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YP NET INC  
Form PRE 14A  
January 21, 2004

SCHEDULE 14A  
(Rule 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT  
SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934

Filed by the Registrant  [X]

Filed by a Party Other than the Registrant  [ ]

Check the appropriate box:

[X] Preliminary Proxy Statement  [ ] Confidential for Use of the Commission  
Only (as permitted by Rule 14a-6(e)(2))

[ ] Definitive Proxy Statement

[ ] Definitive Additional Materials

[ ] Soliciting Material Pursuant to Rule 14a-  
11(c) or Rule 14a-12

YP.NET, INC.

(Name of Registrant as Specified in Its Charter)

Payment of Filing Fee (check the appropriate box):

[X] No fee required.

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(1) Amount previously paid: N/A

(2) Form, Schedule or Registration Statement No.: N/A

(3) Filing Party: N/A

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(4) Date Filed: N/A

YP.NET, INC.

### NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

TO BE HELD ON APRIL 2, 2004

To Our Stockholders:

The 2004 Annual Meeting of Stockholders of YP.Net, Inc. will be held at the Sheraton Hotel, 200 North Centennial Way, Mesa, Arizona 85201, on April 2, 2004, beginning at 10:00 a.m. local time. The Annual Meeting is being held for the following purposes:

1. To elect five directors to the Company's Board of Directors to serve for terms of one to three years or until their successors are duly elected and qualified if Proposal 3 is approved, or to elect the same individuals as directors for a term of one year if Proposal 3 is not approved.
2. To consider and vote upon a proposal to amend the YP.Net, Inc. 2003 Stock Plan, which would increase the shares available for issuance under the plan from 3,000,000 to 5,000,000 shares of common stock.
3. To consider and vote upon a proposal to amend and restate the Company's Articles of Incorporation in the form attached as Appendix A to the enclosed Proxy Statement (the "Amended and Restated Articles"). Specifically, the Amended and Restated Articles will accomplish the following:
  - (i) change the corporate name of the Company to "YP Corp.";
  - (ii) provide for the classification of the Board of Directors into three classes of directors with staggered three-year terms;
  - (iii) generally update the existing Articles of Incorporation to (a) eliminate the designation of the Series A, Series B, Series C, and Series D Preferred Stock since no shares of such Series have ever been issued and the Board of Directors has recently retired such series, (b) decrease the authorized Preferred Stock; (c) add language concerning the indemnification of the Company's officers and directors; (d) add language that upon dissolution of the Company, the Company's remaining net assets are to be paid to holders of Common Stock after any liquidation preference has been paid to Preferred Stockholders; (e) clarify that the number of directors of the Company may be increased or decreased as provided in the Company's Bylaws; (f) limit the ability of stockholders to act by written consent; and (g) require a supermajority vote of the stockholders to amend or repeal some of the foregoing amendments; and
  - (iv) restate the Articles of Incorporation by incorporating in a single document the new amendments, to the extent that they are approved by the stockholders at the Annual Meeting, as well as prior amendments and restatements.
4. To transact such other business that may properly come before the meeting.

Stockholders of record at the close of business on February 19, 2004 are entitled to notice of and to vote at the meeting or any postponement or

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adjournment thereof. Your vote is important. In order to assure your representation at the meeting, you are requested to complete, sign and date the enclosed proxy as promptly as possible and return it to us via facsimile to the attention of David Iannini at (480) 325-1257 or in the enclosed postage-paid envelope.

By Order of the Board of Directors

/s/ Angelo Tullo  
Angelo Tullo  
Chairman of the Board  
March 1, 2004  
Mesa, Arizona

TABLE OF CONTENTS

ABOUT THE MEETING. . . . . 1
What is the purpose of the Annual Meeting?. . . . . 1
Who is entitled to attend and vote at the Annual Meeting? . . . . . 1
How do I vote?. . . . . 1
What if I vote and then change my mind? . . . . . 2
What are the Board's recommendations? . . . . . 2
What constitutes a quorum?. . . . . 2
What vote is required to approve each item? . . . . . 2
Can I dissent or exercise rights of appraisal?. . . . . 3
Who pays for this proxy solicitation? . . . . . 3
BOARD OF DIRECTORS . . . . . 3
Election of Directors (Proposal No. 1). . . . . 3
General . . . . . 3
Vote Required . . . . . 4
Nominees. . . . . 4
How are directors compensated?. . . . . 7
How often did the Board meet during fiscal 2003?. . . . . 7
What committees has the Board established?. . . . . 7
EXECUTIVE OFFICERS AND COMPENSATION. . . . . 8
Executive Officers and Significant Employees. . . . . 8
Executive Compensation Summary. . . . . 9
CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS . . . . . 11
SECURITY OWNERSHIP OF PRINCIPAL STOCKHOLDERS AND MANAGEMENT. . . . . 17
SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE. . . . . 18
AMENDMENT TO THE YP.NET, INC. 2003 STOCK PLAN (PROPOSAL NO. 2) . . . . . 19
EQUITY COMPENSATION PLAN INFORMATION . . . . . 23
AMENDMENT TO AND RESTATEMENT OF THE COMPANY'S ARTICLES OF INCORPORATION (PROPOSAL NO. 3) 23
STOCKHOLDER PROPOSALS AND NOMINATIONS. . . . . 30
OTHER MATTERS. . . . . 30
ELECTRONIC DELIVERY OF FUTURE ANNUAL MEETING MATERIALS . . . . . 30
APPENDIX-AMENDED AND RESTATED ARTICLES OF INCORPORATION OF YP.NET, INC A-. . . . . 1

YP.NET, INC.
4840 EAST JASMINE STREET
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(480) 654-9646

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## PROXY STATEMENT FOR ANNUAL MEETING OF STOCKHOLDERS TO BE HELD ON APRIL 2, 2004

This Proxy Statement relates to the 2004 Annual Meeting of Stockholders of YP.Net, Inc. The Annual Meeting will be held on April 2, 2004 at 10:00 a.m. local time, at the Sheraton Hotel located at 200 North Centennial Way, Mesa, Arizona 85201, or at such other time and place to which the Annual Meeting may be adjourned or postponed. THE ENCLOSED PROXY IS SOLICITED BY OUR BOARD OF DIRECTORS. The proxy materials relating to the Annual Meeting are first being mailed to stockholders entitled to vote at the meeting on or about March 2, 2004.

### ABOUT THE MEETINGABOUT THE MEETING

#### WHAT IS THE PURPOSE OF THE ANNUAL MEETING?

At the Annual Meeting, stockholders will act upon the matters outlined in the accompanying Notice of Annual Meeting and this Proxy Statement, including the election of five directors, the amendment of the 2003 Stock Plan, and the amendment and restatement of our Articles of Incorporation. In addition, management will report on our most recent financial and operating results and respond to questions from stockholders.

#### WHO IS ENTITLED TO ATTEND AND VOTE AT THE ANNUAL MEETING?

Only stockholders of record at the close of business on the record date, February 19, 2004, or their duly appointed proxies, are entitled to receive notice of the Annual Meeting, attend the meeting, and vote the shares that they held on that date at the meeting or any postponement or adjournment of the meeting. At the close of business on February 1, 2004, there were issued, outstanding and entitled to vote approximately 48,860,802 shares of our common stock, par value \$.001 per share, which are entitled to approximately 48,860,802 votes. You may not cumulate votes in the election of directors.

#### HOW DO I VOTE?

You can vote on matters to come before the meeting in two ways: (i) you can attend the meeting and cast your vote in person; or (ii) you can vote by completing, dating and signing the enclosed proxy card and returning it to us or by the use of mail or facsimile. If you do so, you will authorize the individuals named on the proxy card, referred to as the proxyholders, to vote

1

your shares according to your instructions or, if you provide no instructions, according to the recommendations of the Board of Directors.

#### WHAT IF I VOTE AND THEN CHANGE MY MIND?

You may revoke your proxy at any time before it is exercised by either (i) filing with our Corporate Secretary a notice of revocation; (ii) sending in another duly executed proxy bearing a later date; or (iii) attending the meeting and casting your vote in person. Your last vote will be the vote that is counted.

#### WHAT ARE THE BOARD'S RECOMMENDATIONS?

Unless you give other instructions on your proxy card, the persons named on

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the proxy card will vote in accordance with the recommendations of the Board of Directors. The Board's recommendations are set forth together with a description of such items in this Proxy Statement. In summary, the Board recommends a vote FOR all of the proposals described in this Proxy Statement.

With respect to any other matter that properly comes before the meeting, the proxy holders will vote as recommended by the Board of Directors or, if no recommendation is given, in their own discretion.

### WHAT CONSTITUTES A QUORUM?

The presence at the Annual Meeting, in person or by proxy, of the holders of a majority of the issued and outstanding shares on the record date will constitute a quorum, permitting us to conduct our business at the Annual Meeting. Proxies received but marked as abstentions and broker non-votes (defined below) will be included in the calculation of the number of shares considered to be present at the meeting for purposes of determining whether a quorum is present.

### WHAT VOTE IS REQUIRED TO APPROVE EACH ITEM?

**ELECTION OF DIRECTORS.** Election of a director requires affirmative votes of the holders of a plurality of the shares present in person or represented by proxy, and entitled to vote at a meeting at which a quorum is present. The five persons receiving the greatest number of votes will be elected as directors. Stockholders may not cumulate votes in the election of directors. Since only affirmative votes count for this purpose, a properly executed proxy marked "WITHHOLD AUTHORITY" with respect to the election of one or more directors will not be voted with respect to the director or directors indicated, although it will be counted for purposes of determining whether there is a quorum.

**AMENDMENT TO 2003 STOCK PLAN.** The approval of the proposed amendment to the 2003 Stock Plan will require the affirmative vote of the holders of a majority of the shares represented in person or by proxy and entitled to vote on the proposal. A properly executed proxy marked "ABSTAIN" with respect to this proposal will not be voted, although it will be counted for purposes of whether there is a quorum. Accordingly, an abstention will have the effect of a negative vote.

2

**AMENDMENT AND RESTATEMENT OF ARTICLES OF INCORPORATION.** The approval of the proposed amendment and restatement of our Articles of Incorporation will require the affirmative vote of the holders of a majority of our outstanding shares of common stock. A properly executed proxy marked "ABSTAIN" with respect to this proposal will not be voted, although it will be counted for purposes of whether there is a quorum. Accordingly, an abstention will have the effect of a negative vote.

**EFFECT OF BROKER NON-VOTES.** If your shares are held by your broker in "street name," you are receiving a voting instruction form from your broker or the broker's agent, asking you how your shares should be voted. Please complete the form and return it in the envelope provided by the broker or agent. No postage is necessary if mailed in the United States. If you do not instruct your broker how to vote, your broker may vote your shares at its discretion or, on some matters, may not be permitted to exercise voting discretion. Votes that could have been cast on the matter in question if the brokers have received their customers' instructions, and as to which the broker has notified us on a proxy form in accordance with industry practice or has otherwise advised us that it lacks voting authority, are referred to as "broker non-votes." Thus, if you do not give your broker or nominee specific instructions, your shares may not be

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voted on those matters and will not be counted in determining the number of shares necessary for approval. Shares represented by such "broker non-votes" will, however, be counted in determining whether there is a quorum. Accordingly, a broker non-vote will have the effect of a negative vote.

### CAN I DISSENT OR EXERCISE RIGHTS OF APPRAISAL?

Under Nevada law, holders of our voting stock are not entitled to dissent from any of the proposals to be presented at the Annual Meeting or to demand appraisal of their shares as a result of the approval of any of the proposals.

### WHO PAYS FOR THIS PROXY SOLICITATION?

The Company will bear the entire cost of solicitation, including the preparation, assembly, printing and mailing of this Proxy Statement, the proxy and any additional solicitation materials furnished to the stockholders. Copies of solicitation materials will be furnished to brokerage houses, fiduciaries and custodians holding shares in their names that are beneficially owned by others so that they may forward the solicitation material to such beneficial owners.

### BOARD OF DIRECTORSBOARD OF DIRECTORS

#### ELECTION OF DIRECTORS (PROPOSAL NO. 1)

### GENERAL

A board of five directors is to be elected at the Annual Meeting. It is expected that a majority of the common stock will be voted in favor of the five nominees named below, all of

3

whom are current directors. In the event Proposal 3, which includes the creation of a classified Board of Directors, is adopted at the Annual Meeting, the directors will be divided into three classes and, unless otherwise noted on the proxy, the shares represented by the enclosed proxy will be voted for the election as directors of the five nominees named below to serve for the terms indicated below, or until their successors have been duly elected and qualified. If Proposal 3 is not approved by the stockholders at the Annual Meeting, then unless otherwise noted on the proxy, the shares represented by the enclosed proxy will be voted for the election as directors of the five nominees named below to serve until the 2005 Annual Meeting or until their successors have been duly elected and qualified. In the event that any nominee is unable or declines to serve as a director, an alternate nominee will be designated by the present Board of Directors to fill the vacancy. We are not aware of any nominee who will be unable or will decline to serve as a director.

### VOTE REQUIRED

If a quorum is present and voting, the five nominees receiving the highest number of votes will be elected to the Board of Directors.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR ELECTION OF EACH OF THE DIRECTOR NOMINEES.

### NOMINEES

The names of the nominees and certain information about them are set forth below:

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| NAME OF NOMINEE      | CLASS | TERM | AGE | TITLE   |
|----------------------|-------|------|-----|---|
| Angelo Tullo         | I     | 2007 | 47  | Chairman of the Board of Directors, Chief Executive Officer and President |
| DeVal Johnson        | I     | 2007 | 37  | Director and Secretary  |
| Peter Bergmann       | II    | 2006 | 54  | Director  |
| Daniel L. Coury, Sr. | II    | 2006 | 49  | Director  |
| Gregory B. Crane     | III   | 2005 | 39  | Director  |

ANGELO TULLO. Mr. Tullo has served as the Chairman of the Board of YP.Net since February 2000. Mr. Tullo was hired as Chief Executive Officer and President on September 10, 2000. Mr. Tullo is the president of Sunbelt Financial Solutions, Inc., an investment banking and consulting firm in Scottsdale, Arizona. From January 1997 to December 1999, Mr. Tullo was President and a director of American Business Funding Corp., which was in the business of accounts receivable factoring for small and medium sized businesses. For over twenty years, Mr. Tullo has been active as a business consultant. Mr. Tullo has actively worked in the areas of commercial financing and factoring for the past ten years. He has owned and operated factoring companies, leasing companies, consulting companies, wholesale companies, professional employment organizations, insurance agencies, heating and airconditioning contractors, retail oil companies, real estate companies and restaurants. He is a former member of the CEO Club in New York, and currently is a member and honorary Mesa Chairman of the Presidential Business Roundtable Committee and the Turnaround Management Association.

4

Mr. Tullo has been involved with a number of corporate turnaround situations in which the companies he was associated with faced difficult financial circumstances. He has been successful with most of these difficult situations. However, in February 2000, after Mr. Tullo had departed, American Business Funding Corp. filed for protection under Chapter 11 of the Bankruptcy Code in the Federal District Court of Arizona. Mr. Tullo had previously been a director, officer and shareholder of American Business Funding Corp. prior to the time of its bankruptcy filing. American Business Funding has successfully emerged from Chapter 11 bankruptcy with an approved plan that fully repays all creditors.

DEVAL JOHNSON. Mr. Johnson has served as a director since October 1999. Currently, Mr. Johnson serves as Corporate Secretary and Vice President. Prior to the acquisition of Telco Billing, Inc., our wholly owned subsidiary, Mr. Johnson was part of the team that created what is now the YP.Com concept. When Telco Billing was acquired in June 1999, Mr. Johnson left to create Simple.Net, an Internet service provider. In October 1999, Mr. Johnson was asked to return to serve as a Director of the Company, whereupon he was instrumental in refocusing the Company on it's newly acquired business, which resulted in the corporate name change to YP.Net, Inc. Since that time, Mr. Johnson has been the art director responsible for the design of the in-house sales presentations, creation of the corporate logo(s) and image for YP.Net and directs the team that creates and manages our web presence. In 2001, Mr. Johnson consolidated his other business interests, GraffitiWorx, a graphic design firm and SiteForce, a web site design firm, into Advanced Internet Marketing, Inc. to provide design and marketing services to a variety of companies. Mr. Johnson continues to offer these services to the Company. Prior to 1997, Mr. Johnson created the PrintPro franchise concept for Design Concept Printing & Signs, Inc. and headed up their graphic design department. Mr. Johnson is actively involved with web

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site promotion, interactive design, Internet advertising and public relations. Mr. Johnson continues his business Simple.Net where he serves as an officer and director.

GREGORY B. CRANE. Mr. Crane has been a director of YP.Net since February 2000. He currently serves as Chief Operating Officer of Telco Billing, our wholly owned subsidiary and the entity out of which we conduct most of our operations. Mr. Crane served as the Company's Director of Operations from February 2000 to September 2000. Mr. Crane has served as President of Advertising Management and Consulting Services, Inc. ("AMCS") since January 29, 2001. AMCS provides marketing and administrative services, as well as personnel, to the Company. From mid-1997 to December 2002, Mr. Crane served as a marketing consultant to Business Executive Services, Inc. ("BESI"), a direct mail management and processing company. From September 1998 to June 1999, Mr. Crane was the General Manager of Telco Billing. Mr. Crane has owned and operated several businesses, including residential and commercial builders, multi-state mail order, and document-preparation companies, and also was the creator of the Yellow-Page.Net concept. Mr. Crane is a former member of the Young Entrepreneur's Organization.

In connection with a former business of Mr. Crane, which provided homestead declaration document preparation and filing services, Mr. Crane and that business were subject to injunctive actions brought by the state of Florida as a result of complaints relating to the presentation of solicitation mailers. Mr. Crane voluntarily entered into a consent order with the State of Florida that required him to supply a copy of the mailer to be printed within 14 days prior to its mailing, as well as the payment of civil penalties, restitution, and attorneys' fees if he were to violate the order in the future. The order was violated due to an error in type size made by a printing company hired by Mr. Crane's business. The printing company has admitted its responsibility for this error. Despite the printing company's admission, Mr. Crane was subject to

5

a judgment, dated February 1998, in the amount of approximately \$1.4 million, plus accrued interest. However, because of the printing company's admission, the State of Florida took no action on this matter, which was finally vacated in June 2003.

Because Mr. Crane had been an employee of Telco Billing, Inc. prior to its acquisition by the Company, Mr. Crane was named in an action filed by the United States Federal Trade Commission ("FTC") against the Company in June 2000 concerning actions taken by prior management of the Company. None of the Company's current management was either present for or involved with the actions that were the basis for the FTC's complaint. The actions of the prior management involved the presentation of direct mail solicitations. Mr. Crane has been included in the Stipulated Preliminary Order entered into by the FTC and the Company and approved by the FTC. The Stipulated Final Judgment and Order for Permanent Injunction and Other Equitable Relief by and between the FTC, Mr. Crane, Telco Billing, the Company and others (the "Order") places certain restrictions on the way mail solicitations will appear. The U.S. District Court has approved the Order and the matter is closed with no findings of wrong doing on the part of Mr. Crane, the Company, or its officers and directors.

DANIEL L. COURY, SR. Mr. Coury has served as a director of YP.Net since February 2000. For the last twelve years, Mr. Coury has served as President and Chairman of Mesa Cold Storage, Ltd., which owns and operates the largest cold storage facilities in Arizona. Between 1990 and the present, Mr. Coury has developed an additional 4.6 million cubic feet of modern, state of the art cold storage facilities in Mesa and Tolleson, Arizona. Before Mr. Coury purchased Mesa Cold Storage, he had experience in international trade, real estate



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development, real estate exchanges and serving as a consultant to the family businesses, which include five General Motors dealerships, numerous commercial and residential developments and mortuary services.

PETER BERGMANN. Mr. Bergmann has served as a director of the Company since May 2002. Since January 1999, Mr. Bergmann has served as the President of Perfect Timing Media, Inc., a television development and production company, which he founded. From 1994 to 1999, Mr. Bergmann was a member of the faculty at Fairleigh Dickinson University, where he inaugurated the electronic Filmmaking and Digital Video Design program, which is a distinctive program in video and computer-generated graphics technologies offering students an opportunity to study commerce and art. In 1988, Mr. Bergmann joined Major Arts, Inc., a division of Paramount Communications, Inc., as the head of its television division where he was responsible for developing projects for television production. In 1987, Mr. Bergmann served as the President of Odyssey Entertainment, Inc. where he engineered the purchase of Coast Productions, Inc., which subsequently became Odyssey Filmmakers, Inc. From 1984 through 1987, Mr. Bergmann served as President of The Film Company, where he had directorial and production responsibilities for theatrical releases and projects for television. During the 14 years prior to 1984, Mr. Bergmann was employed in various capacities by the American Broadcasting Company. These positions included line producer, division head, and assistant to the President, Executive Vice President and Special Assistant to the Chairman of the Board. Mr. Bergmann received his PhD from New York University.

6

### HOW ARE DIRECTORS COMPENSATED?

The directors receive \$2,000 per meeting or per quarter, whichever is greater, for their service on the Board and may receive \$250 per hour for services related to any Board Committees, standing, temporary or otherwise, on which they serve. Upon appointment to the Board, Mr. Tullo was awarded 100,000 shares of our common stock. All other directors were awarded 50,000 shares upon their appointment to the Board. The shares awarded were earned monthly for director services performed.

The Company has an arrangement with one of its outside directors, Mr. Coury, whereby the Company has agreed to pay \$10,000 per month for Board and Compensation committee services to DLC Consulting, Inc., an entity owned by Mr. Coury, instead of paying Mr. Coury directly.

In compliance with the new rules implemented by the Sarbanes-Oxley Act of 2002, the Company has established a hotline in order to receive anonymous calls and complaints concerning accounting, internal accounting controls, or auditing matters. Mr. Bergmann receives an additional annual fee of \$3,000 for monitoring this hotline.

In fiscal 2003, our directors received the following compensation for their service as directors:

| DIRECTOR             | CASH      |
|----------------------|-----------|
| -----                | -----     |
| Angelo Tullo         | \$ 8,000  |
| DeVal Johnson        | \$ 8,000  |
| Gregory B. Crane     | \$ 8,000  |
| Daniel L. Coury, Sr. | \$128,000 |
| Peter Bergmann       | \$ 21,000 |

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### HOW OFTEN DID THE BOARD MEET DURING FISCAL 2003?

The Board of Directors met 10 times during fiscal 2003. Attendance by directors at the meetings of the Board and Board committees on which they served was 100%.

### WHAT COMMITTEES HAS THE BOARD ESTABLISHED?

The Board of Directors has one standing committee, a Compensation Committee. Messrs. Coury and Bergmann, both outside directors, are currently the only members of the Compensation Committee. Mr. Coury serves as the committee's chairman. Our Compensation Committee, which met four times during Fiscal 2003, reviews the performance of management and the compensation of our executive officers, as well as executive bonus plan allocations. The Compensation Committee also administers our 2003 Stock Plan and approves stock grants to officers and employees under that plan. We currently are in the process of identifying qualified individuals to serve as additional independent members of the Compensation Committee.

7

We do not maintain a standing Audit Committee at this time. However, we are in the process of forming this committee, as well as identifying qualified individuals to serve on such committee. Additionally, we currently do not have a financial expert serving on our Board of Directors. However, in an effort to ensure fiscal responsibility, the Board has hired the services of Jerold M. Pierce, a former investigator of the Internal Revenue Service, to perform forensic auditing each fiscal quarter and to assess compliance with applicable and appropriate accounting and financial controls. Mr. Pierce reports his findings directly to the full board. Mr. Pierce also meets with our Chief Financial Officer and other members of financial management and our independent auditors to review internal accounting controls and accounting, auditing and financial reporting matters.

We do not maintain a standing nominating committee or other committee performing similar functions. The function of nominating directors is carried out by the entire Board of Directors.

### EXECUTIVE OFFICERS AND COMPENSATION

#### EXECUTIVE OFFICERS AND SIGNIFICANT EMPLOYEES

Our management consists of the following personnel, in addition to Angelo Tullo, our Chief Executive Officer and President and DeVal Johnson, our Secretary, both of whom are named above as Directors.

| NAME             | AGE | POSITION                 |
|------------------|-----|--------------------------|
| David J. Iannini | 44  | Chief Financial Officer  |
| John Raven       | 39  | Chief Technology Officer |

DAVID J. IANNINI. Mr. Iannini has served as our Chief Financial Officer since August 2002. Mr. Iannini was employed as Treasurer and Vice President of Corporate Development of Viad Corp, a publicly held company with over \$1.5

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billion in annual sales and over \$7 billion in assets, from July 1999 to June 2002. Viad Corp. is a diversified service business with operating companies involved in the financial services, convention, travel and other businesses. Mr. Iannini was an investment banker from August 1986 to July 1999, primarily with Salomon Brothers, Inc. Mr. Iannini received his Masters in Business Administration, Summa Cum Laude, from the Anderson Graduate School of Management at U.C.L.A. Prior to his graduate studies, he worked with a Big Five accounting firm and is a certified public accountant. Mr. Iannini received his Bachelors of Science degree, Magna Cum Laude, in Accounting from Boston College in 1981.

JOHN RAVEN. Mr. Raven was appointed Chief Technology Officer for YP.Net, Inc. in September 2003. Mr. Raven has over ten years experience in the technology arena and 16 years of overall leadership experience working with companies such as Perot Systems (PER) where he managed 640 staff members and a \$170 million annual IT budget, Read-Rite Corp (RDRT) where he oversaw a \$30 million dollars IT budget with operations throughout Asia, as well as Cap Gemini Ernst & Young (CAPMF) where he managed accounts for this division of a Big 5

8

auditing firm maintaining \$4.8 million in revenue. Mr. Raven also served as Director of Information Technology at Viacom's ENG Network division. Most recently, as a member of senior account management for Perot Systems he directed the development of information security strategy for its client Catholic Healthcare West. Mr. Raven has experience in software engineering, data and process architecture, systems development, and database management systems. At NASA's Jet Propulsion Laboratory, Mr. Raven was a team member and information systems engineer for the historic 1997 mission to Mars conducted with the Pathfinder space vehicle and the Sojourner surface rover. Mr. Raven received his Bachelors of Science in Computer Science from the California Institute of Technology in 1991. His certifications include; Cisco Internetwork Engineer, Project Management from the Project Management Institute, Certified Project Manager from Perot Management Methodology Institute, Microsoft Certified System Engineer, Certified Novel Engineer and others.

### EXECUTIVE COMPENSATION SUMMARY

The following table sets forth the total compensation for the fiscal years ended September 30, 2003, 2002 and 2001 paid to or accrued for our chief executive officer and our four other executive officers who provided services to us at September 30, 2003, excluding executive officers paid less than \$100,000 annually. These executive officers are collectively referred to as the "Named Executive Officers."

### SUMMARY COMPENSATION TABLE

| NAME AND<br>-----<br>PRINCIPAL POSITION | YEAR | ANNUAL COMPENSATION<br>----- |            |         | OTHER ANNUAL<br>COMPENSATION (\$) (7) | RESTRICTED STOCK<br>AWARDS (\$) (8) |
|---|------|------------------------------|------------|---------|---------------------------------------|-------------------------------------|
|   |      | SALARY (\$) (6)              | BONUS (\$) | ---     |                                       |                                     |
| Angelo Tullo (1)                        | 2003 | 612,000                      | 300,000    | 100,844 | 303,                                  |                                     |
| Chairman, Chief Executive               | 2002 | 282,000                      | 208,000    | -       |                                       |                                     |
| Officer, President                      | 2001 | 218,000                      | 48,000     | -       |                                       |                                     |

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|                          |      |         |         |   |      |
|--------------------------|------|---------|---------|---|------|
| David J. Iannini (2)     | 2003 | 199,808 | 43,750  | - | 607, |
| Chief Financial Officer  | 2002 | 11,538  | -       | - |      |
|                          | 2001 | -       | -       | - |      |
| DeVal Johnson (3)        | 2003 | 269,750 | 95,000  | - | 405, |
| Director, Secretary      | 2002 | 125,800 | 20,000  | - |      |
| and Subsidiary Officer   | 2001 | 8,000   | 5,618   | - |      |
| Gregory Crane (4)        | 2003 | 442,000 | 110,000 | - | 405, |
| Director and Subsidiary  | 2002 | 249,000 | 35,000  | - |      |
| Officer                  | 2001 | 122,000 | -       | - |      |
| John Raven (5)           | 2003 | 8,654   | -       | - | 150, |
| Chief Technology Officer | 2002 | -       | -       | - |      |
| of Subsidiary            | 2001 | -       | -       | - |      |

9

- (1) Mr. Tullo is not directly compensated by the Company. The amounts shown herein as compensation to Mr. Tullo are the total amounts paid by the Company to Sunbelt Financial Concepts, Inc. ("Sunbelt") for services provided to the Company by Mr. Tullo and his staff, pursuant to an Executive Consulting Agreement dated September 20, 2002. This agreement replaced a prior agreement between the Company and Sunbelt. These amounts may not reflect Mr. Tullo's actual compensation from Sunbelt, which may be greater or less than the amount shown. The amounts set forth under the Bonus column for Mr. Tullo include 200,000 shares of YP.Net stock valued by the Company at \$.24 per share in fiscal 2001 and 4,000,000 shares valued by the Company at \$.075 per share in fiscal 2003 issued to Sunbelt.
- (2) The amounts shown herein as compensation to Mr. Iannini are the total amounts paid by the Company either to Mr. Iannini directly or to Mar & Associates, Inc., an entity owned by Mr. Iannini, ("Mar") for services provided to the Company pursuant to an Executive Consulting Agreement dated May 1, 2003. These amounts may not reflect Mr. Iannini's actual compensation from Mar, which may be greater or less than what is shown. The amounts set forth under the Bonus column include 50,000 shares of Common Stock valued by the Company at \$.075per share and 250,000 shares of Common Stock valued by the Company at \$.10 per share issued to Mr. Iannini in fiscal 2003. Mr. Iannini joined the Company in August 2002.
- (3) Mr. Johnson is not compensated directly by the Company. The amounts shown herein as compensation are the total amounts paid by the Company to Advanced Internet Marketing, Inc. ("AIM"), for services provided to the Company by Mr. Johnson and his staff, pursuant to an Executive Consulting Agreement dated September 20, 2002. These amounts may not reflect Mr. Johnson's actual compensation from AIM, which may be greater or less than what is shown. The amounts set forth under the Bonus column include 1,000,000 shares of YP.Net stock valued by the Company at \$.075 per share issued to Mr. Johnson in fiscal 2003.
- (4) Mr. Crane is not compensated directly by the Company. The amounts shown herein as compensation to Mr. Crane are the total amounts paid by the Company to Advertising Management and Consulting Services, Inc. ("AMCS") for services provided to the Company by Mr. Crane and his staff pursuant to an Executive Consulting Agreement dated September 20, 2002. These amounts may not reflect Mr. Crane's actual compensation from AMCS, which may be greater or less than what is shown. Mr. Crane is the President of AMCS, which provides marketing and administrative services and personnel to the

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Company. The amounts set forth under the Bonus column include 1,000,000 shares of YP.Net stock valued by the Company at \$.075 per share issued to Mr. Crane in fiscal 2003.

- (5) Mr. Raven joined the Company in August, 2003. His annual salary is \$150,000.
- (6) The amounts set forth under the Salary column include base salary paid to the consulting entities with which the Named Executive Officers are associated, unless otherwise specified. These amounts also include payments made under the Flex Compensation program pursuant to their Executive Consulting Agreements. The Named Executive

10

Officers' relationships with these consulting firms and the descriptions of the Executive Consulting Agreements are more fully discussed under "Certain Relationships and Related Transactions - Agreements with Executive Officers."

- (7) The amounts set forth under this column include reimbursed taxes on bonus and other compensation paid pursuant to certain Executive Consulting Agreements between the Company and the Named Executive Officer. Those Executive Consulting Agreements are more fully described at "Certain Relationships and Related Transactions - Agreements with Executive Officers."
- (8) The amounts under the Restricted Stock Awards column include the dollar value of shares of restricted stock issued to the Named Executive Officers under our 2003 Stock Plan.
- (9) This amount reflects the reimbursement of legal fees in connection with a legal matter involving Mr. Tullo and a former business with which he was involved. This matter has been settled and all claims against Mr. Tullo in connection with this matter have been dismissed.

### COMPENSATION PURSUANT TO STOCK OPTIONS.

No options were granted to any of the Named Executive Officers during the fiscal year ended September 30, 2003.

During the fiscal year ended September 30, 2003, there were no outstanding stock options. Also during such fiscal year, no long-term incentive plans or pension plans were in effect with respect to any of the Company's officers, directors or employees.

### CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

#### AGREEMENTS WITH EXECUTIVE OFFICERS

We have entered into the following Executive Consulting Agreements with entities controlled or owned by Messrs. Tullo, Crane, Johnson and Iannini. Each of these agreements is dated as of September 20, 2002 and has a five year term, with the exception of the agreement entered into with Mar & Associates, Inc., the entity controlled by Mr. Iannini, which was dated as of May 1, 2003 and has a term of 55 months.

These agreements are not personal service contracts to the respective executive officers. The amounts paid to these entities support multiple personnel employed by the consulting entities, as well as costs associated with

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the provision of the specified services. The individuals deployed by the consulting entities include skilled support staff with many years of experience working as a team, both within their own entities, as well as between entities. The Named Executive Officers and their respective consulting entities provide a wealth of experience in turnaround and restructuring situations, as well as solid track records of operating successful companies. Our Board of Directors believes that these arrangements are beneficial to the Company and in the best interests of our stockholders given the breadth of support and depth of

11

knowledge and expertise that each consulting entity brings to bear through its respective support teams.

Sunbelt Financial Concepts, Inc.

Mr. Tullo, our Chief Executive Officer, is the President of Sunbelt Financial Concepts, Inc. ("Sunbelt"). The Sunbelt agreement provides that Mr. Tullo, through Sunbelt, will provide us with the services of Chief Executive Officer, Chairman and President among other administrative services and personnel. Pursuant to the Sunbelt agreement, Sunbelt originally received \$32,000 per month during the first year of the agreement with a 10% annual increase in each succeeding year, as well as Board of Director fees, an annual bonus, and fees and reimbursements for certain ancillary items. The Sunbelt agreement also awarded Sunbelt 4,000,000 shares of the Company's common stock, grossed-up for taxes, subject to achieving certain performance goals for the Company in fiscal 2003, which were achieved.

As part of the Sunbelt agreement, a Flex Compensation program was instituted. This program provides Sunbelt with the ability to be paid up to \$220,000 annually (increased by 10% on each anniversary date of the agreement) as additional compensation, subject to sufficient cash on hand at the Company. The taxes on the Flex Compensation, bonus and stock that is not issued under our 2003 Stock Plan are paid by the Company. In addition, the agreement contains a Due on Sale clause whereby, if there is a change of control of the Company, as defined, Sunbelt will receive the greater of 30% of the amounts due under the agreement or 12 months' worth of fees.

In fiscal 2003, Sunbelt was paid approximately \$384,000 in fees, \$220,000 in Flex compensation under the Flex Compensation program, \$8,000 in directors fees and \$300,000 in common stock for services rendered by it through Mr. Tullo and his support staff. The Company also reimbursed Sunbelt \$100,844 for income taxes pursuant to the agreement.

Sunbelt also was compensated approximately \$410,054 in fiscal 2003 as reimbursed legal fees in connection with certain legal matters involving Mr. Tullo, as more fully described in our Annual Report accompanying this Proxy Statement.

We have also entered into an agreement with Sunbelt, dated January 2002, wherein we lease two vehicles in the Company's name for the benefit of Sunbelt. Sunbelt pays the lease payments on the vehicles, which are \$1,079 and \$1,111 respectively. This agreement remains in effect until the conclusion of the respective leases, which expire in January 2005 and February 2005 respectively. This arrangement was structured in this manner in an effort to assist the Company in establishing credit for future equipment purchases.

Advertising Management & Consulting Services, Inc.

Mr. Crane, our Executive Vice President of Marketing, Chief Operating Officer and a director, is the President of Advertising Management & Consulting

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Services, Inc. ("AMCS"). The AMCS agreement provides that Mr. Crane, through AMCS, will provide the Company with the services of director and Executive Vice President of Marketing, among other administrative services and personnel. Under the AMCS agreement, we outsource the design and testing of our

12

many direct mail pieces to AMCS. As part of the AMCS agreement, AMCS originally received \$32,000 per month with a 10% annual increase in each succeeding year, as well as Board of Director fees, an annual bonus, and fees and reimbursements for certain ancillary items. In addition, the AMCS agreement also awarded AMCS with 1,000,000 shares of the Company's common stock, grossed-up for taxes, subject to achieving certain performance goals for the Company in fiscal 2003, which were achieved.

As part of the agreement with AMCS, a Flex Compensation program was instituted. This program provides AMCS with the ability to be paid up to \$50,000 per year (increased by 10% on each anniversary date of the agreement) as additional compensation, subject to sufficient cash on hand at the Company. The taxes on the Flex Compensation, bonus and stock that is not issued under our 2003 Stock Plan are paid by the Company. In addition, the agreement contains a Due on Sale clause whereby, if there is a change of control of the Company, as defined, AMCS will receive the greater of 30% of the amounts due under the agreement or 12 months' worth of fees.

In fiscal 2003, AMCS was paid approximately \$384,000 in fees, \$35,000 as an annual bonus, \$50,000 in Flex compensation under the Flex Compensation program, \$8,000 in directors fees and \$75,000 in common stock for services rendered by it through Mr. Crane and his support staff. AMCS was also granted approximately \$405,000 in restricted stock in fiscal 2003 as additional compensation.

Advanced Internet Marketing, Inc.

Mr. Johnson, our Executive Vice President of Corporate Image, is the President of Advanced Internet Marketing, Inc. ("AIM"). The AIM agreement provides that Mr. Johnson, through AIM, will provide the Company with the services of director, Corporate Secretary and Executive Vice President of Corporate Image, among other administrative and marketing services and personnel. In addition to the services discussed above, under the AIM agreement, we also outsource the design and some of the marketing of our website to AIM. All of these services are included under the agreement and for the fees described below. As part of the AIM agreement, AIM originally received \$18,000 per month with a 10% annual increase in each succeeding year, as well as Board of Director fees, an annual bonus, and fees and reimbursements for certain ancillary items. In addition, the agreement also awarded AIM with 1,000,000 shares of Company common stock, grossed-up for taxes, subject to achieving certain performance goals for the Company in fiscal 2003, which were achieved.

As part of the agreement, a Flex Compensation program was instituted. This program provides AIM with the ability to be paid up to \$30,000 annually (increased by 10% on each anniversary date of the agreement) as additional compensation, subject to sufficient cash on hand at the Company. The taxes on the Flex Compensation, bonus and stock that is not issued under our 2003 Stock Plan are paid by the Company. In addition, the agreement contains a Due on Sale clause whereby, if there is a change of control of the Company, as defined, AIM will receive the greater of 30% of the amounts due under the Agreement or 12 months' worth of fees.

In fiscal 2003, AIM was paid approximately \$274,750 in fees, \$35,000 as an annual bonus, \$30,000 in Flex compensation under the Flex Compensation program, \$8,000 in directors

fees and \$75,000 in common stock for services rendered by it through Mr. Johnson and his support staff. AIM was also granted approximately \$405,000 in restricted stock in fiscal 2003 as additional compensation.

Mar & Associates, Inc.

Mr. Iannini, our Chief Financial Officer, is the President of Mar & Associates, Inc. ("MAR"). The MAR Agreement provides that Mr. Iannini, through MAR, will provide the Company with the services of Chief Financial Officer, among other administrative services. As part of the MAR Agreement, MAR originally received \$17,500 per month with a 10% annual increase in each succeeding year, as well as fees and reimbursements for certain ancillary items. In addition, the agreement also awarded MAR with 250,000 shares of Company common stock, grossed-up for taxes, subject to achieving certain performance goals for the Company by January 1, 2004, which were achieved.

As part of the agreement, a Flex Compensation program was instituted. This program provides MAR with the ability to be paid up to \$15,000 annually (increased by 10% on each anniversary date of the agreement) as additional compensation, subject to sufficient cash on hand at the Company. The taxes on the Flex Compensation, bonus and stock that is not issued under our 2003 Stock Plan are paid by the Company. In addition, the agreement contains a Due on Sale clause whereby, if there is a change of control of the Company, as defined, then MAR will receive the greater of 30% of the amounts due under the agreement or 12 months worth of fees.

The agreement also awards bonuses of \$15,000 to MAR relating to performance in fiscal 2003, \$21,000 relating to performance for fiscal 2004, and 10% of annual salary for each fiscal year thereafter for the term of the agreement.

In fiscal 2003, MAR was paid approximately \$199,808 in fees, \$15,000 in annual bonus, \$15,000 in Flex compensation under the Flex Compensation program and \$28,750 in common stock for services rendered by Mr. Iannini. MAR was also granted approximately \$607,500 in restricted stock in fiscal 2003 as additional compensation.

#### OTHER RELATED TRANSACTIONS

Revolving Loan Agreements with Mathew and Markson Ltd. and Morris & Miller, Ltd.

In December 2003, we entered into an agreement with Mathew and Markson, Ltd. and Morris & Miller, Ltd. (the "M&Ms"), both Antiguan corporations and, currently, our two largest stockholders, to terminate the revolving loan agreement previously provided to them in connection with our original acquisition from them of Telco Billing.

Messrs. Crane and Johnson were employees of and primarily involved in the start-up of Telco Billing. Mr. Crane negotiated the acquisition of Telco Billing by the Company on behalf of the M&Ms and continues to serve as a liaison for the Company to the M&Ms.

As part of the original acquisition of Telco Billing from the M&Ms, we provided them with the right to "put" back to us, under certain circumstances, the shares of Company common



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stock that they received in exchange for the shares of Telco Billing. We subsequently entered into a new arrangement with the M&Ms, whereby their "put" rights were terminated in exchange for the establishment of the revolving lines of credit. Under these lines of credit, we agreed to lend up to \$10,000,000 to each of the M&Ms, collateralized by the Company stock held by the M&Ms and subject to certain limitations. All advances made under these lines of credit carried an interest rate at least 0.25 points higher than the Company's average cost of borrowing but in no event lower than eight percent. No more than \$1 million could be advanced at any point in time and no advances could be made unless, after such advance, the Company had at least 30 days operating cash reserves or if the Company was in an uncured default with any of its lenders. At September 30, 2003, the Company had advanced an aggregate \$2,126,204 to the M&Ms under this agreement. The M&Ms have been making interest payments on the advances but, as allowed under the agreement, have not made any principal repayments.

Under our new agreement with the M&Ms, dated December 22, 2003 and memorialized in a Third Amendment to the original Stock Purchase Agreement, the revolving lines of credit are terminated effective April 9, 2004, upon the payment of the following final specific advances to each of the M&Ms:

Morris & Miller, Ltd.

\$275,000 on January 30, 2004  
\$300,000 on February 27, 2004  
\$500,000 on March 31, 2004  
Sufficient funds to pay 3 years' interest on April 9, 2004

Mathew and Markson, Ltd.

\$50,000 on January 30, 2004  
\$100,000 on February 27, 2004  
\$75,000 on March 31, 2004  
Sufficient funds to pay 3 years' interest on April 9, 2004

Within ten days after April 9, 2004, the M&Ms will prepay all of the interest on their loans for the next 36 months. We will continue to retain pledged stock as collateral for the repayment of all such loans, which mature in December 2006.

As part of this new agreement, we have also agreed to pay a quarterly dividend of not less than \$.01 per share to all holders of our Common Stock beginning April 30, 2004 for the period ended March 31, 2004.

### Sale of URL and Lease Arrangements

In connection with the original acquisition of our wholly owned subsidiary, Telco Billing, from Morris & Miller, Ltd. and Mathew and Markson Ltd., both Antiguan corporations (the "M&Ms") and, currently, our largest stockholders, the Company agreed to pay Mathew and Markson \$5,000,000 as a discounted accelerated royalty payment for a 20-year license of the URL "Yellow-Page.Net," which triggered the sale of this URL. The consideration was rendered

under the terms of an Exclusive Licensing Agreement dated September 21, 1998, between Telco Billing and Mathew and Markson. The payment was originally to be paid in full upon the acquisition of Telco Billing. However, the Company was unable to pay the entire consideration in cash. As a result, the Company instead negotiated to pay the \$5,000,000 due in cash at closing with a \$3,000,000 down payment and also executed a \$2,000,000 promissory note (the "Note") to Mathew

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and Markson, which was due on August 15, 1999. In addition, as a result of our failure to pay the entire \$5,000,000 in cash at the original closing, we agreed to a \$2,000,000 extension fee.

On August 15, 1999, we defaulted on the payment of the Note. To extend this payment obligation to November 15, 1999, we agreed to provide, for the benefit of Mathew and Markson, \$250,000 in tenant improvements for approximately one-half of our Mesa facility. The premises were leased to Mathew and Markson for \$1.00 per year throughout the term of the five-year lease. The annual fair rental value of the lease premises is \$4,500 per month. Business Executive Services, Inc. purchased this lease from Mathew and Markson for a one-time payment of \$75,000.

At the due date of the extension (November 15, 1999), we still had not paid the Note. Therefore, on November 15, 1999, we further extended the payment of the Note to January 15, 2000 by paying an extension fee of \$200,000. On January 15, 2000, we again defaulted on the extension and the Note was renegotiated to a demand note with monthly installments of \$100,000 per month. Under the terms of the renegotiated Note, the payments may have been suspended if we had did not have certain cash reserves or were otherwise in default under other obligations. The renegotiated Note was secured by 2,000,000 shares of our common stock held in escrow, to be returned for cancellation upon payment of the Note. The Note has been paid in full but the collateral shares are still held by Mathew and Markson to secure payment of the penalty fee discussed below.

In July 2001, we were informed by Mathew and Markson that an additional \$2,000,000 penalty fee was due on the original acquisition agreement as a result of the Company's failure to pay the entire \$5,000,000 due in cash at the original closing. On September 25, 2001, in settlement thereof, we agreed to pay Mathew and Markson \$550,000 and issued to Mathew and Markson 4,000,000 shares of our common stock valued at \$0.09. The \$550,000 is to be paid over a 36-month period at an annual interest rate of 10.5%. The balance as of September 30, 2002 was \$115,868 due and payable September 25, 2004.

Simple.Net.

We previously used Dial-Up Services, Inc., d/b/a Simple.Net, Inc., an Internet service provider beneficially owned by DeVal Johnson, our Executive Vice President of Corporate Image and a director, to provide Internet dial up services and other services to our customers. These services included customer service support for Simple.Net's customers and technology support and billing assistance. At the time our agreement with Simple.Net was entered into, this was beneficial to us because we did not have sufficient dial-up customers to avoid a minimum fee to the backbone providers, which are companies that own the cable and copper wire cables necessary to provide the service. As our customer base has grown, we are now able to

16

economically enter into our own wholesale contract and in fact have done so with GlobalPOPs, Inc., an unrelated third party.

On December 29, 2003, we entered into a separation agreement with Simple.Net, which becomes effective January 31, 2004. Under this agreement, Simple.Net will no longer provide any services to us. Although the Separation Agreement provides for a 30-day extension until March 2, 2004, neither Simple.Net nor we believe that this time period will be needed.

RELATED PARTY TRANSACTION POLICY.

Our general policy requires adherence to Nevada corporate law regarding

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transactions between the Company and a director, officer or affiliate of the Company. Transactions in which such persons have a financial interest are not void or voidable if the interest is disclosed and approved by disinterested directors or stockholders or if the transaction is otherwise fair to the Company. It is the policy of the Company that transactions with related parties are conducted on terms no less favorable to the Company than if they were conducted with unaffiliated third parties. During the fiscal year ended September 30, 2003, there have been no related party transactions except as shown above.

### SECURITY OWNERSHIP OF PRINCIPAL STOCKHOLDERS AND MANAGEMENT

The following table sets forth information regarding the beneficial ownership of our common stock as of February 1, 2004, with respect to (i) each person known to the Company to be the beneficial owner of more than 5% of the Company's common stock; (ii) each Named Executive Officer; (iii) each director of the Company; and (iv) all Named Executive Officers and directors of the Company as a group. The information as to beneficial ownership was furnished to us by or on behalf of the persons named. Unless otherwise indicated, the business address of each person listed is 4840 East Jasmine Street, Suite 105, Mesa, Arizona 85205.

| Name   | Shares<br>Beneficially Owned | Percentage of<br>Shares Outstanding (1) |
|--|------------------------------|---|
| Angelo Tullo (2)   | 4,325,000                    | 8.9%                                    |
| Gregory B. Crane (3)   | 1,277,500                    | 2.6%                                    |
| DeVal Johnson (4)  | 1,329,000                    | 2.7%                                    |
| David J. Iannini (5)   | 600,000                      | 1.2%                                    |
| John Raven   | 100,000                      | *                                       |
| Daniel L. Coury, Sr.   | 200,000                      | *                                       |
| Peter Bergmann   | 201,000                      | *                                       |
| Mathew and Markson Ltd. (6) (7)                                    | 10,575,062                   | 21.8%                                   |
| Morris & Miller Ltd. (6)   | 10,350,000                   | 21.3%                                   |
| Sunbelt Financial Concepts, Inc. (8) (9)                           | 4,325,000                    | 8.9%                                    |
| All executive officers and<br>directors as a group<br>(7 persons). | 7,982,500                    | 16%                                     |

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

(1) Based on approximately 48,860,802 shares outstanding as of February 1, 2004. This amount includes 2,000,000 shares issued and held as collateral for obligations of the Company under two promissory notes. Upon timely payment of the notes, the shares will be returned to the Company for cancellation.

(2) Of the number shown, 3,875,000 shares are owned by Sunbelt Financial Concepts, Inc., which are also shown separately in this table. While Mr. Tullo is the President of Sunbelt, he has no ownership interest in Sunbelt. Mr. Tullo does, however, have dispositive power over the shares of Common Stock owned by Sunbelt. Mr. Tullo disclaims beneficial ownership of the

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shares owned by Sunbelt except to the extent of any proportionate interest therein.

- (3) Of the number shown, 1,000,000 shares are owned by Advertising Management and Consulting Services, Inc. ("AMCS"). While Mr. Crane is the President of AMCS, he has no ownership interest in AMCS. As President of AMCS, however, he shares dispositive power over the stock owned by AMCS. Mr. Crane disclaims beneficial ownership of the shares owned by AMCS except to the extent of any proportionate interest therein.
- (4) Of the number shown, 1,004,000 shares are owned by Advanced Internet Marketing, Inc. ("AIM") Mr. Johnson is President of AIM and his minor children are the beneficiaries of the trust that owns AIM. Mr. Johnson disclaims beneficial ownership of the shares owned by AIM except to the extent of any proportionate interest therein.
- (5) Of the number shown, 250,000 shares are owned by Mar & Associates ("Mar").
- (6) Address is Woods Centre, Friar's Road, P.O. Box 1407, St. John's, Antigua, West Indies.
- (7) The number of shares held by Mathew and Markson, Ltd. includes 2,000,000 shares issued as collateral for a debt owed by the Company. Mathew and Markson has voting control of these shares. These shares will be returned to the Company and cancelled upon timely payment of the debt. Ilse Cooper, is the control person for Mathew and Markson.
- (8) Of the number shown, 3,875,000 are owned by Sunbelt and 450,000 shares are owned directly by Mr. Tullo. Of the 450,000 shares owned directly by Mr. Tullo, 150,000 shares were granted as restricted stock under our 2003 Stock Plan. Hickory Management is the owner of Sunbelt and J.C. McDaniel, Esq. is the control person.
- (9) Address is 4710 E. Falcon Drive, #204A, Mesa, Arizona, 85215.

### SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires our executive officers, directors, and persons who own more than ten percent of a registered class of our equity securities to file reports of ownership and changes in ownership with the Securities and Exchange Commission ("SEC"). Executive officers, directors, and greater than ten percent stockholders are required by SEC regulation to furnish us with copies of all Section 16(a) forms they file. Based solely on our review of the copies of such forms received by it during the year ended September 30, 2003, we believe that, during such year our executive officers, directors and ten percent stockholders complied with all such filing requirements except that Mr.

18

Bergmann filed a late Form 4 relating to the purchase of 1,000 shares of the Company's common stock and the receipt of 150,000 shares of restricted stock pursuant to the 2003 Stock Plan and Mr. Coury filed a late Form 4 relating to the receipt of 150,000 shares of restricted stock pursuant to the 2003 Stock Plan. The required filings were eventually filed to reflect these transactions.

### AMENDMENT TO THE YP.NET, INC. 2003 STOCK PLAN (PROPOSAL NO. 2)

Proposal 2 seeks stockholder approval of an amendment to the YP.Net, Inc. 2003 Stock Plan (the "Plan") to increase the total number of shares authorized to be issued under the Plan from 3,000,000 to 5,000,000 shares. The 2,000,000

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share increase represents approximately 4% of our approximately 48,860,802 total outstanding shares as of February 1, 2004.

The Board of Directors believes that the Plan will promote the success and enhance the value of the Company by linking the personal interest of participants to those of Company stockholders and by providing participants with an incentive for outstanding performance.

During the year ended September 30, 2002, our stockholders approved the 2002 Employees, Officers & Directors Stock Option Plan (the "2002 Plan"), which was intended to replace our 1998 Stock Option Plan (the "1998 Plan"). The 2002 Plan was never implemented, however, and no options, shares or any other securities were issued or granted under the 2002 Plan. There were 3,000,000 shares of our common stock authorized under the 2002 Plan, which were to come from our authorized but unissued common stock. On June 30, 2003 and July 21, 2003, respectively, our Board of Directors and a majority of our stockholders terminated both the 1998 Plan and the 2002 Plan and approved our 2003 Stock Plan. The 3,000,000 shares of common stock previously allocated to the 2002 Plan were re-allocated to the 2003 Plan.

In December, 2003, our Board of Directors approved, subject to stockholder approval, an amendment to the Plan to increase the aggregate number of shares available thereunder by 2,000,000 shares in order to have an adequate number of shares available for future grants. As of February 1, 2004, a total of 2,269,000 shares of restricted stock had been issued under the Plan and were no longer available for grant, and a total of 731,000 shares remained available for additional grants, prior to giving effect to the proposed increase. The Board of Directors believes that it is in the Company's best interests to be able to continue to create equity incentives to assist in attracting, retaining, and motivating the key executives, service providers and consultants.

From August 2003 through February 1, 2004 the following persons or groups had received restricted common stock under the Plan, as follows: (i) the Chief Executive Officer and the other executive officers named in the Executive Compensation Summary table: 950,000 shares; (ii) all current directors who are not executive officers as a group: 300,000 shares; and (iv) all employees, service providers and consultants as a group: 1,019,000 shares. We are unable to determine the number of restricted shares to be received in the future by all current executive officers as a group, all current directors who are not also executive officers as a group, or all employees, service providers or consultants.

19

The Plan provides for the granting of restricted stock, performance shares, and performance-based awards to eligible individuals. A summary of the principal provisions of the Plan is set forth below. The summary is qualified by reference to the full text of the Plan, which is filed with the Securities and Exchange Commission as Exhibit 99.1 to the Company's Registration Statement on Form S-8 (File No. 333-107721) on August 7, 2003.

### VOTE REQUIRED

The approval of the proposed amendment to the 2003 Stock Plan will require the affirmative vote of the holders of a majority of the shares represented in person or by proxy and entitled to vote on the proposal.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE PROPOSED AMENDMENT TO THE PLAN.

WHO SHALL HAVE AUTHORITY TO ADMINISTER THE PLAN?

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The Compensation Committee or such other committee as appointed by the Board administers the Plan. The Committee has the exclusive authority to administer the Plan, including the power to determine eligibility, the types and sizes of awards, the price and timing of awards, and the acceleration or waiver of any vesting or restriction, provided that the Committee will not have the authority to waive any performance restrictions with respect to any performance-based awards.

### WHO IS ELIGIBLE TO RECEIVE AWARDS UNDER THE PLAN?

Persons eligible to participate in the Plan include all employees of, and non-employee service providers and consultants to, the Company and its subsidiaries, as determined by the Committee. As of February 1, 2004, there were approximately 119 eligible participants of the Company and its subsidiaries.

### WHAT ARE THE LIMITATIONS ON THE AWARDS AND SHARES AVAILABLE?

An aggregate of 5,000,000 shares of Common Stock will be authorized for issuance under the Plan, as amended. A maximum of 1,000,000 shares of Common Stock may be granted in the form of performance-based awards to any one participant for a performance period.

### WHAT TYPES OF AWARDS MAY BE GRANTED UNDER THE PLAN?

The Plan provides for the grant of restricted stock, performance shares, or performance-based awards. No determination has been made as to the types or amounts of awards that will be granted to specific individuals under the Plan in the future. See the Summary Compensation Table on page 9 of this Proxy Statement for information on prior awards to Named Executive Officers.

20

### WHAT IS RESTRICTED STOCK?

Under the restricted stock feature of the Plan, an eligible individual may be granted a specified number of shares of Common Stock. However, the recipient's rights to such shares do not vest until certain restrictions lapse or certain performance goals are attained. If the recipient violates any of the restrictions during the period specified by the committee or the performance standards fail to be satisfied, the stock is forfeited back to the Company.

### WHAT ARE PERFORMANCE-BASED AWARDS AND PERFORMANCE SHARES?

A performance share is a contingent right to receive a pre-determined amount if certain performance goals are met. The value of performance units will depend on the degree to which the specified performance goals are achieved but are generally based on the value of our Common Stock. Payment of earned performance units will be made within the time determined by the Committee days after the end of the measurement period for the performance unit. The Committee may, in its discretion, pay earned performance shares in cash, or Common Stock, or a combination of both.

The amount of payments made to a participant will be the value of the performance share for the level of performance achieved multiplied by the number of performance shares earned by the participant. Prior to the beginning of each measurement period for the performance share, participants may elect to defer the receipt of the performance unit payout on terms acceptable to the Committee.

Grants of performance-based awards under the Plan enable the Committee to treat restricted stock and performance share awards granted under the Plan as "performance-based compensation" under Section 162(m) of the Code and preserve

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the deductibility of these awards for federal income tax purposes. Because Section 162(m) of the Code only applies to those employees who are "covered employees," as defined in Section 162(m) of the Code, only covered employees are eligible to receive performance-based awards. The term "covered employee" generally refers to executive officers and other highly compensated employees.

Participants are only entitled to receive payment for a performance-based award for any given performance period to the extent that pre-established performance goals set by the Committee for the period are satisfied. These pre-established performance goals must be based on one or more of the following performance criteria: pre- or after tax net earnings, sales or revenue, operating earnings, operating cash flow, return on net assets, return on stockholders' equity, return on assets, return on capital, stockholder returns, gross or net profit margin, earnings per share, price per share, and market share. These performance criteria may be measured in absolute terms or as compared to any incremental increase or as compared to results of a peer group. With regard to a particular performance period, the Committee has the discretion to select the length of the performance period, the type of performance-based awards to be granted, and the goals that will be used to measure the performance for the period. In determining the actual size of an individual performance-based award for a performance period, the Committee may reduce or eliminate (but not increase) the award. Generally, a participant must be

21

employed on the date the performance-based award is paid to be eligible for a performance-based award for that period.

WHO HAS THE AUTHORITY TO AMEND OR TERMINATE THE PLAN?

The Committee, subject to approval of the Board, may terminate, amend, or modify the Plan at any time, provided that stockholder approval must be obtained for any amendment to the extent necessary and desirable to comply with any applicable law, regulation or stock exchange rule.

WHAT ARE THE FEDERAL INCOME TAX CONSEQUENCES OF THE PLAN?

A participant receiving restricted stock, performance shares, or performance-based awards will not recognize taxable income at the time of grant. The recipient will, however, recognize ordinary income equal to the fair market value of the stock at the time the restrictions lapse. The Company is entitled to a tax deduction equal to the amount of income recognized by the recipient in the year in which the restrictions lapse. Instead of postponing the income tax consequences of a restricted stock award, the recipient may elect to include the fair market value of the Common Stock in income in the year the award is granted. This election is made under Section 83(b) of the Code. The Section 83(b) election is made by filing a written notice with the Internal Revenue Service within 30 days of the date of grant and must meet certain technical requirements.

The tax treatment of the subsequent disposition of restricted stock will depend upon whether the recipient has made a Section 83(b) election to include the value of the Common Stock in income when awarded. If the recipient makes a Section 83(b) election, any disposition thereafter will result in a capital gain or loss equal to the difference between the selling price of the Common Stock and the fair market value of the Common Stock on the date of grant. The character of such capital gain or loss will depend upon the period the restricted Common Stock is held. If no Section 83(b) election is made, any disposition thereafter will result in a capital gain or loss equal to the difference between the selling price of the Common Stock and the fair market value of the Common Stock on the date the restrictions lapsed.

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### WHAT HAPPENS IN THE EVENT OF A CHANGE IN CONTROL OF THE COMPANY?

In the event of a Change in Control (as defined in the Plan) of the Company, unless otherwise provided in an award agreement, the Committee has the discretion to provide that all awards under the Plan will become fully exercisable and all restrictions on awards will lapse.

22

### EQUITY COMPENSATION PLAN INFORMATION

We maintain the 2003 Stock Plan pursuant to which we may grant equity awards to eligible persons. The following table gives information about equity awards under the Company's Plan.

| Plan category   | (a)   | (b)   | (c)     |
|---|---|---|---------|
| -----   | -----   | -----   | -----   |
| Number of securities to be issued upon exercise of outstanding options, warrants and rights | Weighted-average exercise price of outstanding options, warrants and rights | Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) |         |
| Equity compensation plans approved by security holders (1)                                  | 2,269,000 (2)   | N/A   | 731,000 |
| Equity compensation plans not approved by security holders                                  | 0   | N/A   | 0       |
| Total   | 2,269,000   | N/A   | 731,000 |