFFICIENCIES AND REDUNDANCY, AS WELL AS THE ABILITY TO MANAGE AND CONTROL YOUR VIRTUAL PORTION OF OUR NETWORK. WE CAN EXPAND OUR NETWORK MORE QUICKLY THAN COMPANIES OPERATING WITH CIRCUIT SWITCHES AND ADD MORE CAPACITY IN A COST EFFECTIVE MANNER.

SCALABILITY - CAPACITY

Question 1

- Do you have an automated system that uses statistical models?

Automated systems provide increased scalability while minimizing error-prone manual data inputs and calculations. Statistical analysis provides objective data, which allows you to make business decisions with a range of statistical confidence levels.

Page 2

LEVEL 3 HAS GATHERED DATA AND DEVELOPED STATISTICAL MODELS TO SIMULATE AND FORECAST PORT UTILIZATION BY CUSTOMER AND MARKET. THIS ALLOWS US TO PLAN FOR FUTURE GROWTH AND SEASONAL CHANGES.

Question 2

- Are you able to produce available capacity reports for all customers and markets on a daily basis?
- Do you have an optimization process to minimize under-utilized capacity?

Automated capacity tools are important to optimize resources and to monitor available capacity on a daily basis. Optimization models and processes also allow you to cost effectively allocate resources.

LEVEL 3'S MANAGED MODEM AUTOMATED CAPACITY TOOL (MMACT) ALLOW US TO OPTIMIZE THE NETWORK, BUILD THE NETWORK ACCORDING TO HISTORICAL GROWTH AND INCREMENTAL SALES, AND ASSESS AND COMMUNICATE OPTIMIZATION RISKS TO SALES AND MARKETING ON A DAILY BASIS. THESE STATISTICAL MODELS, COMBINED WITH OUR AUTOMATED CAPACITY TOOL, PROVIDE LEVEL 3 WITH THE ABILITY TO BE PROACTIVE INSTEAD OF REACTIVE TO OUR CUSTOMER NEEDS.

COVERAGE

Question 1

- What is your rate center coverage?
- What tools do you offer to determine if your rate centers meet customer coverage needs?

When reviewing coverage from a provider, be sure to request a list of all the rate centers that provide local coverage. Providers may advertise coverage of a state, but they may only offer coverage of one or two cities in the state. This forces end users to pay toll charges when they don't dial up in those specified areas.

LEVEL 3 TRACKS RATE CENTER COVERAGE AND ROLLS UP THE DATA TO THE APPROPRIATE LEVEL. FOR INSTANCE, LEVEL 3 CURRENTLY SERVES 65 PERCENT OF THE U.S. POPULATION AND IS EXPECTED TO GROW TO COVERAGE OF 80 PERCENT BY THE END OF 2002. ADDITIONALLY, WE SERVE 47 MARKETS THAT COVER 54 MAJOR METROPOLITAN CITIES. BY THE END OF FIRST QUARTER 2002, LEVEL 3 WILL ADD ANOTHER 17 MARKETS TO OUR FOOTPRINT. LEVEL 3 HAS 480 PHONE NUMBERS, WHICH ENABLE 2,730 RATE CENTERS TO CALL THE LEVEL 3 NUMBERS LOCALLY. WE CONFIRM, THROUGH TARIFF RESEARCH, THAT ALL PUBLISHED RATE CENTERS CAN CALL LEVEL 3 USING THE BASIC ("NON-ENHANCED") LOCAL PHONE SERVICE. SINCE ADAPTING THIS METHODOLOGY, WE HAVE NOT HAD A SINGLE INSTANCE OF AN END USER BEING CHARGED FOR LONG DISTANCE/TOLL WHEN USING LEVEL 3 NUMBERS APPROPRIATELY. THROUGH COMPETITIVE ANALYSIS, WE HAVE FOUND THAT OUR COVERAGE IN MAJOR MARKETS IS SUBSTANTIALLY "DEEPER" OR MORE WIDESPREAD THAN COMPETITORS IN THOSE SAME MARKETS. LEVEL 3 IS CONTINUALLY EXTENDING OUR COVERAGE BASED ON CUSTOMER NEEDS, AND WE EVALUATE REQUESTS FOR SPECIFIC RATE CENTERS ON AN ONGOING BASIS. IN ADDITION, LEVEL 3 OFFERS A TOLL-FREE DIAL-UP SERVICE FOR CUSTOMERS WHO HAVE END USERS OUTSIDE THE LEVEL 3 REACH.

Question 2

- Can you give direct access to a rate center or End Office?

You should verify how coverage is constructed. By directly connecting to End Offices, the provider reduces the congestion experienced by end users.

LEVEL 3 COMMUNICATION'S OFFERS DIRECT END OFFICE TRUNKING IF THERE IS MORE THAN A T-1 WORTH OF TRAFFIC (MORE THAN 24 SIMULTANEOUS CALLS), AND WE USE TANDEM TRUNKING IN MANY OF THE SMALLER MARKETS WHERE DEMAND HAS NOT DICTATED TRUNKING TO END OFFICES. LEVEL 3 MONITORS TRUNK USAGE AND AUGMENTS THEM AT THE FIRST SIGNS OF CONGESTION. WE'RE CONTINUALLY EXTENDING OUR COVERAGE TO ADDITIONAL MARKETS BASED ON CUSTOMER NEED.

INSTALLATION

Page 3

Question 1

- What kind of commitment do I have to make?
- How quickly can you provision my services?

Carefully consider whether your provider's minimum requirement for orders is too large. Sometimes large commitment thresholds demand high additional costs and can hinder a customer's ability to enter a new market. Also, being able to quickly add the right amount of capacity, in the right place, will help you manage the costs of your business and ensure that you're not under provisioned.

LEVEL 3 ONLY REQUIRES CUSTOMERS TO PURCHASE A MINIMUM OF 23 PORTS PER GATEWAY SITE. IF YOU CHOOSE HOURLY PRICING, HOWEVER, THERE IS NO COMMITMENT - YOU ONLY PAY FOR WHAT YOU USE. INSTALLATION FOR SERVICES IS FIVE BUSINESS DAYS. THE ONLY REQUIREMENT FROM LEVEL 3 IS THAT YOU MANAGE AND MAINTAIN YOUR OWN RADIUS FOR AUTHENTICATION. LEVEL 3 WILL PROVIDE YOU WITH ALL THE LOCAL PHONE NUMBERS, NETWORK, AND CAPACITY MANAGEMENT.

PRICING

Question 1

- What is your pricing philosophy, and how do you price your services?
- What are your billing and/or pricing options?

Flexible pricing allows you to control costs and show your investors your cost per user. Since many buyers of wholesale dial-up service have more than one provider, they find value in being able to control pricing.

LEVEL 3 OFFERS THREE TYPES OF PRICING: PER-PORT, METERED BILLING, AND NATIONWIDE ACCESS. A PER PORT PRICE IS IDEAL FOR CUSTOMERS WHO HAVE A LARGE, STEADY STREAM OF TRAFFIC AND WANT TO OPTIMIZE THE NUMBER OF USERS ACCESSING A SINGLE PORT. CUSTOMERS WHO HAVE LOW TRAFFIC USAGE IN A PARTICULAR AREA OR TRAFFIC THAT SPIKES AT PARTICULAR TIMES MAY WANT TO CHOOSE METERED BILLING AND PAY FOR USAGE ON AN HOURLY RATE TO REDUCE COSTS. CUSTOMERS WHO HAVE BOTH TYPES OF TRAFFIC MAY CHOOSE PORT PRICING IN SOME LOCATIONS AND METERED PRICING IN OTHERS.

LEVEL 3 OFFERS NATIONWIDE ACCESS PRICING FOR END USERS NOT COVERED BY EXISTING RATE CENTERS. THE PRICE PER MINUTE INCLUDES ALL TOLL CALL CHARGES ASSOCIATED WITH THE 800 NUMBERS AND THE TIME SPENT ON THE MODEM. THIS OPTION IS PERFECT FOR CUSTOMERS WANTING TO PROVIDE A TOLL-FREE NUMBER FOR ACCOUNT REGISTRATION OR ACCESS TO BUSINESS TRAVELERS IN REMOTE AREAS. THE BOTTOM LINE ON OUR PRICING SCHEMES: IT IS THE CUSTOMER'S CHOICE.

PERFORMANCE

Question 1

- What is your call success rate?
- Do you measure end-user success rate? Or only use war dialers?

High-quality performance is critical to retaining your customers and revenue stream. With the large number of ISP choices, end users can demand a reliable, high-quality service. You can't rely on war dialers to measure the quality of your end users' experience.

LEVEL 3 MONITORS BOTH CALL SUCCESS RATE AND END-USER SUCCESS RATE. MANY PROVIDERS ADVERTISE CALL SUCCESS RATES AT 90 PERCENT AND SOME AS HIGH AS 97 PERCENT BASED ON STATIC DIALER MEASUREMENTS. LEVEL 3 MEETS AND EXCEEDS THE INDUSTRY STANDARD, BUT WE BELIEVE THE TRUE MEASUREMENT IS FOUND IN THE END-USER EXPERIENCE, NOT IN THE MEASUREMENTS OF STATIC DIALERS THAT DIAL IN AT PRESCRIBED TIMES. LEVEL 3'S SERVICE LEVEL AGREEMENT GUARANTEES 90 PERCENT CALL SUCCESS RATE - - AND WE CURRENTLY EXCEED IT WITH NUMBERS AS HIGH AS 93 PERCENT.

WE LEAD THE INDUSTRY, AND OUR CUSTOMERS - THE TOP NINE (9) ISPS - AGREE THAT THIS KIND OF QUALITY IS KEY TO RETAINING THEIR CUSTOMERS AND REVENUE.

OPERATIONS AND NETWORK MAINTENANCE QUESTIONS

Question 1

- Are you a single operator of your entire network?
- How do you monitor your network? How many people and what surveillance tools to you have?
- What are your procedures to minimize operations and maintenance errors/outages?

Networks that have been created by acquiring capacity from multiple sources are more susceptible to human error. They're built with a variety of equipment, and multiple management systems increase the complexity of operations. They also require a higher level of training for the staff. Lack of a single point for maintenance planning will increase the frequency of failure. For example, if two independent maintenance events occur on different parts of a ring supplied by two carriers, it is possible that disruptions will affect the customer's traffic. Networks monitored by multiple carriers can delay fault isolation, as there is not a cohesive team or network to monitor and troubleshoot for fault isolation. Coordination of network testing becomes more complicated when multiple network monitoring staffs need to work together for these functions.

LEVEL 3 HAS A UNIFIED AND HIGHLY ADVANCED NETWORK OPERATIONS CENTER (NOC) USING NORTEL'S NEW PRESIDE NMS. THE PRESIDE SYSTEM INTEGRATES NETWORK ELEMENT MANAGERS, ALARM AGGREGATION, AND NETWORK MANAGERS INTO ONE UBIQUITOUS PLATFORM FOR GREATER NETWORK OPERATIONS EFFICIENCY. IN THE U.S., LEVEL 3 HAS A DEDICATED 100MBPS MANAGEMENT COMMUNICATIONS NETWORK RUNNING ON ITS OWN FIBER PAIR. IT PROVIDES A HIGH-CAPACITY COMMUNICATIONS SYSTEM COMPLETELY INDEPENDENT OF THE TRANSMISSION EQUIPMENT. IT SUPPORTS REMOTE VIDEO MONITORING, ACCESS SECURITY, AND ENVIRONMENTAL MONITORING (FOR EXAMPLE, TEMPERATURE AND FIRE ALARMS). IT CAN ALSO PROVIDE CONNECTIVITY SERVICES FOR CUSTOMER EQUIPMENT IN REMOTE SITES. WE ARE THE SINGLE OPERATOR FOR OUR ENTIRE NETWORK FROM METRO POP TO METRO POP. BY HAVING A HOMOGENEOUS NETWORK WITH IDENTICAL FIBER AND A SINGLE MANAGEMENT SYSTEM, WE PROVIDE THE HIGHEST LEVEL OF OPERATIONS EXCELLENCE.

Question 2

- What are your processes and procedures for interacting with your customers from your NOC?
- Escalation procedures? For customers and/or internally? What are your network maintenance procedures and processes?
- How do you introduce new technologies into your network?

How a vendor interacts with their customers is critical in receiving a timely resolution of issues. Vendors who use non-technical customer support personnel can make the resolution of a 1-hour issue turn into a multiple-day nightmare. In addition, vendors without mature change-control processes do not provide their customers with timely notifications of what and when planned network maintenances occur.

LEVEL 3 USES TECHNICAL CUSTOMER ACCOUNT MANAGERS (TCAMS). OUR TCAMS HAVE COMPLETED TECHNICAL CERTIFICATIONS FOR THE PRODUCTS AND SERVICE THAT THEY SUPPORT. THEY CAN FIX PROBLEMS THEMSELVES OR MAKE A CALL AND GET A TECHNICAL SPECIALIST TO FIX THE PROBLEM. TCAMS USE THEIR DISCRETION TO ESCALATE MATTERS TO THE HIGHEST LEVELS OF THE COMPANY TO ENSURE THE CUSTOMER PROBLEM IS FIXED AS QUICKLY AS POSSIBLE. THIS ALLOWS LEVEL 3 TO MAINTAIN MEAN TIME TO REPAIR OF LESS THAN TWO HOURS, AND IT SIGNIFICANTLY INCREASES CUSTOMER SATISFACTION. ALSO, LEVEL 3 HAS A VERY MATURE NETWORK CHANGE CONTROL PROCESS. ALL CHANGES TO THE NETWORK GO THROUGH REVIEW AND APPROVAL PROCESSES THAT ENSURE CUSTOMERS ARE NOTIFIED FIVE DAYS PRIOR TO A MAINTENANCE PERIOD.

BUSINESS OPERATIONS QUESTIONS

Question 1

- Who are your customers?
- Where are you focusing your sales efforts at this time?

A list of current customers and future sales targets are indicators of whether providers can support your business as it grows. Also, the last thing you want is a provider who is a potential competitor.

LEVEL 3 SUPPORTS THE TOP NINE (9) ISPS IN THE UNITED STATES AND CONCENTRATES ON PROVIDING THE INFRASTRUCTURE AND MANAGEMENT OF THE DIAL-UP BUSINESS SO OUR CUSTOMERS CAN DO WHAT THEY DO BEST - MARKET TO THEIR END USERS.

LEVEL 3 IS FOCUSED ON BEING A WHOLESALE PROVIDER. OUR SALES EFFORTS FOCUS ON A SPECIFIC NUMBER OF CARRIERS, CONTENT PROVIDERS, AND TOP ISPS.

Question 2

- Can you describe your entire suite of services and the solutions that you provide?

As your business continues to grow, you may be required to provide your customers with additional services. By partnering with a network provider that can provide you with the platform to develop your current service offerings, you are preparing for your business future, today. It is important to work with a provider that has the network and the products to support your services and enable you to create new revenue streams.

LEVEL 3 PROVIDES A COMPREHENSIVE GROUP OF COMMUNICATIONS SERVICES DESIGNED TO PROVIDE THE PLATFORM FOR ADVANCED COMMUNICATIONS SERVICES. IN ADDITION TO OUR (3)CONNECT MODEM SERVICE, LEVEL 3 ALSO PROVIDES VOICE SERVICES, DEDICATED IP PRODUCTS, AND A SUITE OF TRANSPORT PRODUCTS INCLUDING: DARK FIBER, PRIVATE LINE AND UNPROTECTED PRIVATE LINE, WAVELENGTHS, AND COLOCATION FACILITIES. YOUR LEVEL 3 ACCOUNT TEAM MEMBERS WILL PROVIDE YOU WITH DETAILED DESCRIPTIONS OF OUR ENTIRE PRODUCT SUITE.

Question 3

- Are you in a strong financial position?

Choosing a provider that doesn't have a sound financial position puts your bottom line at risk. In today's market your customers' end users are asking tough questions about the financial viability of their backbone technology providers.

BASED ON ITS CURRENT BUSINESS PLAN, LEVEL 3 IS A FULLY FUNDED COMPANY. AS OF THE END OF 3RD QUARTER AND PRO FORMA FOR ITS RECENTLY COMPLETED DEBT BUYBACK, THE COMPANY HAD APPROXIMATELY \$2.5 BILLION OF AVAILABLE LIQUIDITY, CONSISTING OF \$1.9 BILLION IN CASH AND A \$650 MILLION UNDRAWN CREDIT FACILITY. ADDITIONALLY, LEVEL 3 HAS SIGNIFICANT INVESTMENTS IN SEVERAL NON-CORE ASSETS (INCLUDING EQUITY POSITIONS IN RCN CORPORATION AND COMMONWEALTH TELEPHONE AND VARIOUS REAL ESTATE ASSETS) THAT PROVIDE INCREMENTAL CUSHION TO THE EXISTING FUNDING POSITION. WE ARE PRODUCING STEADY GROWTH IN BOTH OUR CASH AND GAAP REVENUE STREAM. BEING IN THIS POSITION IS A TESTAMENT TO THE LEADERSHIP OF LEVEL 3.

Question 4

- What is the history of your company and its Senior Executives?

You can learn a lot about the management style of a company through its history. Where did top management in this company come from, and how well did they perform historically? Look for business models that have worked in the past, as well as a vision that can guide the company into its future without a dramatic change of focus. An important point to consider is whether a company's senior management is interested in - and has a history of - providing advances in

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technology for the betterment of the telecommunications marketplace. What is the company's mission statement? This is usually a good measure of their experience and longevity.

LEVEL 3'S HISTORY AND EXECUTIVE LEADERSHIP EXPERIENCE IS BASED ON PROVIDING ADVANCED TELECOMMUNICATIONS NETWORK SOLUTIONS TO ENABLE THE CONTINUED ADVANCEMENT OF TELECOMMUNICATIONS APPLICATIONS. OUR SENIOR MANAGEMENT FOUNDED METROPOLITAN FIBER SERVICES (MFS). WITH THE ADVENT OF THE INTERNET ECONOMY, THEY HAVE A VISION OF PROVIDING AND LEVERAGING THE WORLD'S MOST ADVANCED TELECOMMUNICATIONS INFRASTRUCTURE AND ITS COST EFFICIENCIES FOR THE PROVIDERS OF ADVANCED TELECOMMUNICATIONS SERVICES.

THE LEVEL 3 VISION IS TO "PROVIDE EXTRAORDINARY VALUE TO OUR INVESTORS, OUR EMPLOYEE OWNERS, OUR CUSTOMERS AND OUR BUSINESS PARTNERS BY HELPING PEOPLE COMMUNICATE AT A DISTANCE WITH THE FULL POWER AND RICHNESS OF HUMAN SENSES."

OUR MISSION IS TO "BUILD A TEAM OF PEOPLE, DEVELOP A SET OF PROCESSES, AND CREATE A COMMUNICATIONS NETWORK THAT ENABLES US TO CONTINUOUSLY LOWER THE COST OF BANDWIDTH-BASED SERVICES AT THE OPTIMUM RATE."

CONCLUSION

Level 3 encourages you to use the information in this review as criteria for evaluating potential network service providers. In performing an objective and detailed comparison, we are convinced that our people, advanced services, systems, and Network will be best-positioned to provide you with the mission-critical products and services you require to support your business.

Please use the checklist on the following page to compare your prospective suppliers to Level 3. This checklist is designed as an evaluative aid to use with the questions provided in this document.

<TABLE>

<CAPTION>

QUESTIONNAIRE CHECK LIST

NETWORK & ARCHITECTURE QUESTIONS	LEVEL 3 RESPONSE	OTHER PROVIDER

<S>	<C>	<C>
Is your network constructed through acquisitions or via exchanges with other providers?	NO	
Do you use a circuit switch or a Softswitch?	SOFTSWITCH	
Is your traffic carried across PRIs or Co-Carrier trunks?	CO-CARRIER	
SCALABILITY		
Do you have an automated system that utilizes statistical models?	YES	
Are you able to produce available capacity for all customers and markets on a daily basis?	YES	
Do you have an optimization process to minimize under-utilized capacity? Coverage	YES	
Can you provide direct access to a rate center or End Office?	YES	
Do you offer toll free services?	YES	
INSTALLATION		
How quickly can you provision your services? Pricing	5 DAYS OR LESS	
	Page 7	
What are your billing and/or pricing options?	PER PORT OR METERED BILLING	
PERFORMANCE		
Do you measure call success rate or the end user call success rate?	BOTH	
BUSINESS QUESTIONS		
Are you focusing your sales efforts on the same market segments as your customers?	NO	
Are you in a strong financial position?	YES	
Does your executive leadership have a proven record of success?	YES	

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