

YP CORP  
Form 10-Q  
August 15, 2007

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
FORM 10-Q**

(Mark One)

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended June 30, 2007

Transition Report Pursuant to 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 St. Suite 105**

**Mesa, Arizona**

(Address of principal executive offices)

**85205**

(Zip Code)

**(480) 654-9646**

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant is 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

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

**APPLICABLE ONLY TO CORPORATE ISSUERS**

The number of shares of the issuer's common equity outstanding as of August 13, 2007 was 67,167,905 shares of

common stock, par value \$.001.

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FOR THE QUARTER ENDED JUNE 30, 2007**

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## ITEM 1.

## FINANCIAL STATEMENTS

**YP CORP. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS**

|   | <b>June 30,<br/>2007<br/>(unaudited)</b> | <b>September 30,<br/>2006</b> |
|---|--|-------------------------------|
| <b>Assets</b>   |  |                               |
| Cash and cash equivalents   | \$ 10,248,103                            | \$ 6,394,775                  |
| Certificates of deposit and other investments   | -  | 3,082,053                     |
| Accounts receivable, net of allowance of \$1,756,411 in 2007 and \$3,034,504 in 2006  | 7,004,356                                | 8,015,600                     |
| Prepaid expenses and other current assets   | 340,178                                  | 235,250                       |
| Income tax receivable   | 805,898                                  | -                             |
| Deferred tax asset  | 311,788                                  | 1,781,736                     |
| Total current assets  | 18,710,323                               | 19,509,414                    |
| Accounts receivable, long term portion, net of allowance of \$78,111 in 2007 and \$234,445 in 2006  | 1,484,114                                | 1,140,179                     |
| Property and equipment, net   | 239,260                                  | 178,883                       |
| Deposits and other assets   | 105,766                                  | 91,360                        |
| Intangible assets, net  | 7,538,002                                | 5,722,604                     |
| Goodwill  | 7,389,951                                | -                             |
| Deferred tax asset, long term   | 4,860,699                                | 1,334,787                     |
| Total assets  | \$ 40,328,115                            | \$ 27,977,227                 |
| <b>Liabilities and Stockholders' Equity</b>   |  |                               |
| <b>Liabilities:</b>   |  |                               |
| Accounts payable  | \$ 1,075,426                             | \$ 773,653                    |
| Accrued liabilities   | 1,923,941                                | 4,565,439                     |
| Income taxes payable  | -  | 261,762                       |
| Total current liabilities   | 2,999,367                                | 5,600,854                     |
| Total liabilities   | 2,999,367                                | 5,600,854                     |
| <b>Commitments and contingencies</b>  |  |                               |
| <b>Stockholders' equity:</b>  |  |                               |
| Series E convertible preferred stock, \$0.001 par value, 200,000 shares authorized, 127,840 issued and outstanding, liquidation preference \$38,202 | 10,866                                   | 10,866                        |
| Common stock, \$0.001 par value, 100,000,000 shares authorized, 67,167,905 and 50,021,594 issued and outstanding in 2007 and 2006, respectively     | 67,168                                   | 50,022                        |
| Treasury stock (2,843,416 shares carried at cost)   | (2,407,158)                              | (2,407,158)                   |
| Paid in capital   | 22,954,324                               | 9,395,044                     |
| Retained earnings   | 16,703,548                               | 15,327,599                    |
| Total stockholders' equity  | 37,328,748                               | 22,376,373                    |
| Total liabilities and stockholders' equity  | \$ 40,328,115                            | \$ 27,977,227                 |

See accompanying notes to unaudited consolidated financial statements.

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**YP CORP. AND SUBSIDIARIES**  
**UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS**

|  | <b>Three Months ended June 30,</b> |              | <b>Nine Months ended June 30,</b> |               |
|--|------------------------------------|--------------|-----------------------------------|---------------|
|  | <b>2007</b>                        | <b>2006</b>  | <b>2007</b>                       | <b>2006</b>   |
| Net revenues                                       | \$ 5,989,437                       | \$ 8,577,640 | \$ 19,219,664                     | \$ 23,622,664 |
| Cost of services                                   | 711,258                            | 734,519      | 2,320,265                         | 1,858,380     |
| Gross profit                                       | 5,278,179                          | 7,843,121    | 16,899,399                        | 21,764,284    |
| <b>Operating expenses:</b>                         |                                    |              |                                   |               |
| General and administrative expenses                | 3,399,803                          | 3,481,148    | 10,181,167                        | 11,718,618    |
| Sales and marketing expenses                       | 1,302,015                          | 3,132,737    | 4,496,808                         | 9,090,539     |
| Litigation and related expenses                    | -                                  | -            | (200,718)                         | 161,804       |
| Total operating expenses                           | 4,701,818                          | 6,613,885    | 14,477,257                        | 20,970,961    |
| Operating income                                   | 576,361                            | 1,229,236    | 2,422,142                         | 793,323       |
| <b>Other income (expense):</b>                     |                                    |              |                                   |               |
| Interest income                                    | 68,914                             | 67,127       | 233,611                           | 157,641       |
| Other income (expense)                             | 537                                | (9,172)      | 14,292                            | (21,289)      |
| Total other income (expense)                       | 69,451                             | 57,955       | 247,903                           | 136,352       |
| Income before income taxes                         | 645,812                            | 1,287,191    | 2,670,045                         | 929,675       |
| Income tax provision                               | (379,407)                          | (460,343)    | (1,292,180)                       | (299,921)     |
| Net income   | \$ 266,405                         | \$ 826,848   | \$ 1,377,865                      | \$ 629,754    |
| <b>Net income per common share:</b>                |                                    |              |                                   |               |
| Basic  | \$ 0.01                            | \$ 0.02      | \$ 0.03                           | \$ 0.01       |
| Diluted  | \$ 0.01                            | \$ 0.02      | \$ 0.03                           | \$ 0.01       |
| <b>Weighted average common shares outstanding:</b> |                                    |              |                                   |               |
| Basic  | 50,242,285                         | 44,642,094   | 47,156,300                        | 44,748,047    |
| Diluted  | 52,625,539                         | 46,536,736   | 49,412,720                        | 45,694,457    |

See accompanying notes to unaudited consolidated financial statements.

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**YP CORP. AND SUBSIDIARIES**  
**UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS**

|  | <b>Nine Months Ended June 30,</b> |                     |
|--|-----------------------------------|---------------------|
|  | <b>2007</b>                       | <b>2006</b>         |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>   |                                   |                     |
| Net income (loss)  | \$ 1,377,865                      | \$ 629,754          |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: |                                   |                     |
| Depreciation and amortization  | 1,098,370                         | 1,117,865           |
| Stock-based compensation   | 1,169,543                         | 1,325,509           |
| Issuance of common stock as compensation for services                                    | 78,837                            | -                   |
| Noncash compensation expense to Chief Executive Officer                                  | 88,680                            | -                   |
| Deferred income taxes  | 1,489,654                         | (841,652)           |
| Loss on disposal of property, plant and equipment  | 4,128                             | -                   |
| Change in allowance for uncollectible accounts   | (1,434,426)                       | 1,559,569           |
| Changes in operating assets and liabilities:   |                                   |                     |
| Restricted cash  | -                                 | 500,000             |
| Accounts receivable  | 2,230,324                         | (4,161,895)         |
| Prepaid and other current assets   | (81,751)                          | 43,095              |
| Deposits and other assets  | (3,560)                           | (33,409)            |
| Accounts payable   | (780,990)                         | 445,424             |
| Accrued liabilities  | (2,928,662)                       | (168,032)           |
| Income taxes receivable  | (1,067,660)                       | 300,367             |
| <b>Net cash provided by operating activities</b>   | <b>1,240,352</b>                  | <b>716,595</b>      |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>   |                                   |                     |
| Net purchases/redemptions of certificates of deposits and other investments              | 3,082,053                         | (1,050,557)         |
| Acquisition of business, net of cash acquired  | 397,876                           | -                   |
| Expenditures for intangible assets   | (674,580)                         | (166,804)           |
| Purchases of equipment   | (192,373)                         | (17,686)            |
| <b>Net cash provided by (used in) investing activities</b>                               | <b>2,612,976</b>                  | <b>(1,235,047)</b>  |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>   |                                   |                     |
| Repurchases of common stock  | -                                 | (134,418)           |
| <b>Net cash used in financing activities</b>   | <b>-</b>                          | <b>(134,418)</b>    |
| <b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>                                  | <b>3,853,328</b>                  | <b>(652,870)</b>    |
| <b>CASH AND CASH EQUIVALENTS, beginning of period</b>                                    | <b>6,394,775</b>                  | <b>6,114,311</b>    |
| <b>CASH AND CASH EQUIVALENTS, end of period</b>  | <b>\$ 10,248,103</b>              | <b>\$ 5,461,441</b> |
| <b>SUPPLEMENTAL DISCLOSURE OF NONCASH FINANCING AND INVESTING ACTIVITIES:</b>            |                                   |                     |

|  |               |      |
|--|---------------|------|
| Issuance of common stock for acquisition of LiveDeal, Inc. | \$ 12,328,045 | \$ - |
|--|---------------|------|

See accompanying notes to unaudited consolidated financial statements



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**YP CORP. AND SUBSIDIARIES**  
**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

1. ORGANIZATION AND BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements include the accounts of YP Corp., a Nevada Corporation, and its wholly owned subsidiaries (collectively the "Company"). The Company is an Internet-based provider of yellow page directories and online local classified ads on or through www.YP.com, www.YP.net, www.Yellow-Page.net, and www.livedeal.com. No material or information contained on these websites is a part of these notes or this Quarterly Report on Form 10-Q. All material intercompany accounts and transactions have been eliminated.

The accompanying unaudited consolidated financial statements as of June 30, 2007 and for the three and nine months ended June 30, 2007 and 2006, respectively, have been prepared in accordance with generally accepted accounting principles for interim financial information. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for audited financial statements. In the opinion of the Company's management, the interim information includes all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the results for the interim periods. The footnote disclosures related to the interim financial information included herein are also unaudited. Such financial information should be read in conjunction with the consolidated financial statements and related notes thereto as of September 30, 2006 and for the year then ended included in the Company's Annual Report on Form 10-K for the year ended September 30, 2006.

The Company completed its acquisition of LiveDeal, Inc. ("LiveDeal") on June 6, 2007. The results of operations for the three and nine months ended June 30, 2007 included in the accompanying unaudited statements of operations include LiveDeal operating results from June 6, 2007 through June 30, 2007. The unaudited consolidated balance sheet at June 30, 2007 includes LiveDeal assets and liabilities acquired as of June 6, 2007 as well as a preliminary allocation of the purchase price. Further discussions of this transaction can be found under "LiveDeal, Inc. Acquisition" in Management's Discussion and Analysis of Financial Condition and Results of Operations and in Note 4 to the unaudited consolidated financial statements.

Due to the short term nature and market rates of interest for the certificates of deposit and other investments, the carrying value (cost) approximates the fair value for these investments.

The preparation of financial statements in accordance with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Significant estimates and assumptions have been used by management throughout the preparation of the consolidated financial statements including in conjunction with establishing allowances for customer refunds, non-paying customers, dilution and fees, analyzing the recoverability of the carrying amount of intangible assets, estimating forfeitures of restricted stock and evaluating the recoverability of deferred tax assets. Actual results could differ from these estimates.

Certain prior period amounts have been revised to conform to the current period presentation as follows:

- Accrued refunds and fees of \$1,250,000 relating to the Attorneys' General settlement described in Note 5 have been reclassified from accounts receivable, net to accrued liabilities in the accompanying consolidated balance sheet as of September 30, 2006.
-

Certain miscellaneous receivables totaling \$23,819 at September 30, 2006 were reclassified from prepaid expenses and other current assets to accounts receivable, net in the accompanying consolidated balance sheet

- Depreciation and amortization expenses that were previously separately stated are now included in general and administrative expenses in the consolidated statement of operations.
- Litigation and related expenses that were previously included in other income and expense are now separately stated as a component of operating expenses in the consolidated statement of operations.
- Dilution and charge backs have been reclassified from cost of services to a reduction in net revenues in the consolidated statement of operations.

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**YP CORP. AND SUBSIDIARIES**  
**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

These changes had no impact on previously reported net income or stockholders' equity. While the other changes are self-evident, the following table sets forth the impact of reclassifying dilution and charge backs on the Company's consolidated statements of operations:

| <b>Statements of Operations</b> | <b>Three Months Ended June 30, 2006</b> |              |                  |
|---------------------------------|---|--------------|------------------|
|                                 | As Originally<br>Reported               | As Adjusted  | Effect of change |
| Net revenues                    | \$ 10,172,705                           | \$ 8,577,640 | \$ (1,595,065)   |
| Cost of services                | \$ 2,329,584                            | \$ 734,519   | \$ (1,595,065)   |
| Gross profit                    | \$ 7,843,121                            | \$ 7,843,121 | \$ -             |

  

|                  | <b>Nine Months Ended June 30, 2006</b> |               |                  |
|------------------|--|---------------|------------------|
|                  | As Originally<br>Reported              | As Adjusted   | Effect of change |
| Net revenues     | \$ 26,798,677                          | \$ 23,622,664 | \$ (3,176,013)   |
| Cost of services | \$ 5,034,393                           | \$ 1,858,380  | \$ (3,176,013)   |
| Gross profit     | \$ 21,764,284                          | \$ 21,764,284 | \$ -             |

## 2. ACCOUNTING CHANGES IN 2006

Prior to fiscal 2006, the Company capitalized customer acquisition costs and amortized them on a straight-line basis over the average expected life of the related customers. The majority of the capitalized customer acquisition costs related to the Company's mailing campaigns. During fiscal 2006, the Company began increasing its expenditures for telemarketing campaigns. The capitalization of such costs requires that the Company amortize them over the average expected life of acquired customers on a cost-pool by cost-pool basis; however, the Company's systems were not equipped to monitor customer lives by method of acquisition. Therefore, the Company was unable to determine the average expected life of those customers acquired via telemarketing versus those acquired via mailing campaigns and cannot assess the value of the future benefits. As the Company could not effectively evaluate such costs on a cost-pool by cost-pool basis, the Company determined in fiscal 2006 that the preferable method of accounting for these costs was to expense them when incurred. The Company received a preferability letter from its predecessor auditors relating to this change. The Company enacted this change in accounting principle during the fourth quarter of fiscal 2006 and, in accordance with Statement of Financial Accounting Standards (SFAS) 154, in the Company's 10-K for the year ended September 30, 2006, the Company restated all periods presented to reflect this new method of accounting for such costs.

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

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**YP CORP. AND SUBSIDIARIES**  
**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

**Statements of Operations****Three Months Ended June 30, 2006**

|                                     | As Originally |              |                  |
|-------------------------------------|---------------|--------------|------------------|
|                                     | Reported      | As Adjusted  | Effect of change |
| Sales and marketing expense         | \$ 2,485,950  | \$ 3,132,737 | \$ 646,787       |
| Income tax expense (benefit)        | \$ 701,990    | \$ 460,343   | \$ (241,647)     |
| Net income (loss)                   | \$ 1,231,987  | \$ 826,848   | \$ (405,139)     |
| Net income (loss) per common share: |               |              |                  |
| Basic                               | \$ 0.03       | \$ 0.02      | \$ (0.01)        |
| Diluted                             | \$ 0.03       | \$ 0.02      | \$ (0.01)        |

**Nine Months Ended June 30, 2006**

|                                     | As Originally |              |                  |
|-------------------------------------|---------------|--------------|------------------|
|                                     | Reported      | As Adjusted  | Effect of change |
| Sales and marketing expense         | \$ 6,134,854  | \$ 9,090,539 | \$ 2,955,685     |
| Income tax expense (benefit)        | \$ 1,404,198  | \$ 299,921   | \$ (1,104,277)   |
| Net income (loss)                   | \$ 2,481,158  | \$ 629,754   | \$ (1,851,404)   |
| Net income (loss) per common share: |               |              |                  |
| Basic                               | \$ 0.06       | \$ 0.01      | \$ (0.05)        |
| Diluted                             | \$ 0.05       | \$ 0.01      | \$ (0.04)        |

**Statement of Cash Flows****Nine Months Ended June 30, 2006**

|   | As Originally  |              |                  |
|---|----------------|--------------|------------------|
|   | Reported       | As Adjusted  | Effect of change |
| Net income (loss)   | \$ 2,481,158   | \$ 629,754   | \$ (1,851,404)   |
| Adjustments to reconcile net income to net cash provided by operating activities: |                |              |                  |
| Deferred income taxes   | \$ 262,627     | \$ (841,652) | \$ (1,104,279)   |
| Changes in assets and liabilities:  |                |              |                  |
| Customer acquisition costs  | \$ (2,955,683) | \$ -         | \$ 2,955,683     |
| Net cash provided by operating activities   | \$ 716,595     | \$ 716,595   | \$ -             |

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**YP CORP. AND SUBSIDIARIES**  
**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

**3. BALANCE SHEET INFORMATION**

Balance sheet information is as follows:

|                                 | <b>June 30, 2007</b> |              |               |
|---------------------------------|----------------------|--------------|---------------|
|                                 | Current              | Long-Term    | Total         |
| Gross accounts receivable       | \$ 8,760,768         | \$ 1,562,225 | \$ 10,322,993 |
| Allowance for doubtful accounts | (1,756,412)          | (78,111)     | (1,834,523)   |
| Net                             | \$ 7,004,356         | \$ 1,484,114 | \$ 8,488,470  |

|                                 | <b>September 30, 2006</b> |              |               |
|---------------------------------|---------------------------|--------------|---------------|
|                                 | Current                   | Long-Term    | Total         |
| Gross accounts receivable       | \$ 11,050,104             | \$ 1,374,624 | \$ 12,424,728 |
| Allowance for doubtful accounts | (3,034,504)               | (234,445)    | (3,268,949)   |
| Net                             | \$ 8,015,600              | \$ 1,140,179 | \$ 9,155,779  |

Components of allowance for doubtful accounts are as follows:

|   | <b>June 30, 2007</b> | <b>September 30, 2006</b> |
|---|----------------------|---------------------------|
| Allowance for dilution and fees on amounts due from billing aggregators | \$ 1,320,531         | \$ 2,465,423              |
| Allowance for customer refunds  | 513,992              | 803,526                   |
|   | \$ 1,834,523         | \$ 3,268,949              |

|                                | <b>June 30, 2007</b> | <b>September 30, 2006</b> |
|--------------------------------|----------------------|---------------------------|
| Property and equipment:        |                      |                           |
| Leasehold improvements         | \$ 448,551           | \$ 447,681                |
| Furnishings and fixtures       | 309,079              | 296,074                   |
| Office and computer equipment  | 1,157,330            | 1,055,545                 |
| Total                          | 1,914,960            | 1,799,300                 |
| Less: Accumulated depreciation | (1,675,700)          | (1,620,417)               |
| Property and equipment, net    | \$ 239,260           | \$ 178,883                |

|   | <b>June 30, 2007</b> | <b>September 30, 2006</b> |
|---|----------------------|---------------------------|
| Intangible assets:                              |                      |                           |
| Domain name                                     | \$ 5,708,600         | \$ 5,708,600              |
| Non-compete agreements                          | 3,465,000            | 3,465,000                 |
| Website development                             | 1,084,716            | 1,009,356                 |
| Software licenses                               | 1,024,781            | 427,635                   |
| Marketing-related intangibles - LiveDeal, Inc.  | 1,500,000            | -                         |
| Technology-related intangibles - LiveDeal, Inc. | 630,000              | -                         |
| Total   | 13,413,097           | 10,610,591                |
| Less: Accumulated amortization                  | (5,875,095)          | (4,887,987)               |
| Intangible assets, net                          | \$ 7,538,002         | \$ 5,722,604              |

|  | <b>June 30, 2007</b> | <b>September 30,<br/>2006</b> |
|--|----------------------|-------------------------------|
| Accrued liabilities:                           |                      |                               |
| Litigation accrual, including customer refunds | 16,875               | 3,525,000                     |
| Deferred revenue                               | 328,949              | 188,399                       |
| Accrued payroll and bonuses                    | 817,646              | 187,973                       |
| Accrued expenses - other                       | 760,471              | 664,067                       |
| Accrued liabilities                            | \$ 1,923,941         | \$ 4,565,439                  |

During fiscal 2007, the Company implemented additional quality control procedures to reduce the number of unbillable accounts through its Local Exchange Carrier (“LEC”) channels. This change permitted the Company to identify certain accounts that were unbillable prior to submission of billing records to LECs. This change served to reduce both the gross accounts receivable and the related allowance from September 30, 2006 to June 30, 2007.

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**YP CORP. AND SUBSIDIARIES**  
**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

During fiscal 2007, the decrease in the litigation accrual was attributable to the payment of the settlement fee, refunds and other expenses attributable to the Attorneys' General settlement described in Note 5 as well as the reversal of approximately \$200,000 of accruals based on revised estimates of future payment obligations.

During fiscal 2007, the increase in intangible assets is related primarily to the acquisition of certain intangible assets in connection with the business acquisition described in Note 4.

**4. ACQUISITION OF LIVEDEAL, INC.**

On June 6, 2007, the Company acquired all of the outstanding common and preferred stock of LiveDeal, Inc. ("LiveDeal") in exchange for 15,054,808 shares of Common Stock. In addition, the Company issued an aggregate of 231,547 shares of restricted Common Stock in exchange for the cancellation of all outstanding LiveDeal options and warrants. Finally, the Company agreed to issue an additional 1,463,706 shares of Company Stock in exchange for the cancellation of \$1,021,666 of LiveDeal debt. Immediately following the transaction, LiveDeal became a wholly-owned subsidiary of the Company.

LiveDeal has developed and operates an online local classifieds marketplace, [www.livedeal.com](http://www.livedeal.com) which has more than a million goods and services listed for sale, in almost every city and zip code across the U.S. LiveDeal offers such classifieds functionality as fraud protection, identity protection, e-commerce, listing enhancements, photos, community-building, package pricing, premium stores, featured Yellow Page business listings and advanced local search capabilities. Additionally, the LiveDeal technology lets consumers search or browse for items in a particular city, state or zip code.

At the site, users can search classifieds in any region, and can look up businesses in a yellow pages database. As with most such classified ad sites, users are offered a search window, and a listing of subcategories. It appears that sales are made directly between the user (buyer) and seller, and an "email the seller" link is provided to assist in this process.

Among the interesting features of LiveDeal's site is "Local AdWiz", which is a classifieds and yellow pages distribution network, turning any web site or blog into a unique and localized classifieds and yellow pages site in seconds. AdWiz gives website publishers fresh local content and an instant revenue stream. Local AdWiz pulls from millions of classified and yellow page listings across multiple categories from people in cities and towns all over the U.S. AdWiz enables the listings to be republished dynamically on any website within seconds.

The aggregate purchase price of LiveDeal was approximately \$12,741,000, consisting of approximately \$12,328,000 of stock-based consideration and approximately \$413,000 of acquisition-related expenses. The value of the combined 16,750,061 shares of Common Stock granted in the transaction was determined based on the average closing market price of the Common Stock over the two day period before and after the effective date of the acquisition. The purchase price was determined based on an average of valuation estimates utilizing comparable companies, precedent transactions and discounted cash flow techniques. There are no contingent payments or commitments specified in the agreement, except with respect to the employment agreement described in Note 5.

The following table sets forth the preliminary allocation of the acquisition cost, including acquisition-related expenses, to the assets acquired and liabilities assumed, based on their estimated fair values:





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**YP CORP. AND SUBSIDIARIES**  
**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

|                               |                      |
|-------------------------------|----------------------|
| Current assets                | \$ 962,877           |
| Property, plant and equipment | 70,000               |
| Goodwill                      | 7,389,951            |
| Intangible assets             | 2,130,000            |
| Deferred tax assets           | 3,545,618            |
| Other non-current assets      | 10,846               |
| <b>Total assets acquired</b>  | <b>14,109,292</b>    |
| <br>                          |                      |
| Current liabilities           | 1,368,012            |
| Total liabilities assumed     | 1,368,012            |
| <b>Net assets acquired</b>    | <b>\$ 12,741,280</b> |

The amounts in the preceding table are preliminary based on the following:

- The Company is awaiting the final valuation report on its intangible assets and property, plant and equipment
  - The Company is performing further analysis of the realizability of the acquired deferred tax assets
- Included in the preliminary purchase price are estimated accruals for service providers for which the Company has not received final invoices.

The Company does not expect the goodwill to be tax-deductible. As the Company only operates one reportable segment, the entire goodwill balance has been allocated to that segment.

The Company has estimated the fair value of LiveDeal's identifiable intangible assets as \$2,130,000, allocated as follows:

|                                    | <b>Estimated<br/>Fair Value</b> | <b>Average<br/>Remaining<br/>Useful Life</b> |
|------------------------------------|---------------------------------|--|
| Asset class:                       |                                 |  |
| Marketing-based intangible assets  | \$ 1,500,000                    | 20 years                                     |
| Technology-based intangible assets | 630,000                         | 5 years                                      |
|                                    | <b>\$ 2,130,000</b>             |  |

Marketing-based intangible assets include trademarks, tradenames and internet domain names, whereas technology-based intangible assets include computer software, technology, databases, and trade secrets.

The following table provides pro forma results of operations for the three and nine months ended June 30, 2007 and 2006 as if LiveDeal had been acquired as of the beginning of each period presented. The pro forma results include certain purchase accounting adjustments such as the estimated changes in amortization expense on acquired intangible assets, increased compensation expense resulting from the contractual obligation for Mr. Navar's salary (described in Note 5) and the elimination of interest expense on borrowings that were satisfied through the acquisition. However, pro forma results do not include any anticipated cost savings or other effects of the planned integration of LiveDeal. Accordingly, such amounts are not necessarily indicative of the results that would have occurred if the acquisition had occurred on the dates indicated or that may result in the future.



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**YP CORP. AND SUBSIDIARIES**  
**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

|                            | <b>Three Months Ended June 30,</b> |              | <b>Nine Months Ended June 30,</b> |                |
|----------------------------|------------------------------------|--------------|-----------------------------------|----------------|
|                            | <b>2007</b>                        | <b>2006</b>  | <b>2007</b>                       | <b>2006</b>    |
| Net revenues               | \$ 6,410,361                       | \$ 8,927,758 | \$ 20,936,377                     | \$ 24,504,481  |
| Net loss                   | \$ (1,118,971)                     | \$ (838,996) | \$ (2,165,640)                    | \$ (4,206,867) |
| Diluted net loss per share | \$ (0.02)                          | \$ (0.01)    | \$ (0.03)                         | \$ (0.07)      |

**5. COMMITMENTS AND CONTINGENCIES**

At June 30, 2007, future minimum annual lease payments under operating lease agreements for fiscal years ended September 30 are as follows:

|            |                   |
|------------|-------------------|
| 2007       | \$ 102,459        |
| 2008       | 251,378           |
| 2009       | 124,633           |
| 2010       | 123,795           |
| 2011       | 93,183            |
| Thereafter | 337               |
|            | <b>\$ 695,785</b> |

Litigation

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

In the past, the Company has received inquiries from the Attorneys General offices of several states investigating its promotional activities, specifically, the use of its check mailer for customer activation. On December 14, 2006, the Company voluntarily entered into a settlement with 34 states' Attorneys General to address their inquiries and bring finality to the process. The Company voluntarily agreed to the following:

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

The Company recorded a charge of \$3,525,000 in litigation and related expenses in the fourth quarter of fiscal 2006, consisting of a settlement accrual of \$2,000,000 and \$1,525,000 of accrued refunds, processing fees, legal and other related fees. Customers had through February 2007 to apply for these refunds.

Through June 30, 2007 the Company paid the settlement fee of \$2,000,000, refunds totaling approximately \$902,000 and other related costs of approximately \$376,000. During the second quarter of fiscal 2007, the Company reversed approximately \$200,000 of accrued refunds and other costs, which is included in litigation and related expenses in the accompanying unaudited consolidated statement of operations. The remaining accrual of approximately \$17,000, for estimated future administrative costs related to this settlement, is included in accrued liabilities in the accompanying unaudited consolidated balance sheet at June 30, 2007.

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**YP CORP. AND SUBSIDIARIES**  
**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

Change in Officers and Employment Agreement

Effective June 6, 2007, the Company appointed Rajesh Navar, 39, President of the Company. Mr. Navar brings to the Company over 16 years of experience in building high technology and Internet companies and was an original member of the engineering and management teams at eBay and other Internet companies. Prior to founding LiveDeal, Mr. Navar joined eBay in 1998, a start-up at that time, as a senior member of the engineering team. In September 2005, Mr. Navar was honored among Silicon Valley Business Journal's chronicle of "40 under 40" people to watch. Mr. Navar holds a Master's in Business Management (Sloan Fellow) from Stanford University's Graduate School of Business, a M.S. in Electrical Engineering from Iowa State University and a Bachelor of Engineering in Electronics Engineering from Bangalore University in Bangalore, India.

In connection with acquisition described in Note 4 above, the Company entered into a three-year employment agreement with Mr. Navar. The agreement provides for a base salary of \$300,000 per year plus participation in the Company's health, disability and dental benefits, insurance programs, pension and retirement plans, and all other employee benefit and compensation arrangements available to other senior officers of the Company. Commencing in the second year, Mr. Navar's annual salary will be increased on an annual basis at a rate of at least 10% of the preceding year's annual salary. The Company will also reimburse Mr. Navar for all business expenses incurred by him in connection with his employment with the Company.

The agreement also provides that, if Mr. Navar's employment is terminated as a result of his death, disability, for Cause (as defined in the agreement), the agreement otherwise expires, or for any reason other than Good Reason (as defined in the agreement), Mr. Navar or his estate, conservator or designated beneficiary, as the case may be, will be entitled to payment of any earned but unpaid annual salary for the year in which Mr. Navar's employment is terminated through the date of termination, as well as any accrued but unused vacation, reimbursement of expenses, and vested benefits to which Mr. Navar is entitled in accordance with the terms of each applicable benefit plan. In the event Mr. Navar's employment is terminated for any other reason or if Mr. Navar terminates his own employment for Good Reason on or before the expiration of the Agreement, and provided that Mr. Navar executes a valid release of any and all claims that Mr. Navar may have relating to his employment against the Company, Mr. Navar will be entitled to receive any earned but unpaid annual salary for the year, any accrued but unused vacation, reimbursement of expenses and vested benefits to which Mr. Navar is entitled in accordance with the terms of each applicable benefit plan, plus a lump sum amount equal to three months of annual salary that Mr. Navar would receive under the agreement if his employment with the Company had not been terminated.

In addition, in the event Mr. Navar's employment is terminated as a result of his death, Mr. Navar's estate, conservator or designated beneficiary, as the case may be, will be entitled to receive, in addition to Mr. Navar's accrued salary and benefits through the date of death, a lump sum payment equivalent to three months of Mr. Navar's annual salary in effect at the time of death.

On June 6, 2007, the Company also entered into a Noncompetition, Nondisclosure, and Nonsolicitation Agreement with Mr. Navar, which provides that Mr. Navar will not: (i) disclose the Company's confidential information; (ii) compete with the Company until the third anniversary of the agreement or for one year after his employment or service to the Company is terminated (unless he is terminated for Cause or Good Reason), whichever is longer; (iii) solicit employees of the Company until the second anniversary of the agreement or for one year after his employment or service to the Company is terminated, whichever is longer; and (iv) solicit clients of the Company until the third anniversary of the agreement or for one year after his employment or service to the Company is terminated (unless he

is terminated for Cause or Good Reason), whichever is longer.

Other Contractual Commitments

During the second quarter of fiscal 2006, the Company entered into a contractual arrangement with an attorney to provide in-house legal services. Under the terms of the agreement, the Company is obligated to make future payments over the remainder of the contract, which expires in fiscal 2008, totaling \$94,500 in exchange for future services. Such amounts have not been accrued in the accompanying consolidated financial statements as such payments are for future services. The Company has expensed all amounts related to services rendered through June 30, 2007.

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**YP CORP. AND SUBSIDIARIES**  
**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

During the third quarter of fiscal 2006, the Company entered into a contractual arrangement with a consulting firm to provide strategic and operational related consulting services. Under the terms of the agreement, the Company is obligated to make future payments through February 2010 that vary based on the Company's billed customer count, subject to a minimum of \$20,000 per month. Current payments are approximately \$62,000 per month. Such amounts have not been accrued in the accompanying consolidated financial statements as such payments are for future services. The Company has expensed all amounts related to services rendered through June 30, 2007.

During the fourth quarter of fiscal 2006, the Company entered into a contractual arrangement with an information technology company to provide information technology consulting services. Under the terms of the agreement, the Company is obligated to make future monthly payments of \$29,500 through September 2009. Such amounts have not been accrued in the accompanying consolidated financial statements as such payments are for future services. The Company has expensed all amounts related to services rendered through June 30, 2007.

On February 2, 2007, LiveDeal and CBS Television Stations Digital Media Group ("CBS") entered into a Co-Branded Website License Agreement (the "Agreement"). Under the Agreement, LiveDeal granted to CBS a license to use, display, publish, distribute and transmit the "Co-Branded Website" (content available at [www.livedeal.com](http://www.livedeal.com)) in exchange for a recurring monthly fee and a percentage of the revenues derived from the website. The Agreement provides for an initial term of 12 months. In addition, either party may terminate the Agreement immediately for cause in the event that the other party (i) ceases to do business; (ii) breaches a material provision of the Agreement and fails to cure such breach within 30 days of receiving written notice thereof; or (iii) becomes insolvent or enters bankruptcy proceedings.

**6. INCOME TAXES**

The Company provides for income taxes based on the provisions of SFAS No. 109, *Accounting for Income Taxes*, which, among other things, requires that recognition of deferred income taxes be measured by the provisions of enacted tax laws in effect at the date of financial statements. The Company records, among other items, deferred tax assets related to book-tax differences in the recognition of restricted stock awards to officers, directors, employees and consultants. During the three and nine months ended June 30, 2007, a portion of our restricted stock awards had vested and, due to declines in our stock price from grant date to vest date, the tax effects of the vesting of these awards were less than the carrying value of our related deferred tax assets. Accordingly, the Company incurred an additional \$145,000 and \$279,000 of income tax expense for the three and nine months ended June 30, 2007, related to the write-off of these deferred tax assets.

Excluding the effects of the acquisition described in Note 4, the Company's net deferred tax assets have been reduced by approximately \$1.5 million during the nine months ended June 30, 2007 due to the utilization of deferred tax assets related to accruals for the Attorneys' General settlement and the Company's provision for doubtful accounts.

During the nine months ended June 30, 2007, the Company made estimated tax payments based primarily on the Company's book income. However, because of the utilization of certain deferred tax assets, the Company's taxable income was significantly less than book income, giving rise to an income tax receivable at June 30, 2007.

**7. NET INCOME PER SHARE**

Net income per share is calculated using the weighted average number of shares of common stock outstanding during the period. Basic weighted average common shares outstanding do not include shares of restricted stock that have not yet vested, although such shares are included as outstanding shares in the Company's unaudited consolidated balance sheet. Preferred stock dividends are subtracted from net income to determine the amount available to common stockholders.



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**YP CORP. AND SUBSIDIARIES**  
**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

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

|  | <b>Three Months Ended June 30,</b> |             | <b>Nine Months Ended June 30,</b> |             |
|--|------------------------------------|-------------|-----------------------------------|-------------|
|  | <b>2007</b>                        | <b>2006</b> | <b>2007</b>                       | <b>2006</b> |
| Income before cumulative effect of accounting change | \$ 266,405                         | \$ 826,848  | \$ 1,377,865                      | \$ 629,754  |
| Less: preferred stock dividends                      | (478)                              | -           | (1,916)                           | -           |
| Income applicable to common stock                    | \$ 265,927                         | \$ 826,848  | \$ 1,375,949                      | \$ 629,754  |
|  |                                    |             |                                   |             |
| Basic weighted average common shares outstanding     | 50,242,285                         | 44,642,094  | 47,156,300                        | 44,748,047  |
| Add incremental shares for:                          |                                    |             |                                   |             |
| Unvested restricted stock                            | 2,315,073                          | 1,810,810   | 2,191,426                         | 890,244     |
| Series E convertible preferred stock                 | 68,181                             | 74,573      | 64,994                            | 53,080      |
| Outstanding warrants                                 | -                                  | 9,259       | -                                 | 3,086       |
| Diluted weighted average common shares outstanding   | 52,625,539                         | 46,536,736  | 49,412,720                        | 45,694,457  |
|  |                                    |             |                                   |             |
| Net income per share:                                |                                    |             |                                   |             |
| Basic  | \$ 0.01                            | \$ 0.02     | \$ 0.03                           | \$ 0.01     |
| Diluted  | \$ 0.01                            | \$ 0.02     | \$ 0.03                           | \$ 0.01     |

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

|   | <b>Three Months Ended June 30,</b> |             | <b>Nine Months Ended June 30,</b> |             |
|---|------------------------------------|-------------|-----------------------------------|-------------|
|   | <b>2007</b>                        | <b>2006</b> | <b>2007</b>                       | <b>2006</b> |
| Warrants to purchase shares of common stock | -                                  | 500,000     | -                                 | 500,000     |
| Shares of non-vested restricted stock       | 530,750                            | 171,000     | 670,820                           | 1,282,505   |
|   | 530,750                            | 671,000     | 670,820                           | 1,782,505   |

The warrants were antidilutive for the three and nine months ended June 30, 2006 as they were “out-of-the-money” and were excluded from the calculations for the three and nine months ended June 30, 2007 as they expired in fiscal 2006. The shares of non-vested restricted stock included in the above table were determined to be antidilutive based on the application of the treasury stock method.

#### 8. CONCENTRATION OF CREDIT RISK

The Company maintains cash balances at major nationwide institutions in Arizona and Nevada. Accounts are insured by the Federal Deposit Insurance Corporation up to \$100,000. At times, including at June 30, 2007, the Company’s bank balances exceed federally insured limits.



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**YP CORP. AND SUBSIDIARIES**  
**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

Financial instruments that potentially subject the Company to concentrations of credit risk are primarily trade accounts receivable. The trade accounts receivable are due primarily from business customers over widespread geographical locations within the LEC billing areas across the United States. The Company historically has experienced significant dilution and customer credits due to billing difficulties and uncollectible trade accounts receivable. The Company estimates and provides an allowance for uncollectible accounts receivable. The handling and processing of cash receipts pertaining to trade accounts receivable is maintained primarily by four third-party billing companies. The net receivable due from three of these billing service providers represented 28%, 28% and 20%, respectively, of the Company's total net accounts receivable (excluding non-specific reserves) at June 30, 2007. The net receivable due from such billing services providers represented 27%, 27% and 27%, respectively, of the Company's total net accounts receivable at September 30, 2006.

**9. STOCK REPURCHASE PROGRAM**

In May 2007, the Company's Board of Directors approved the termination of the Company's existing \$3 million stock repurchase program and adopted an amended stock repurchase program authorizing the repurchase up to \$1 million of the Company's common stock from time to time in the open market or through privately negotiated transactions.

**10. RECENT ACCOUNTING PRONOUNCEMENTS**

In February of 2006, the Financial Accounting Standards Board ("FASB") issued SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments", which is intended to simplify the accounting and improve the financial reporting of certain hybrid financial instruments (i.e., derivatives embedded in other financial instruments). The statement amends SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", and SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities—a replacement of FASB Statement No. 125." SFAS No. 155 is effective for all financial instruments issued or acquired after the beginning of an entity's first fiscal year that begins after September 15, 2006. The Company has not issued any such instruments since the effective date of this pronouncement.

In March of 2006, the FASB issued SFAS No. 156, "Accounting for Servicing of Financial Assets, an amendment of FASB Statement No. 140" (SFAS 156). SFAS 156 amends SFAS 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities a replacement of FASB Statement No. 125," with respect to the accounting for separately recognized servicing assets and servicing liabilities. SFAS 156 requires an entity to recognize a servicing asset or servicing liability each time it undertakes an obligation to service a financial asset by entering into a servicing contract in any of the following situations: (a) a transfer of the servicer's financial assets that meets the requirements for sale accounting, (b) a transfer of the servicer's financial assets to a qualifying special-purpose entity in a guaranteed mortgage securitization in which the transferor retains all of the resulting securities and classifies them as either available-for-sale securities or trading securities, and (c) an acquisition or assumption of an obligation to service a financial asset that does not relate to financial assets of the servicer or its consolidated affiliates. SFAS 156 is effective for all servicing assets and liabilities as of the beginning of an entity's first fiscal year that begins after September 15, 2006. The Company has no such servicing arrangements and, thus, the effect of adoption of SFAS 156 did not have a material impact on the Company's consolidated financial statements.

In July 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes (FIN 48) – an interpretation of FASB Statement No. 109, Accounting for Income Taxes (SFAS No. 109)" (FIN 48). FIN 48

clarifies the accounting for uncertainty in income taxes recognized in accordance with SFAS No. 109 and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a return. Guidance is also provided on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company is currently evaluating the impact of FIN 48 on its financial position and results of operations.

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**YP CORP. AND SUBSIDIARIES**  
**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

In September 2006, the SEC issued Staff Accounting Bulletin No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements" ("SAB 108"). SAB 108 provides guidance on how prior year misstatements should be considered when quantifying misstatements in the current year financial statements. The SAB requires registrants to quantify misstatements using both a balance sheet and an income statement approach and evaluate whether either approach results in quantifying a misstatement that, when all relevant quantitative and qualitative factors are considered, is material. SAB 108 does not change the guidance in SAB 99, "Materiality", when evaluating the materiality of misstatements. SAB 108 is effective for fiscal years ending after November 15, 2006. The adoption of this pronouncement did not have a material effect of the Company's consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. Where applicable, SFAS 157 clarifies and codifies related guidance within other generally accepted accounting principles. SFAS 157 is effective for fiscal years beginning after November 15, 2007. The effect of adoption of SFAS 157 is not anticipated to have a material impact on the Company's consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities", which provides companies with an option to report selected financial assets and liabilities at fair value. SFAS No. 159 also establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. SFAS No. 159 is effective as of the beginning of an entity's first fiscal year beginning after November 15, 2007 with early adoption allowed. The Company has not yet determined the impact, if any, that adopting this standard might have on its financial statements.

## 11. SUBSEQUENT EVENTS

### Acquisition of OnCall Subscriber Management Inc.

On July 10, 2007, the Company acquired substantially all of the assets and assumed certain liabilities of OnCall Subscriber Management Inc. (a Manila, Philippines-based company), which OnCall purchased recently under option from 24 by 7 Contact Solutions, Inc. The Company completed the acquisition through 247 Marketing, LLC, a wholly owned subsidiary, which will establish a branch office in the Philippines to operate the business. The purchase price of the acquisition was \$4,500,000 payable in cash. The acquisition will add 170 Philippines-based employees to the Company's workforce.

### Change in Directors

Effective August 3, 2007, Elisabeth DeMarse resigned from the board of directors of the Company as disclosed in the Company's Form 8-K filed on August 9, 2007.

### Shareholder Meeting

The following matters were approved by the Company's stockholders at Special Meeting of Stockholders held on August 2, 2007:

- A proposal to give the Company's Board of Directors discretion to effect a reverse stock split with respect to issued and outstanding shares of our common stock; and
- A proposal to amend and restate the Company's Restated Articles of Incorporation to change the Company's name from "YP Corp." to "LiveDeal, Inc."

The name change will become effective on August 15, 2007. As the stock split had not yet been effected by the Company's Board of Directors, all per share amounts included herein have been unaffected by the actions taken during the meeting held on August 2, 2007.

\* \* \*

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

For a description of our significant accounting policies and an understanding of the significant factors that influenced our performance during the three and nine months ended June 30, 2007, this "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations" (hereafter referred to as "MD&A") should be read in conjunction with the Consolidated Financial Statements, including the related notes, appearing in Item 1 of this Quarterly Report on Form 10-Q, as well as our Annual Report on Form 10-K for the year ended September 30, 2006.

**Forward-Looking Statements**

This portion of this Quarterly Report on Form 10-Q, includes statements that constitute "forward-looking statements." These forward-looking statements are often characterized by the terms "may," "believes," "projects," "expects," "anticipates," and do not reflect historical facts.

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 our Annual Report on Form 10-K for the fiscal year ended September 30, 2006 under Item 1A "Risk Factors", as well as other factors that we are currently unable to identify or quantify, but that may exist in the future.

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

**Executive Overview**

This section presents a discussion of recent developments and summary information regarding our industry and operating trends only. For further information regarding the events summarized herein, you should read this MD&A in its entirety.

*Acquisition of LiveDeal, Inc*

On June 6, 2007, we completed the acquisition of LiveDeal, Inc. ("LiveDeal"). LiveDeal has developed and operates an online local classifieds marketplace, [www.livedeal.com](http://www.livedeal.com) which has more than a million goods and services listed for sale, in almost every city and zip code across the U.S. LiveDeal offers such classifieds functionality as fraud protection, identity protection, e-commerce, listing enhancements, photos, community-building, package pricing, premium stores, featured Yellow Page business listings and advanced local search capabilities. Additionally, the LiveDeal technology lets consumers search or browse for items in a particular city, state or zip code.

At the site, users can search classifieds in any region, and can look up businesses in a yellow pages database. As with most such classified ad sites, users are offered a search window, and a listing of subcategories. It appears that sales are made directly between the user (buyer) and seller, and an "email the seller" link is provided to assist in this process.

Among the interesting features of LiveDeal's site is "Local AdWiz", which is a classifieds and yellow pages distribution network, turning any web site or blog into a unique and localized classifieds and yellow pages site in seconds. AdWiz gives website publishers fresh local content and an instant revenue stream. Local AdWiz pulls from millions of classified and yellow page listings across multiple categories from people in cities and towns all over the

U.S. AdWiz enables the listings to be republished dynamically on any website within seconds.

Rajesh Navar, the founder & CEO of LiveDeal, will serve as president and chief architect of YP Corp. and also joined our board, as of the effective date of the acquisition. Mr. Navar brings more than 16 years experience in building high technology and Internet companies. Mr. Navar was an original member of the engineering and management team at eBay. Prior to founding LiveDeal, Navar joined eBay in 1998, a start-up at that time, as a senior member of the engineering team. In September, 2005, Navar was honored among Silicon Valley Business Journal's chronicle of "40 under 40" people to watch.



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The acquisition represents a major strategic event in our history and is expected to result in significant efficiencies as well as future growth opportunities. The third quarter's results of operation include LiveDeal's operating results from June 6, 2007 through June 30, 2007. The unaudited balance sheet includes LiveDeal assets and liabilities acquired as of June 6, 2007 as well as a preliminary allocation of the purchase price.

The aggregate purchase price of LiveDeal was approximately \$12,741,000, consisting of approximately \$12,328,000 of stock-based consideration and approximately \$413,000 of acquisition-related expenses. The value of the combined 16,750,061 shares of Common Stock granted in the transaction was determined based on the average closing market price of the Common Stock over the two day period before and after the effective date of the acquisition.

The following table presents the allocation of the acquisition cost, including acquisition-related expenses, to the assets acquired and liabilities assumed, based on their fair values:

|                               |                      |
|-------------------------------|----------------------|
| Current assets                | \$ 962,877           |
| Property, plant and equipment | 70,000               |
| Goodwill                      | 7,389,951            |
| Intangible assets             | 2,130,000            |
| Deferred tax assets           | 3,545,618            |
| Other non-current assets      | 10,846               |
| <b>Total assets acquired</b>  | <b>14,109,292</b>    |
| <br>                          |                      |
| Current liabilities           | 1,368,012            |
| Total liabilities assumed     | 1,368,012            |
| <b>Net assets acquired</b>    | <b>\$ 12,741,280</b> |

Further information with respect to this acquisition is set forth in Note 4 to our unaudited consolidated financial statements.

*Acquisition of OnCall Subscriber Management Inc.*

On July 10, 2007, we acquired substantially all of the assets and assumed certain liabilities of OnCall Subscriber Management Inc. (a Manila, Philippines-based company), which OnCall purchased recently under option from 24 by 7 Contact Solutions, Inc. We completed the acquisition through 247 Marketing, LLC, a wholly owned subsidiary, which will establish a branch office in the Philippines to operate the business. The purchase price of the acquisition was \$4,500,000 payable in cash. The acquisition will add 170 Philippines-based employees to our workforce.

*Income Statement Reclassifications*

During the second quarter of fiscal 2007, we revisited our consolidated financial statement presentation. As such, we have determined that it is preferable to reflect dilution and chargeback amounts as a reduction in net revenues, include depreciation and amortization in general and administrative expenses, and show expenses related to the attorneys general settlement as litigation and related expenses. Previously, these amounts were respectively included in cost of sales, shown as a separate expense item, and presented in other income (expense). We also made certain reclassifications with respect to the classifications of certain accounts on our consolidated balance sheet. Our auditors have reviewed these changes and concur with our current presentation. All prior periods have been reclassified to conform to the current period presentation. See Note 1 to our unaudited consolidated financial statements.

*Recent Operating Results*

We bill our customers through four primary channels: LEC billing, ACH billing, recurring credit card and direct invoice. In fiscal 2006, we began acquiring new customers via telemarketing campaigns, which are allowed to be billed via LECs. These telemarketing campaigns have reopened certain LEC billing channels as a viable billing channel. Additionally, our monthly billing rates are higher for customers acquired via telemarketing campaigns. For these reasons, as well as the cessation of the use of our activation checks, we expect to continue to expand our telemarketing campaigns in the future. The Company's online traffic acquisition strategy includes activities in e-mail marketing, search engine marketing (SEM) search engine optimization (SEO) partnerships with major online marketing companies, and the generation of word of mouth advertising. We anticipate continued investment in online advertising to bring increased traffic to our websites which should result in increased value to the local business advertising community thereby driving increased revenues.

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In fiscal 2007, as a result of the Attorneys' General settlement, we experienced an increase in customer cancellations associated primarily with customers billed through our ACH channel. The net impact of this was to reduce our ACH revenues and, because we experienced a decline in ACH customer counts, this increased the relative percentage of customers that are billed through LEC channels.

During 2007, because we were no longer able to utilize activation check campaigns, we reduced our headcount associated with customer service representatives that previously reconfirmed activated customers and performed other service activities related to the check campaigns. We also began to invest in the necessary infrastructure to expand our telemarketing campaigns.

The following represents a summary of recent financial results (certain amounts have been reclassified to conform to the current period presentation as described in Note 1 to our unaudited consolidated financial statements):

|                         | <b>Q3 2007</b> | <b>Q2 2007</b> | <b>Q1 2007</b> | <b>Q4 2006</b> | <b>Q3 2006</b> | <b>Q2 2006</b> |
|-------------------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Net Revenues            | \$ 5,989,437   | \$ 6,106,544   | \$ 7,123,683   | \$ 8,335,284   | \$ 8,577,639   | \$ 7,997,623   |
| Gross margin            | 5,278,179      | 5,324,346      | 6,296,874      | 7,047,642      | 7,843,120      | 7,410,733      |
| Operating expenses      | 4,701,818      | 4,218,620      | 5,556,819      | 9,403,319      | 6,613,886      | 7,278,872      |
| Operating income (loss) | 576,361        | 1,105,726      | 740,055        | (2,355,677)    | 1,229,234      | 131,861        |
| Net income (loss)       | 266,405        | 626,262        | 485,198        | (1,680,673)    | 826,847        | 129,998        |

(1) The following items are relevant to our recent quarterly operating results, each of which are further described herein:

- On June 6, 2007, the Company completed the acquisition of LiveDeal, Inc. The results of operations include LiveDeal's operating loss, for the period of June 6, 2007 through June 30, 2007, of approximately \$150,000. The Company expects the benefits of the LiveDeal merger to begin to be realized during fiscal 2008. These benefits are expected to come from increased revenue growth as marketing campaigns gain footing and through cost reductions as the operational groups are optimized.
- Second quarter of fiscal 2007 – includes the reversal of approximately \$200,000 of accrued expenses related to the Attorneys' General settlement.
- First quarter of fiscal 2007 – includes approximately \$1,000,000 of direct response advertising costs incurred in October 2006 for which we derived no substantial benefit based on the attorneys' general settlement that was agreed to in December 2006.
- Fourth quarter of fiscal 2006 – includes the following charges associated with the voluntary agreement with various regulatory agencies surrounding the use of activation checks (described in Recent Developments and Outlook above):

- o \$2,000,000 payment to cover regulatory and related expenses
- o \$1,525,000 of accrued refunds, processing fees, legal and other related fees

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- Third quarter of fiscal 2006 – no significant unusual expenses were incurred.
- Second quarter of fiscal 2006 – includes an increase of general and administrative expenses of approximately \$80,000 related to separation costs with our former Chief Financial Officer and \$39,000 related to separation costs with other employees.

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

|                | Q3 2007 | Q2 2007 | Q1 2007 | Q4 2006 | Q3 2006 | Q2 2006 |
|----------------|---------|---------|---------|---------|---------|---------|
| LEC billing    | 66%     | 65%     | 55%     | 56%     | 55%     | 44%     |
| ACH billing    | 28%     | 31%     | 41%     | 39%     | 39%     | 47%     |
| Direct billing | 4%      | 4%      | 4%      | 5%      | 6%      | 9%      |
| Classified     | 2%      | 0%      | 0%      | 0%      | 0%      | 0%      |

The higher percentage of LEC billings in Q3 2007 and Q2 2007 is directly related to the effects of the significant customer loss occurring in the second quarter, as most of the customer cancellations were for customers billed through our ACH channel.

**Results of Operations***Net Revenues*

|                             | 2007          | Net Revenues<br>2006 | Change         |
|-----------------------------|---------------|----------------------|----------------|
| Three Months Ended June 30, | \$ 5,989,437  | \$ 8,577,640         | \$ (2,588,203) |
| Nine Months Ended June 30,  | \$ 19,219,664 | \$ 23,622,664        | \$ (4,403,000) |

Gross revenue for the quarter ended June 30, 2007 versus quarter ended June 30, 2006 was down \$4 million while returns and allowances were down \$1.5 million. For the nine months ended June 30, 2007 as compared to the nine months ended June 30, 2006, gross revenues were down \$7 million while returns and allowances were down \$2.6 million. The primary reason for the decrease in net revenues, for the three and nine months ended June 30, 2007, was a lower paid listings count.

At June 30, 2007, the Company had approximately 76,000 yellow page paid listings as compared to approximately 133,000 paid listings at June 30, 2006. Average monthly gross revenue per average billed yellow page listing for the quarter ended June 30, 2007 was approximately \$30.15 as compared to \$29.40 for the quarter ended March 31, 2007 and \$26.98 for the quarter ended June 30, 2006. The majority of our IAP customers pay between \$27.50 and \$39.95 per month.

The Company has been successful in opening new territories, but we have taken a very measured approach in adding new customers to these territories to ensure we stay within the guidelines of billing channels. The Company's growth strategy is to introduce innovative new products, enhance customer recognition of our brands, continue to expand our footprint in the local search market and, where appropriate, make strategic acquisitions.

On June 6, 2007, the Company completed its acquisition of LiveDeal, Inc. The results of operations include LiveDeal operating results for the period of June 6, 2007 through June 30, 2007. Included in the Company's net revenue for the three and nine months ended June 30, 2007 is approximately \$140,000 of net revenues generated by LiveDeal sales and marketing activities. At June 30, 2007, LiveDeal had 2362 classified advertising customers and 686 premium

store subscriber customers. Revenues per customer vary based on the respective services provided to each customer.

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Although we have concentrations of risk with our billing aggregators (see Note 8 to our unaudited consolidated financial statements) these aggregators bill via many underlying LECs, thereby reducing our risk associated with credit concentrations. However, there are a few LECs that service a significant number of our customers. To the extent that future changes in their billing practices cause a disruption in our ability to bill through these channels, our revenues could be adversely affected.

*Cost of Services*

|                             | <b>Cost of Services</b> |              |               |
|-----------------------------|-------------------------|--------------|---------------|
|                             | <b>2007</b>             | <b>2006</b>  | <b>Change</b> |
| Three Months Ended June 30, | \$ 711,258              | \$ 734,519   | \$ (23,261)   |
| Nine Months Ended June 30,  | \$ 2,320,265            | \$ 1,858,380 | \$ 461,885    |

The slight decrease in cost of services for the three months ended June 30, 2007, as compared to the three months ended June 30, 2006, is attributable to lower billing fees partially offset by fees attributable to our wholesale account activity which was minimal in third quarter of fiscal 2006. The increase in cost of services for the nine months ended June 30, 2007, as compared to June 30, 2006, is primarily due to fees attributable to our wholesale accounts which did not exist in the second quarter of fiscal 2006 and were minimal in the third quarter of 2006. Cost of services attributable to LiveDeal that were included for the period June 6, 2007 through June 30, 2007 were immaterial to the third quarter's results.

*Gross Profit*

|                             | <b>Gross Profit</b> |               |                |
|-----------------------------|---------------------|---------------|----------------|
|                             | <b>2007</b>         | <b>2006</b>   | <b>Change</b>  |
| Three Months Ended June 30, | \$ 5,278,179        | \$ 7,843,121  | \$ (2,564,942) |
| Nine Months Ended June 30,  | \$ 16,899,399       | \$ 21,764,284 | \$ (4,864,885) |

The decrease in our gross profits was due to decreased net revenues attributable to the lower paid listing counts, as described above and an increase in cost of services primarily from costs attributable to our wholesale accounts, also described above.

*General and Administrative Expenses*

|                             | <b>General and Administrative Expenses</b> |               |                |
|-----------------------------|--|---------------|----------------|
|                             | <b>2007</b>                                | <b>2006</b>   | <b>Change</b>  |
| Three Months Ended June 30, | \$ 3,399,803                               | \$ 3,481,148  | \$ (81,345)    |
| Nine Months Ended June 30,  | \$ 10,181,167                              | \$ 11,718,618 | \$ (1,537,451) |

General and administrative expenses decreased for the quarter and nine months ended June 30, 2007 compared to the quarter and nine months ended June 30, 2006. This decrease in general and administrative expenses is largely due to reductions in our workforce and other costs related to the cessation of call center activities and other administrative functions associated with our check activation campaigns which served to reduce our expenses for compensation and reconfirmation, mailing, billing, and other customer-related costs. During the nine months ended June 30, 2006, we incurred a charge of \$456,500 associated with the termination of our former Chief Executive Officer, Chief Financial Officer and various other employees. These decreases were partially offset by increased travel costs related to

investor relations campaigns and an increase in operational consulting fees.

On June 6, 2007, the Company completed its acquisition of LiveDeal, Inc. Results of operations include operating results from LiveDeal from June 6, 2007 through June 30, 2007, and consequently, approximately \$195,000 of general and administrative attributable to LiveDeal are included in the three and nine months ended June 30, 2007.

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

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

|  | Q3 2007      | Q2 2007      | Q1 2007      | Q4 2006      | Q3 2006      | Q2 2006      |
|--|--------------|--------------|--------------|--------------|--------------|--------------|
| Compensation for employees, leased employees, officers and directors | \$ 1,760,439 | \$ 1,877,103 | \$ 1,873,582 | \$ 2,073,646 | \$ 1,908,099 | \$ 2,476,713 |
| Professional fees  | 693,775      | 495,459      | 678,089      | 697,784      | 649,706      | 479,696      |
| Reconfirmation, mailing, billing and other customer-related costs    | 24,269       | 34,042       | 23,715       | 39,180       | 245,597      | 396,883      |
| Depreciation and amortization  | 396,759      | 364,724      | 336,887      | 316,688      | 351,342      | 369,519      |
| Other general and administrative costs                               | 524,561      | 539,250      | 558,513      | 411,225      | 326,405      | 358,808      |

Included in compensation for employees, leased employees, officers and directors is stock compensation, which is the amortization of estimated value for our stock grants under our 2003 stock plan. For the quarter ended June 30, 2007, this expense was approximately \$335,000 as compared to approximately \$408,000 for the same period in fiscal 2006. For the nine months ended June 30, 2007, this expense was approximately \$1,170,000 as compared to \$1,326,000 for the nine months ended June 30, 2006.

Included in other general and administrative costs are expenses for facilities, utilities, telephone, communications, insurance, travel, office-related, investor relations and other miscellaneous charges.

Sales and Marketing Expenses

|                             | Sales and Marketing Expenses |              |                |
|-----------------------------|------------------------------|--------------|----------------|
|                             | 2007                         | 2006         | Change         |
| Three Months Ended June 30, | \$ 1,302,015                 | \$ 3,132,737 | \$ (1,830,722) |
| Nine Months Ended June 30,  | \$ 4,496,808                 | \$ 9,090,539 | \$ (4,593,731) |

As discussed in Note 2 to our unaudited consolidated financial statements, we enacted a change in accounting principle in the fourth quarter of fiscal 2006 to expense customer acquisition costs when they are incurred and have retroactively restated all prior periods presented to reflect such a change.

Sales and marketing expenses decreased in the quarter and nine months ended June 30, 2007 as compared to the quarter and nine months ended June 30, 2006 primarily due to the cessation of activation checks. As previously discussed, we have ceased utilizing activation checks. However, we did incur approximately \$1,000,000 of expenses in the first quarter of fiscal 2007 associated with check mailers for which we derived no substantial benefit. Funds previously spent on mail campaigns will be earmarked toward other marketing efforts in the future. We expect telemarketing campaigns and investments in online advertisement to be our primary source of sales and marketing expenditures in fiscal 2007.

On June 6, 2007, the Company completed its acquisition of LiveDeal, Inc. The results of operations include LiveDeal operating results for the period of June 6, 2007 through June 30, 2007. Included in the Company's sales and marketing expense for the three and nine months ended June 30, 2007 is approximately \$94,000 of LiveDeal sales and marketing



expenses.

*Litigation and Related Expenses*

|                             | <b>Litigation and Related Expenses</b> |             |               |
|-----------------------------|--|-------------|---------------|
|                             | <b>2007</b>                            | <b>2006</b> | <b>Change</b> |
| Three Months Ended June 30, | \$ -                                   | \$ -        | \$ -          |
| Nine Months Ended June 30,  | \$ (200,718)                           | \$ 161,804  | \$ (362,522)  |

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There were no litigation and related expenses for the three months ended June 30, 2007 and June 30, 2006. For the nine months ended June 30, 2007, litigation and related expenses relate to the reversal of a portion of the accruals for refunds and other costs that were recorded in the fourth quarter of fiscal 2006 associated with the Attorneys' General settlement. Litigation and related expenses for the nine months ended June 30, 2006 relate to adjustments for legal accruals related to the settlement of a dispute with a former vendor.

*Operating Income*

|                             | <b>Operating Income</b> |              |               |
|-----------------------------|-------------------------|--------------|---------------|
|                             | <b>2007</b>             | <b>2006</b>  | <b>Change</b> |
| Three Months Ended June 30, | \$ 576,361              | \$ 1,229,236 | \$ (652,875)  |
| Six Months Ended March 31,  | \$ 2,422,142            | \$ 793,323   | \$ 1,628,819  |

For the three months ended June 30, 2007, as compared to the three months ended June 30, 2006, operating income decreased primarily due to the approximately \$2.6 million unfavorable variance in net revenues. Partially offsetting this deficit were favorable variances of approximately \$80,000 in general and administrative expenses and approximately \$1.8 million in sales and marketing expenses.

For the nine months ended June 30, 2007, as compared to the nine months ended June 30, 2006, operating income increased primarily due to favorable variances in operating expenses of approximately \$6.5 million and a favorable variance of approximately \$462,000 in cost of services. These favorable variances were partially offset by an unfavorable net revenue variance of approximately \$4.4 million.

On June 6, 2007, the Company completed its acquisition of LiveDeal, Inc. The results of operations include LiveDeal operating results for the period of June 6, 2007 through June 30, 2007. Included in the Company's operating income for the three and nine months ended June 30, 2007 is an operating loss of approximately \$150,000 from LiveDeal operations.

*Income Tax Provision*

|                             | <b>Income Tax Provision</b> |              |               |
|-----------------------------|-----------------------------|--------------|---------------|
|                             | <b>2007</b>                 | <b>2006</b>  | <b>Change</b> |
| Three Months Ended June 30, | \$ (379,407)                | \$ (460,343) | \$ 80,936     |
| Nine Months Ended June 30,  | \$ (1,292,180)              | \$ (299,921) | \$ (992,259)  |

The changes in our income tax benefit (provision) for the three and nine months ended June 30, 2007 as compared to the three and nine months ended June 30, 2006 are due primarily to our change in profitability. However, we also incurred an additional \$145,000 and \$279,000 of income tax expense for the three and nine months ended June 30, 2007, respectively, due to book-tax differences in the recognition of restricted stock awards. During these periods, a portion of our restricted stock awards had vested and, due to declines in our stock price from grant date to vest date, the tax effects of the vesting of these awards were less than the carrying value of our related deferred tax assets.

*Net Income*

|  | <b>Net Income</b> |             |               |
|--|-------------------|-------------|---------------|
|  | <b>2007</b>       | <b>2006</b> | <b>Change</b> |

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|                             |              |            |              |
|-----------------------------|--------------|------------|--------------|
| Three Months Ended June 30, | \$ 266,405   | \$ 826,848 | \$ (560,443) |
| Nine Months Ended June 30,  | \$ 1,377,865 | \$ 629,754 | \$ 748,111   |

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The decrease in net income for the three months ended June 30, 2007 as compared to the three months ended June 30, 2006 is attributable to the decrease in gross profit, partially offset by operating expense cost reductions, each of which is described above. The increase in net income for the nine months ended June 30, 2007 as compared to the nine months ended June 30, 2006 is attributable to operating expense costs reductions, partially offset by a decrease in gross profit, each of which is described above.

**Liquidity and Capital Resources**

Net cash provided by operating activities increased \$523,757 to \$1,240,352 for the nine month period ended June 30, 2007, as compared to \$716,595 for the period ended June 30, 2006. Contributing factors in this approximate \$524,000 increase were increases in net income of approximately \$748,000 and increases in changes in operating assets and liabilities of approximately \$442,000, partially offset by a decrease in non-cash activities of approximately \$666,000. The decrease in noncash expenses was caused primarily by a increase in deferred income taxes due to timing differences between book and tax income partially offset by a decrease in the provision for doubtful accounts caused by lower sales volumes and changes in quality assurance procedures for our billing processes. The increase in changes in operating assets and liabilities is attributable to many different business factors, including changes in the use of certain billing methods and changes in the timing of payments for accounts payable, accrued expenses and estimated taxes.

Our primary source of cash inflows is net remittances from our billing channels, including LEC billings and ACH billings. For LEC billings, we receive collections on accounts receivable through the billing service aggregators under contracts to administer this billing and collection process. The billing service aggregators generally do not remit funds until they are collected. Generally, cash is collected and remitted to us (net of dilution and other fees and expenses) over a 60- to 120-day period subsequent to the billing dates. Additionally, for each monthly billing cycle, the billing aggregators and LECs withhold certain amounts, or "holdback reserves," to cover potential future dilution and bad debt expense. These holdback reserves lengthen our cash conversion cycle as they are remitted to us over a 12- to 18-month period of time. We classify these holdback reserves as current or long-term receivables on our balance sheet, depending on when they are scheduled to be remitted to us. For ACH billings, we generally receive the net proceeds through our billing service processors within 15 days of submission. Additionally, the net receivable due from three of our billing services providers represented 28%, 28% and 20%, respectively, of our total net accounts receivable (excluding non-specific reserves) at June 30, 2007. The net receivable due from such billing services providers represented 27%, 27% and 27%, respectively, of our total net accounts receivable at September 30, 2006.

Our most significant cash outflows include payments for marketing expenses and general operating expenses. Marketing costs have historically included direct response mailing costs and telemarketing costs, but we no longer expect to incur significant mailing costs in the future due to changes in our business practices relating to the Attorneys' General settlement. Funds previously spent on mail campaigns will be earmarked toward other marketing efforts in the future. General operating cash outflows consist of payroll costs, professional fees income taxes, and general and administrative expenses that typically occur within close proximity of expense recognition. We utilize non-cash compensation awards through grants of restricted stock under our 2003 Stock Plan and expect to continue to utilize such awards in the future.

Cash provided by investing activities was \$2,612,976 for the nine months ended June 30, 2007, consisting of \$3,082,053 of proceeds from redemptions of certificates of deposits and other investments and \$397,876 of net cash acquired (consisting of cash acquired less cash-based acquisition costs) through the acquisition of LiveDeal, Inc., partially offset by \$674,580 of expenditures for intangible assets for website licenses, website development costs, online customer service and customer relationship management software, and \$192,373 of equipment purchases. During the nine months ended June 30, 2006, cash used for investing activities was \$1,235,047, consisting of \$1,050,557 for purchases of certificates of deposits and other investments \$166,804 of website development costs ,

and \$17,686 for equipment purchases.

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There were no financing cash flows for the nine months ended June 30, 2007. For the nine months ended June 30, 2006, cash flows used in financing activities consisted of \$134,418 of acquisitions of our common stock through our stock repurchase program.

We had working capital of \$15,710,956 as of June 30, 2007, compared to \$13,908,560 as of September 30, 2006. During the nine months ended June 30, 2007, total current assets declined by approximately \$0.8 million while total current liabilities decreased by approximately \$2.6 million.

Until April 1, 2005, we were contractually obligated to pay a \$0.01 per share dividend each quarter, subject to compliance with applicable laws, to all common stockholders, including those who hold unvested restricted stock. We are no longer required to pay quarterly dividends to our common shareholders. Future dividend payments will be evaluated by the Board of Directors based upon earnings, capital requirements and financial position, general economic conditions, alternative uses of capital and other pertinent factors.

During the second quarter of fiscal 2006, the Company entered into a contractual arrangement with an attorney to provide legal services. Under the terms of the agreement, the Company is obligated to make future payments over the next two years totaling \$94,500 in exchange for future services. Such amounts have not been accrued in the accompanying consolidated financial statements as such payments are for future services. The Company has expensed all amounts related to services rendered through June 30, 2007.

During the third quarter of fiscal 2006, the Company entered into a contractual arrangement with a consulting firm to provide strategic and operational related consulting services. Under the terms of the agreement, the Company is obligated to make future payments through February 2010 that vary based on the Company's billed customer count subject to a minimum of \$20,000 per month. Current payments are approximately \$62,000 per month. Such amounts have not been accrued in the accompanying consolidated financial statements as such payments are for future services. The Company has expensed all amounts related to services rendered through June 30, 2007.

During the fourth quarter of fiscal 2006, we entered into a contractual arrangement with an information technology company to provide information technology consulting services. Under the terms of the agreement, we are obligated to make future payments of \$29,500 per month through September 2009. Such amounts have not been accrued in the accompanying consolidated financial statements as such payments are for future services. We have expensed all amounts related to services rendered through June 30, 2007.

The following table summarizes our contractual obligations at June 30, 2007 and the effect such obligations are expected to have on our future liquidity and cash flows:

|                                 | Total        | Payments Due by Fiscal Year |            |            |            |           | Thereafter |
|---------------------------------|--------------|-----------------------------|------------|------------|------------|-----------|------------|
|                                 |              | 2007                        | 2008       | 2009       | 2010       | 2011      |            |
| Operating lease commitments     | \$ 695,785   | \$ 102,459                  | \$ 251,378 | \$ 124,633 | \$ 123,795 | \$ 93,183 | \$ 337     |
| Noncancelable service contracts | 1,531,000    | 195,750                     | 641,250    | 594,000    | 100,000    | -         | -          |
|                                 | \$ 2,226,785 | \$ 298,209                  | \$ 892,628 | \$ 718,633 | \$ 223,795 | \$ 93,183 | \$ 337     |

We have no off-balance sheet arrangements at June 30, 2007.

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

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As of June 30, 2007, we did not participate in any market risk-sensitive commodity instruments for which fair value disclosure would be required under Statement of Financial Accounting Standards No. 107. We believe that we are not subject in any material way to other forms of market risk, such as foreign currency exchange risk or foreign customer purchases (of which there were none in the periods set forth in this report) or commodity price risk.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure controls and procedures are designed with an objective of ensuring that information required to be disclosed in our periodic reports filed with the Securities and Exchange Commission, such as this Quarterly Report on Form 10-Q, is recorded, processed, summarized and reported within the time periods specified by the Securities and Exchange Commission. Disclosure controls are also designed with an objective of ensuring that such information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, in order to allow timely consideration regarding required disclosures.

The evaluation of our disclosure controls by our principal executive officer and principal financial officer included a review of the controls' objectives and design, the operation of the controls, and the effect of the controls on the information presented in this Quarterly Report. Our management, including our chief executive officer and chief financial officer, does not expect that disclosure controls can or will prevent or detect all errors and all fraud, if any. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Also, projections of any evaluation of the disclosure controls and procedures to future periods are subject to the risk that the disclosure controls and procedures may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Based on their review and evaluation as of the end of the period covered by this Form 10-Q, and subject to the inherent limitations as described above, our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) are effective as of the end of the period covered by this report. They are not aware of any significant changes in our disclosure controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses. During the period covered by this Form 10-Q, there have not been any changes in our internal control over financial reporting that have materially affected, or that are reasonably likely to materially affect, our internal control over financial reporting.



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## ITEM 1A. RISK FACTORS

There have been no material changes to the factors disclosed in Item 1A Risk Factors in our Annual Report on Form 10-K for the year ended September 30, 2006.

## ITEM 6. EXHIBITS

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

ExhibitNumberDescription

|      |  |
|------|--|
| 2.1  | Agreement and Plan of Merger Dated June 6, 2007, by and among YP Corp., LD Acquisition Co., LiveDeal, Inc, Rajesh Navar and Arati Navar as Trustees of the Rajesh and Arati Navar Living Trust, and Rajesh Navar (incorporated by reference to the Company's Current Report on Form 8-K, filed June 7, 2007) |
| 3.1  | Amended and Restated Articles of Incorporation of YP Corp. (incorporated by reference to the Company's Annual Report on Form 10-K, filed December 29, 2006)  |
| 3.2  | Amended and Restated Bylaws (incorporated by reference to the Company's Annual Report on Form 10-K, filed December 29, 2006)   |
| 10.1 | Escrow Agreement dated June 6, 2007, by and among YP Corp., the Shareholders' Representative, and Thomas Title and Escrow, LLC (incorporated by reference to the Company's Current Report on Form 8-K, filed June 7, 2007)   |
| 10.2 | Employment Agreement dated June 6, 2007, by and between YP Corp. and Rajesh Navar (incorporated by reference to the Company's Current Report on Form 8-K, filed June 7, 2007)  |
| 10.3 | Noncompetition, Nondisclosure and Nonsolicitation Agreement dated June 6, 2007, by and between YP Corp. and Rajesh Navar (incorporated by reference to the Company's Current Report on Form 8-K, filed June 7, 2007)   |
| 31   | Certifications pursuant to Section 302 of the Sarbanes-Oxley Act of 2002   |
| 32   | Certifications pursuant to 18 U.S.C. Section 1350  |

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SIGNATURES

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

YP CORP.

Dated: August 15 , 2007

*/s/ Gary L. Perschbacher*  
Gary L. Perschbacher  
Chief Financial Officer