

YP CORP
Form 10-K
December 29, 2006

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

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

(Mark one)

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

For the fiscal year ended September 30, 2006

TRANSITION REPORT UNDER SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Transition period from _____ to _____

Commission File Number: 0-24217

YP CORP.

(Exact Name of Registrant as Specified in Its Charter)

Nevada

(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)

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

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

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

Common Stock, \$.001 Par Value

(Title of Class)

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

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K

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

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

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

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

DOCUMENTS INCORPORATED BY REFERENCE

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

YP CORP.

FORM 10-K

For the year ended September 30, 2006

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PART I

Forward-Looking Statements

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

Forward-looking statements involve risks, uncertainties and other factors, which may cause our actual results, performance or achievements to be materially different from those expressed or implied by such forward-looking statements. Factors and risks that could affect our results and achievements and cause them to materially differ from those contained in the forward-looking statements include those identified in *Item 1A. Risk Factors*, as well as other factors that we are currently unable to identify or quantify, but may exist in the future.

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

ITEM 1. Business

Our Company

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

Summary Business Description

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

We generate revenues from advertisers that desire increased exposure for their businesses. As described below, advertisers pay us monthly fees in the same manner that advertisers pay additional fees to traditional print Yellow Pages providers for enhanced advertisement font, location or display. The users of our website are prospective customers for our advertisers, as well as the other businesses for which we publish basic listings. We also have arrangements with third parties to distribute our advertisers’ information to other search engines, thereby enhancing our advertisers’ presence on the Internet.

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

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

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

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

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

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

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

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

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

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

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

Products and Services

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

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

Larger font.

Bolded business name.

A "tagline" whereby the advertiser can differentiate itself from its competitors.

An audio advertisement.

Map directions.

· A Click2Call™ feature, whereby a user of our website can place a telephone call to one of our advertising customers by clicking the icon that is displayed on the Mini-WebPage. This initiates a telephone call by the advertiser to the user, in a conference call type format. Once both are connected, it functions as a regular telephone call. Because we cover all charges for this telephone call, it is free of charge to both the user and the IAP advertiser. We have an

agreement with WebDialogs, Inc. to provide this service.

A link to the advertiser's own webpage and email address.

· Additional distribution network for preferred listings. This feature gives additional exposure to our IAP advertisers by placing their preferred listing on several online directory systems. There currently is no charge to the IAP advertiser for these additional channels of distribution.

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

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

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

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

Billing

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

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

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

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

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

unbillable accounts, typically within 90 days of submission.

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

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

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

Pricing

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

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

Marketing

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Technology and Infrastructure

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

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

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

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

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

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

syndication, and the proprietary algorithms to perform listing data match-up and merging into a uniquely accurate record.

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

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

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

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

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

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

Mailing List Generation. The technology for generating a mailing list is comprised of a proprietary application and three primary databases for generating a mailing list of leads. On a monthly basis our information providers send us leads in an electronic format for integration into a database. After data has been refreshed in each provider database, our proprietary application performs a comparison-and-merge process between data sets. The proprietary algorithm within our application improves the quality of the record by verifying the accuracy of the information for every business listing sent to us. We compare information from each information provider to determine matching records,

unique records, and the method employed to verify the information for each business listed in order to gauge the accuracy for each respective information provider. A unique record is one that exists only in a single provider's data set. The number of unique records varies from month to month and is one of the reasons we purchase from multiple sources. Following the merge process, our proprietary mailing application employs a sophisticated filtering process to determine address accuracy and facilitate the delivery of the solicitation mailer. Ultimately, the application generates an electronic file containing a list of leads with the name, address of the lead and type of business of each lead. We then send the list to our service provider for printing and mass mailing.

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The Internet Yellow Pages Market

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

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

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

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

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

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

Strategic Alliances

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

- We have cross-marketing arrangements with reciprocal linking of websites without any compensation to either party. These arrangements increase the page views for our advertisers' listings by being listed on the linked websites. During 2006, the number of websites providing such links to YP.com fluctuated between 300 and 400 websites. These co-promotional arrangements typically are terminable on a monthly basis.
- We have a distribution agreement with Interchange to increase the page views for our advertisers' listings by displaying our advertisers' information in the search results of their affiliate sites.
- We have a license agreement with Palm, Inc. whereby we pay a fee to be a provider of Yellow Pages content on hand-held devices using the Palm operating system. We provide this content to Palm through a hypertext link from the Palm operating system to our website.

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- We have an agreement with Yahoo! Search Services to provide visibility to our website so that we can provide traffic to our advertisers. In exchange for monthly fees, Yahoo! Search Services tries to ensure that our website will be one of the highest placed sites when Yellow Pages searches are done on major search engines, such as MSN® and Yahoo®.
- We utilize WebDialogs in a co-promotional effort to provide automatic dialing services to our website users. These services allow these users to place a call to one of our IAP advertisers by simply clicking a button. This function powers our Click2Call feature.

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

Customer Service

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

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

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

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

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

Administration. The purpose of our administration department is to provide our customers with timely feedback when requested through the mail, e-mail or by facsimile. In addition to the CSRs answering incoming calls, we have

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

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Competition

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

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

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

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

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

Employees

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

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ITEM 1A. Risk Factors

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

Risks Related to Our Business

We face intense competition, including from companies with greater resources, which could adversely affect our growth and could lead to decreased revenues.

Several companies, including Google, Microsoft, Verizon, and Yahoo, currently market Internet Yellow Pages or local search services that directly compete with our services and products. We may not compete effectively with existing and potential competitors for several reasons, including the following:

- some competitors have longer operating histories and greater financial and other resources than we have and are in better financial condition than we are;
- some competitors have better name recognition, as well as larger, more established, and more extensive marketing, customer service, and customer support capabilities than we have;
- some competitors may supply a broader range of services, enabling them to serve more or all of their customers' needs. This could limit our sales and strengthen our competitors' existing relationships with their customers, including our current and potential IAP advertisers;
- some competitors may be able to better adapt to changing market conditions and customer demand; and
- barriers to entry are not significant. As a result, other companies that are not currently involved in the Internet-based Yellow Pages advertising business may enter the market or develop technology that reduces the need for our services.

Increased competitive pressure could lead to reduced market share, as well as lower prices and reduced margins for our services. If we experience reductions in our revenue for any reason, our margins may continue to decline, which would adversely affect our results of operations. We cannot assure you that we will be able to compete successfully in the future.

Our success depends upon our ability to establish and maintain relationships with our advertisers.

Our ability to generate revenue depends upon our ability to maintain relationships with our existing advertisers, to attract new advertisers to sign up for revenue-generating services, and to generate traffic to our advertisers' websites. We primarily use direct marketing efforts to attract new advertisers. These direct marketing efforts may not produce satisfactory results in the future. We attempt to maintain relationships with our advertisers through customer service and delivery of traffic to their businesses. An inability to either attract additional advertisers to use our service or to maintain relationships with our advertisers could have a material adverse effect on our business, prospects, financial condition, and results of operations.

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If we do not introduce new or enhanced offerings to our advertisers and users, we may be unable to attract and retain those advertisers and users, which would significantly impede our ability to generate revenue.

We will need to introduce new or enhanced products and services in order to attract and retain advertisers and users and to remain competitive. Our industry has been characterized by rapid technological change, changes in advertiser and user requirements and preferences, and frequent new product and service introductions embodying new technologies. These changes could render our technology, systems, and website obsolete. We may experience difficulties that could delay or prevent us from introducing new products and services. If we do not periodically enhance our existing products and services, develop new technologies that address our advertisers' and users' needs and preferences, or respond to emerging technological advances and industry standards and practices on a timely and cost-effective basis, our products and services may not be attractive to advertisers and users, which would significantly impede our revenue growth. In addition, our reputation and our brand could be damaged if any new product or service introduction is not favorably received.

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

Our operating results have historically fluctuated significantly and we have experienced recent declines in net revenues and operating profits. We could continue to experience fluctuations or continued declining operating results due to factors that may or may not be within our control. Such factors include the following:

- fluctuating demand for our services, which may depend on a number of factors including
 - o changes in economic conditions and our IAP advertisers' profitability,
 - o varying IAP advertiser response rates to our direct marketing efforts,
 - o our ability to complete direct mailing solicitations on a timely basis each month,
 - o changes in our direct marketing efforts,
 - o IAP advertiser refunds or cancellations, and
- our ability to continue to bill through LEC billing, ACH billing or credit card channels rather than through direct invoicing;
- market acceptance of new or enhanced versions of our services or products;
- price competition or pricing changes by us or our competitors;
- new product offerings or other actions by our competitors;
- the ability of our check processing service providers to continue to process and provide billing information regarding our solicitation checks;
- the amount and timing of expenditures for expansion of our operations, including the hiring of new employees, capital expenditures, and related costs;
- technical difficulties or failures affecting our systems or the Internet in general;

a decline in Internet traffic at our website;

the cost of acquiring, and the availability of, information for our database of potential advertisers; and

the fixed nature of a significant amount of our operating expenses.

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

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

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

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

Due to competition in the telephony industry, many business customers are finding alternative telephony suppliers, such as Competitive Local Exchange Carriers, or CLECs, that offer less expensive alternatives to the LECs. When the LECs effectuate a price increase, many business customers look for an alternative telephone company, which may be a CLEC. When our advertising customers switch service providers from the LECs to a CLEC, we are precluded from billing these customers on their monthly telephone bill and must instead convert them to alternative billing methods such as ACH billing or direct invoicing. This conversion process can be disruptive to our operations and result in lost revenue. We cannot provide any assurances that our efforts will be successful. We may experience future increases in dilution of our customer base that we are able to bill on their monthly telephone bills, which, in turn, may result in decreases in our revenue.

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

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

We depend upon our executive officers and key personnel.

Our performance depends substantially on the performance of our executive officers and other key personnel. The success of our business in the future will depend on our ability to attract, train, retain, and motivate high quality personnel, especially highly qualified technical and managerial personnel. The loss of services of any executive officers or key personnel could have a material adverse effect on our business, results of operations or financial condition. We do not maintain key person life insurance on the lives of any of our executive officers or key personnel.

Competition for talented personnel is intense, and there is no assurance that we will be able to continue to attract, train, retain or motivate other highly qualified technical and managerial personnel in the future. In addition, market conditions may require us to pay higher compensation to qualified management and technical personnel than we currently anticipate. Any inability to attract and retain qualified management and technical personnel in the future could have a material adverse effect on our business, prospects, financial condition, and results of operations.

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

We currently use third party service providers to provide us with advertiser information at the point of sign-up for our Internet Advertising Package. Our ability to gather information to bill our advertisers at the point of sign-up could be adversely affected if one or more of these providers experiences a disruption in its operations or ceases to do business with us.

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

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We depend upon third parties to provide certain services and software, and our business may suffer if the relationships upon which we depend fail to produce the expected benefits or are terminated.

We depend upon third-party software to operate certain of our services. The failure of this software to perform as expected would have a material adverse effect on our business. Additionally, although we believe that several alternative sources for this software are available, any failure to obtain and maintain the rights to use such software would have a material adverse effect on our business, prospects, financial condition, and results of operations. We also depend upon third parties to provide services that allow us to connect to the Internet with sufficient capacity and bandwidth so that our business can function properly and our websites can handle current and anticipated traffic. Any restrictions or interruption in our connection to the Internet would have a material adverse effect on our business, prospects, financial condition, and results of operations.

The market for our services is uncertain.

The demand and market acceptance for our services may be subject to a high level of uncertainty. Advertisers and users may not adopt or continue to use Internet-base Yellow Pages services and other online services that we may offer in the future. Advertisers may find Internet Yellow Pages advertising to be less effective for meeting their business needs than traditional methods of Yellow Pages or other advertising and marketing. Our business, prospects, financial condition or results of operations will be materially and adversely affected if potential advertisers do not adopt Internet Yellow Pages as an important component of their advertising expenditures.

We may not be able to secure additional capital to expand our operations.

Although we currently have no material long-term needs for capital expenditures, we will likely be required to make increased capital expenditures to fund our anticipated growth of operations, infrastructure, and personnel. We currently anticipate that our cash on hand as of September 30, 2006, together with cash flows from operations, will be sufficient to meet our anticipated liquidity needs for working capital and capital expenditures over the next 12 months. In the future, however, we may seek additional capital through the issuance of debt or equity depending upon our results of operations, market conditions or unforeseen needs or opportunities. Our future liquidity and capital requirements will depend on numerous factors, including the following:

the pace of expansion of our operations;

our need to respond to competitive pressures; and

future acquisitions of complementary products, technologies or businesses.

Our forecast of the period of time through which our financial resources will be adequate to support our operations is a forward-looking statement that involves risks and uncertainties and actual results could vary materially as a result of the factors described above. As we require additional capital resources, we may seek to sell additional equity or debt securities or draw on our existing bank line of credit. Debt financing must be repaid at maturity, regardless of whether or not we have sufficient cash resources available at that time to repay the debt. The sale of additional equity or convertible debt securities could result in additional dilution to existing stockholders. We cannot provide assurance that any financing arrangements will be available in amounts or on terms acceptable to us, if at all.

Our business is subject to a strict regulatory environment.

Existing laws and regulations and any future regulation may have a material adverse effect on our business. For example, we believe that our direct marketing programs meet existing requirements of the United States Federal Trade

Commission. Any changes to FTC requirements or changes in our direct or other marketing practices, however, could result in our marketing practices failing to comply with FTC regulations.

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

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

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

We may be unable to promote and maintain our brands.

We believe that establishing and maintaining the brand identities of our Internet Yellow Pages services is a critical aspect of attracting and expanding a base of advertisers and users. Promotion and enhancement of our brands will depend largely on our success in continuing to provide high quality service. If advertisers and users do not perceive our existing services to be of high quality, or if we introduce new services or enter into new business ventures that are not favorably received by advertisers and users, we will risk diluting our brand identities and decreasing their attractiveness to existing and potential IAP advertisers.

We may not be able to adequately protect our intellectual property rights.

Our success depends both on our internally developed technology and our third party technology. We rely on a variety of trademarks, service marks, and designs to promote our brand names and identity. We also rely on a combination of contractual provisions, confidentiality procedures, and trademark, copyright, trade secrecy, unfair competition, and other intellectual property laws to protect the proprietary aspects of our products and services. Legal standards relating to the validity, enforceability, and scope of the protection of certain intellectual property rights in Internet-related industries are uncertain and still evolving. The steps we take to protect our intellectual property rights may not be adequate to protect our intellectual property and may not prevent our competitors from gaining access to our intellectual property and proprietary information. In addition, we cannot provide assurance that courts will always uphold our intellectual property rights or enforce the contractual arrangements that we have entered into to protect our proprietary technology.

Third parties may infringe or misappropriate our copyrights, trademarks, service marks, trade dress, and other proprietary rights. Any such infringement or misappropriation could have a material adverse effect on our business, prospects, financial condition, and results of operations. In addition, the relationship between regulations governing domain names and laws protecting trademarks and similar proprietary rights is unclear. We may be unable to prevent third parties from acquiring domain names that are similar to, infringe upon or otherwise decrease the value of our

trademarks and other proprietary rights, which may result in the dilution of the brand identity of our services.

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We may decide to initiate litigation in order to enforce our intellectual property rights, to protect our trade secrets, or to determine the validity and scope of our proprietary rights. Any such litigation could result in substantial expense, may reduce our profits, and may not adequately protect our intellectual property rights. In addition, we may be exposed to future litigation by third parties based on claims that our products or services infringe their intellectual property rights. Any such claim or litigation against us, whether or not successful, could result in substantial costs and harm our reputation. In addition, such claims or litigation could force us to do one or more of the following:

- cease selling or using any of our products that incorporate the challenged intellectual property, which would adversely affect our revenue;
- obtain a license from the holder of the intellectual property right alleged to have been infringed, which license may not be available on reasonable terms, if at all; and
- redesign or, in the case of trademark claims, rename our products or services to avoid infringing the intellectual property rights of third parties, which may not be possible and in any event could be costly and time-consuming.

Even if we were to prevail, such claims or litigation could be time-consuming and expensive to prosecute or defend, and could result in the diversion of our management's time and attention. These expenses and diversion of managerial resources could have a material adverse effect on our business, prospects, financial condition, and results of operations.

Capacity constraints may require us to expand our infrastructure and IAP advertiser support capabilities.

Our ability to provide high-quality Internet Yellow Pages services largely depends upon the efficient and uninterrupted operation of our computer and communications systems. We may be required to expand our technology, infrastructure, and IAP advertiser support capabilities in order to accommodate any significant increases in the numbers of advertisers and users of our websites. We may not be able to project accurately the rate or timing of increases, if any, in the use of our services or expand and upgrade our systems and infrastructure to accommodate these increases in a timely manner. If we do not expand and upgrade our infrastructure in a timely manner, we could experience temporary capacity constraints that may cause unanticipated system disruptions, slower response times, and lower levels of IAP advertiser service. Our inability to upgrade and expand our infrastructure and IAP advertiser support capabilities as required could impair the reputation of our brand and our services, reduce the volume of users able to access our website, and diminish the attractiveness of our service offerings to our advertisers.

Any expansion of our infrastructure may require us to make significant upfront expenditures for servers, routers, computer equipment, and additional Internet and intranet equipment, as well as to increase bandwidth for Internet connectivity. Any such expansion or enhancement will need to be completed and integrated without system disruptions. An inability to expand our infrastructure or IAP advertiser service capabilities either internally or through third parties, if and when necessary, would materially and adversely affect our business, prospects, financial condition, and results of operations.

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

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, beginning with our Annual Report on Form 10-K for the fiscal year ending September 30, 2008, we will be required to furnish a report by our management on our internal control over financial reporting. The internal control report must contain (i) a statement of management's responsibility for establishing and maintaining adequate internal control over financial reporting, (ii) a statement identifying the framework used by management to conduct the required evaluation of the effectiveness of our internal

control over financial reporting, (iii) management's assessment of the effectiveness of our internal control over financial reporting as of the end of our most recent fiscal year, including a statement as to whether or not internal control over financial reporting is effective, and (iv) a statement that the Company's independent auditors have issued an attestation report on management's assessment of internal control over financial reporting.

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In order to achieve compliance with Section 404 of the Act within the prescribed period, we will need to engage in a process to document and evaluate our internal control over financial reporting, which will be both costly and challenging. In this regard, management will need to dedicate internal resources, engage outside consultants and adopt a detailed work plan to (i) assess and document the adequacy of internal control over financial reporting, (ii) take steps to improve control processes where appropriate, (iii) validate through testing that controls are functioning as documented, and (iv) implement a continuous reporting and improvement process for internal control over financial reporting. We can provide no assurance as to our, or our independent auditors', conclusions at September 30, 2008 with respect to the effectiveness of our internal control over financial reporting under Section 404 of the Act. There is a risk that neither we nor our independent auditors will be able to conclude at September 30, 2008 that our internal controls over financial reporting are effective as required by Section 404 of the Act.

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

Risks Related to the Internet

We may not be able to adapt as the Internet, Internet Yellow Pages services, and IAP advertiser demands continue to evolve.

Our failure to respond in a timely manner to changing market conditions or client requirements could have a material adverse effect on our business, prospects, financial condition, and results of operations. The Internet, e-commerce, and the Internet Yellow Pages industry are characterized by:

· rapid technological change;

· changes in advertiser and user requirements and preferences;

· frequent new product and service introductions embodying new technologies; and

· the emergence of new industry standards and practices that could render our existing service offerings, technology, and hardware and software infrastructure obsolete.

In order to compete successfully in the future, we must

· enhance our existing services and develop new services and technology that address the increasingly sophisticated and varied needs of our prospective or current IAP advertisers;

· license, develop or acquire technologies useful in our business on a timely basis; and

· respond to technological advances and emerging industry standards and practices on a cost-effective and timely basis.

Our future success may depend on continued growth in the use of the Internet.

Because Internet Yellow Pages is a relatively new and rapidly evolving industry, the ultimate demand and market acceptance for our services will be subject to a high level of uncertainty. Significant issues concerning the commercial use of the Internet and online service technologies, including security, reliability, cost, ease of use, and quality of service, remain unresolved and may inhibit the growth of Internet business solutions that use these technologies. In addition, the Internet or other online services could lose their viability due to delays in the development or adoption of new standards and protocols required to handle increased levels of Internet activity, or due to increased governmental regulation. Our business, prospects, financial condition, and results of operations would be materially and adversely affected if the use of Internet Yellow Pages and other online services does not continue to grow or grows more slowly than we expect.

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We may be required to keep pace with rapid technological change in the Internet industry.

In order to remain competitive, we will be required continually to enhance and improve the functionality and features of our existing services, which could require us to invest significant capital. If our competitors introduce new products and services embodying new technologies, or if new industry standards and practices emerge, our existing services, technologies, and systems may become obsolete. We may not have the funds or technical know-how to upgrade our services, technology, and systems. If we face material delays in introducing new services, products, and enhancements, our advertisers and users may forego the use of our services and select those of our competitors, in which event our business, prospects, financial condition, and results of operations could be materially and adversely affected.

Regulation of the Internet may adversely affect our business.

Due to the increasing popularity and use of the Internet and online services such as online Yellow Pages, federal, state, local, and foreign governments may adopt laws and regulations, or amend existing laws and regulations, with respect to the Internet and other online services. These laws and regulations may affect issues such as user privacy, pricing, content, taxation, copyrights, distribution, and quality of products and services. The laws governing the Internet remain largely unsettled, even in areas where legislation has been enacted. It may take years to determine whether and how existing laws, such as those governing intellectual property, privacy, libel, and taxation, apply to the Internet and Internet advertising and directory services. In addition, the growth and development of the market for electronic commerce may prompt calls for more stringent consumer protection laws, both in the United States and abroad, that may impose additional burdens on companies conducting business over the Internet. Any new legislation could hinder the growth in use of the Internet generally or in our industry and could impose additional burdens on companies conducting business online, which could, in turn, decrease the demand for our services, increase our cost of doing business, or otherwise have a material adverse effect on our business, prospects, financial condition, and results of operations.

We may not be able to obtain Internet domain names that we would like to have.

We believe that our existing Internet domain names are an extremely important part of our business. We may desire, or it may be necessary in the future, to use these or other domain names in the United States and abroad. Various Internet regulatory bodies regulate the acquisition and maintenance of domain names in the United States and other countries. These regulations are subject to change. Governing bodies may establish additional top-level domains, appoint additional domain name registrars or modify the requirements for holding domain names. As a result, we may be unable to acquire or maintain relevant domain names in all countries in which we plan to conduct business in the future.

The extent to which laws protecting trademarks and similar proprietary rights will be extended to protect domain names currently is not clear. We therefore may be unable to prevent competitors from acquiring domain names that are similar to, infringe upon or otherwise decrease the value of our domain names, trademarks, trade names, and other proprietary rights. We cannot provide assurance that potential users and advertisers will not confuse our domain names, trademarks, and trade names with other similar names and marks. If that confusion occurs, we may lose business to a competitor and some advertisers and users may have negative experiences with other companies that those advertisers and users erroneously associate with us. The inability to acquire and maintain domain names that we desire to use in our business, and the use of confusingly similar domain names by our competitors, could have a material adverse affect on our business, prospects, financial conditions, and results of operations in the future.

Our business could be negatively impacted if the security of the Internet becomes compromised.

To the extent that our activities involve the storage and transmission of proprietary information about our advertisers or users, security breaches could damage our reputation and expose us to a risk of loss or litigation and possible liability. We may be required to expend significant capital and other resources to protect against security breaches or to minimize problems caused by security breaches. Our security measures may not prevent security breaches. Our failure to prevent these security breaches or a misappropriation of proprietary information may have a material adverse effect on our business, prospects, financial condition, and results of operations.

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Our technical systems could be vulnerable to online security risks, service interruptions or damage to our systems.

Our systems and operations may be vulnerable to damage or interruption from fire, floods, power loss, telecommunications failures, break-ins, sabotage, computer viruses, penetration of our network by unauthorized computer users or “hackers,” natural disaster, and similar events. Preventing, alleviating, or eliminating computer viruses and other service-related or security problems may require interruptions, delays or cessation of service. We may need to expend significant resources protecting against the threat of security breaches or alleviating potential or actual service interruptions. The occurrence of such unanticipated problems or security breaches could cause material interruptions or delays in our business, loss of data, or misappropriation of proprietary or IAP advertiser-related information or could render us unable to provide services to our IAP advertisers for an indeterminate length of time. The occurrence of any or all of these events could materially and adversely affect our business, prospects, financial condition, and results of operations.

If we are sued for content distributed through, or linked to by, our website or those of our advertisers, we may be required to spend substantial resources to defend ourselves and could be required to pay monetary damages.

We aggregate and distribute third-party data and other content over the Internet. In addition, third-party websites are accessible through our website or those of our advertisers. As a result, we could be subject to legal claims for defamation, negligence, intellectual property infringement, and product or service liability. Other claims may be based on errors or false or misleading information provided on or through our website or websites of our directory licensees. Other claims may be based on links to sexually explicit websites and sexually explicit advertisements. We may need to expend substantial resources to investigate and defend these claims, regardless of whether we successfully defend against them. While we carry general business insurance, the amount of coverage we maintain may not be adequate. In addition, implementing measures to reduce our exposure to this liability may require us to spend substantial resources and limit the attractiveness of our content to users.

Risks Related to Our Securities

Stock prices of technology companies have declined precipitously at times in the past and the trading price of our common stock is likely to be volatile, which could result in substantial losses to investors.

The trading price of our common stock has been volatile over the past few years and investors could experience losses in response to factors including the following, many of which are beyond our control:

- decreased demand in the Internet services sector;
- variations in our operating results;
- announcements of technological innovations or new services by us or our competitors;
- changes in expectations of our future financial performance, including financial estimates by securities analysts and investors;
- our failure to meet analysts’ expectations;
- changes in operating and stock price performance of other technology companies similar to us;

- conditions or trends in the technology industry;
- additions or departures of key personnel; and
- future sales of our common stock.

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Domestic and international stock markets often experience significant price and volume fluctuations that are unrelated to the operating performance of companies with securities trading in those markets. These fluctuations, as well as political events, terrorist attacks, threatened or actual war, and general economic conditions unrelated to our performance, may adversely affect the price of our common stock. In the past, securities holders of other companies often have initiated securities class action litigation against those companies following periods of volatility in the market price of those companies' securities. If the market price of our stock fluctuates and our stockholders initiate this type of litigation, we could incur substantial costs and experience a diversion of our management's attention and resources, regardless of the outcome. This could materially and adversely affect our business, prospects, financial condition, and results of operations.

Certain provisions of Nevada law and in our charter may prevent or delay a change of control of our company.

We are subject to the Nevada anti-takeover laws regulating corporate takeovers. These anti-takeover laws prevent Nevada corporations from engaging in a merger, consolidation, sales of its stock or assets, and certain other transactions with any stockholder, including all affiliates and associates of the stockholder, who owns 10% or more of the corporation's outstanding voting stock, for three years following the date that the stockholder acquired 10% or more of the corporation's voting stock except in certain situations. In addition, our amended and restated articles of incorporation and bylaws include a number of provisions that may deter or impede hostile takeovers or changes of control or management. These provisions include the following:

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

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

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

In the event that no exclusion from the definition of "penny stock" under the Exchange Act is available, then any broker engaging in a transaction in our common stock will be required to provide its customers with a risk disclosure document, disclosure of market quotations, if any, disclosure of the compensation of the broker-dealer and its sales person in the transaction, and monthly account statements showing the market values of our securities held in the customer's accounts. The bid and offer quotation and compensation information must be provided prior to effecting the transaction and must be contained on the customer's confirmation of sale. Certain brokers are less willing to engage in transactions involving "penny stocks" as a result of the additional disclosure requirements described above, which may make it more difficult for holders of our common stock to dispose of their shares.

ITEM 1B. Unresolved Staff Comments

Not applicable.

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ITEM 2. Properties

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

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

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

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

ITEM 3. Legal Proceedings

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

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

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

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

Not applicable.

Table of Contents**PART II****ITEM 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities****Our Common Stock**

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

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

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

Holders of Record

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

Dividend Policy

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

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

Table of Contents**Issuer Purchases of Equity Securities**

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

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

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

ITEM 6. Selected Financial Data

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

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	Year Ended September 30,				
	2006	2005 (1)	2004	2003	2002
Statement of Operations Data					
Net revenues	\$ 36,881,164	\$ 25,204,858	\$ 57,168,105	\$ 30,767,444	\$ 12,618,126
Cost of services	8,069,239	3,980,619	24,757,880	8,473,746	3,497,678
Gross profit	28,811,925	21,224,239	32,410,225	22,293,698	9,120,448
Operating income	2,124,450	1,313,389	11,465,946	7,281,886	1,595,642
Net income	(1,050,920)	725,146	8,184,930	6,472,705	2,073,417
Net income (loss) per common share:					
Basic	\$ (0.02)	\$ 0.02	\$ 0.17	\$ 0.14	\$ 0.05
Diluted	\$ (0.02)	\$ 0.02	\$ 0.17	\$ 0.14	\$ 0.05
Weighted average common shares outstanding:					
Basic	44,958,683	46,390,356	47,375,927	45,326,721	44,024,329
Diluted	44,958,683	46,659,918	48,0: 0pt; MARGIN-RIGHT: 0pt" align="justify">As of March 31, 2014, the Company had a total long-term debt balance of \$5,738,229, including the portion due in the next year, owed to Farm Credit Services and Kubota. As of December 31, 2013, the Company had a total long-term debt balance of \$5,816,745.		
			The Company believes that cash flow from operations and funds available under the Company's existing credit facilities will be sufficient to meet the Company's foreseeable short and long-term needs.		
			Hospitality Center		
			In December 2012, the Board of Directors approved a significant remodel and expansion of the Winery's Hospitality Center. The Board approved a total project cost of up to \$4.5 million, to be financed with \$2,000,000 of new borrowings from NW Farm Credit Services, with the balance of the costs funded by using		

existing cash reserves. In November 2013 the Board approved additional costs, in excess of the original budget, to be funded by using cash reserves. Features of the remodeled and expanded facility include additional barrel storage capacity, a club-members tasting room, a larger general public tasting area, enhanced kitchen services, new spaces for hosting smaller parties, overnight lodging, expanded deck seating to capitalize on views from the winery, and a new lawn terrace for outdoor events. Management believes that these enhancements will be critical in supporting the future growth of direct-to-consumer sales of Company wines and hospitality shown to wine writers, distributors and large buyers. Construction began in February 2013 and was substantially completed in April 2014.

ITEM 3:

QUANTITATIVE AND QUALITATIVE
DISCLOSURES ABOUT MARKET RISK

None.

ITEM 4:

CONTROLS AND PROCEDURES

Disclosure Controls and Procedures – The Company carried out an evaluation as of the end of the period covered by this Quarterly Report on Form 10-Q, under the supervision and with the participation of the Company’s management, including the Company’s Chief Executive Officer and the Company’s Chief Financial Officer, of the effectiveness of the Company’s disclosure controls and procedures pursuant to paragraph (b) of Rule 13a-15 and 15d-5 under the Exchange Act. Based on that review, the Chief Executive Officer and the Chief Financial Officer have concluded that the Company’s disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in the reports the Company files or submit under the Exchange Act (1) is recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms, and (2) is accumulated and

communicated to the Company's management, including the Company's principal executive officer and principle financial officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting – There have been no changes in our internal control over financial reporting during the quarter ended March 31, 2014 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II: OTHER INFORMATION

Item 1 - Legal Proceedings.

From time to time, the Company is a party to various judicial and administrative proceedings arising in the ordinary course of business. The Company's management and legal counsel have reviewed the probable outcome of any proceedings that were pending during the period covered by this report, the costs and expenses reasonably expected to be incurred, the availability and limits of the Company's insurance coverage, and the Company's established liabilities. While the outcome of legal proceedings cannot be predicted with certainty, based on the Company's review, the Company believes that any unrecorded liability that may result as a result of any legal proceedings is not likely to have a material effect on the Company's liquidity, financial condition or results from operations.

Item 1A - Risk Factors.

As a smaller reporting company, the Company is not required to provide the information required by this item.

Item 2 - Unregistered Sales of Equity Securities and Use of Proceeds.

None.

Item 3 - Defaults upon Senior Securities.

None.

Item 4 - Mine Safety Disclosures.

Not applicable.

Item 5 – Other Information.

None.

Item 6 – Exhibits.

3.1

Articles of Incorporation of Willamette Valley Vineyards, Inc. (incorporated by reference from the Company's Regulation A Offering Statement on Form 1-A, File No. 24S-2996)

3.2 Articles of Amendment, dated August 22, 2000 (incorporated herein by reference to Exhibit 3.4 to the Company's Form 10-Q for the quarterly period ended June 30, 2008, filed August 14, 2008, File No. 000-21522)

3.3 Bylaws of Willamette Valley Vineyards, Inc. (incorporated herein by reference to Exhibit 3.5 to the Company's Form 10-Q for the quarterly period ended June 30, 2008, filed August 14, 2008 File No. 000-21522)

31.1 Certification of Chief Executive Officer required by Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934 (Filed herewith)

31.2 Certification of Chief Financial Officer required by Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934 (Filed herewith)

32.1 Certification of James W. Bernau pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Filed herewith)

32.2 Certification of Richard F. Goward Jr. pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Filed herewith)

101 The following financial information from the Corporation's Quarterly Report on Form 10-Q for the quarter ended March 31, 2014, furnished electronically herewith, and formatted in XBRL (Extensible Business Reporting Language): (i) Balance Sheets, (ii) Statements of Operations; (iii) Statements of Cash Flows; and (iv) Notes to Financial Statements, tagged as blocks of text. (Filed herewith).

SIGNATURES

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

WILLAMETTE VALLEY VINEYARDS, INC.

Date: May 13, 2014 By: /s/ James W. Bernau

James W. Bernau
Chief Executive Officer
(Principal Executive Officer)

Date: May 13, 2014 By: /s/ Richard F. Goward Jr.

Richard F. Goward Jr.
Chief Financial Officer
(Principal Accounting and Financial Officer)