QUEPASA CORP
Form 10QSB/A
November 09, 2005
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-QSB/A

(Mark One)

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

For the quarterly period ended March 31, 2005

OR

¨ 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: 0-25565

QUEPASA CORPORATION

(Exact name of registrant as specified in its charter)

NEVADA	**86-0879433**
(State or other jurisdiction of incorporation or organization)	**(IRS Employer Identification No.)**

410 N. 44th Street, Suite 450

Phoenix, AZ 85008

(Address of principal executive offices)

(602) 716-0100

(Issuer s telephone number)

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 x No ¨

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

The number of outstanding shares of the registrant s Common Stock as of April 26, 2005 was 7,127,050 shares.

Transitional Small Business Disclosure Format (Check one): Yes ¨ No x

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QUEPASA CORPORATION AND SUBSIDIARIES

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EXPLANATORY NOTE

This Amendment to the Registrant s (the Company) Quarterly Report on Form 10-Q for the three months ended March 31, 2005 (the Amendment) is being filed to properly reflect the beneficial conversion feature imbedded in the Company s preferred stock. In accordance with Emerging Issues Task Force (EITF) No. 00-27, Application of Issue No. 98-5 to Certain Convertible Instruments , and EITF No. 98-5, Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios . This beneficial conversion feature was recorded in fiscal 2004 to additional paid-in capital as a deemed dividend to preferred stockholders (see Note 1 for additional information).

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QUEPASA CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

	March 31, 2005	December 31, 2004
	(unaudited)	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 2,618,263	$ 3,069,571
Accounts receivable - trade	10,263	4,363
Accounts receivable - other	3,805	267
Prepaid expenses	2,931	17,654
Total current assets	2,635,262	3,091,855
NON-CURRENT ASSETS:		
Property and equipment - net	234,430	234,159
Deposits	28,035	27,535
Total noncurrent assets	262,465	261,694
Total assets	$ 2,897,727	$ 3,353,549
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 198,945	$ 144,301
Accrued and other current liabilities	40,125	55,345
Dividends payable		49,247
Commissions payable		347,588
Deferred revenue	207,290	164,788
Current portion of long-term debt	6,945	7,473
Total current liabilities	453,305	768,742
LONG-TERM DEBT - net of current portion	27,493	29,388
Total liabilities	480,798	798,130
STOCKHOLDERS EQUITY:		
10% Convertible Preferred stock, no par value; authorized 5,000,000 shares; issued and outstanding 2,407 shares (March 31, 2005) (liquidation preference of $124,855) and 3,337 (December 31, 2004)	124,855	217,855
Common stock, $.001 par value; authorized 50,000,000 shares; issued and outstanding 7,127,050 shares (March 31, 2005) and 6,851,395 (December 31, 2004)	7,127	6,852
Additional paid-in capital	114,433,574	113,856,594
Accumulated deficit	(112,136,461)	(111,515,865)
Foreign currency translation adjustment	(12,166)	(10,017)

Total stockholders equity	2,416,929	2,555,419
Total liabilities and stockholders' equity	$ 2,897,727	$ 3,353,549

See notes to unaudited condensed consolidated financial statements.

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QUEPASA CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

	Three months ended March 31, 2005	Three months ended March 31, 2004
REVENUES	$ 126,238	$ 23,865
OPERATING COSTS AND EXPENSES:		
Search services expenses	104,971	4,000
Sales and marketing expenses	88,996	99,959
Product and content development expenses	41,380	33,250
General and administrative	485,858	428,207
Depreciation and amortization	24,823	96,116
	746,028	661,532
LOSS FROM OPERATIONS	(619,790)	(637,667)
OTHER INCOME (EXPENSE):		
Interest income and other	4	3,371
Interest expense	(802)	(22,265)
TOTAL OTHER INCOME (EXPENSE)	(798)	(18,894)
NET LOSS	$ (620,588)	$ (656,561)
Preferred stock dividends	(8)	
Net loss attributable to common stockholders	$ (620,596)	$ (656,561)
NET LOSS PER COMMON SHARE, BASIC AND DILUTED	$ (0.09)	$ (0.17)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING BASIC AND DILUTED	7,040,688	3,790,654
NET LOSS	$ (620,588)	$ (656,561)
Foreign currency translation adjustment	(2,149)	(4,333)
COMPREHENSIVE LOSS	$ (622,737)	$ (660,894)

See notes to unaudited condensed consolidated financial statements.

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QUEPASA CORPORATION

Condensed Consolidated Statement of Changes in Stockholders Equity

For the Three Months Ended March 31, 2005

	Preferred Stock		Common Stock					
	Shares	Amount	Shares	Amount	Additional Paid-in Capital	Accumulated Deficit	Foreign Currency Translation Adjustment	Total Stockholders Equity
Balance December 31, 2004	3,337	$ 217,855	6,851,395	$ 6,852	$ 113,856,594	$ (111,515,865)	$ (10,017)	$ 2,555,419
Issuance of common stock for cash, net of offering costs of $65,000			160,000	160	434,840			435,000
Issuance of common stock for preferred dividends			40,045	40	49,215	(8)		49,247
Conversion of preferred to common	(930)	(93,000)	75,610	75	92,925			
Foreign currency translation adjustment							(2,149)	(2,149)
Net loss						(620,588)		(620,588)
Balance March 31, 2005	2,407	$ 124,855	7,127,050	$ 7,127	$ 114,433,574	$ (112,136,461)	$ (12,166)	$ 2,416,929

See notes to unaudited condensed consolidated financial statements.

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QUEPASA CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three months ended March 31,	
	2005	**2004**
OPERATING ACTIVITIES:		
Net loss	$ (620,588)	$ (656,561)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	24,823	96,116
Amortization of discount on note payable		13,326
Warrants issued for professional services		49,427
Issuance of common stock options for compensation		26,000
Change in assets and liabilities:		
Receivables	(9,438)	(12,207)
Prepaid expenses and other assets	14,223	924
Accounts payable and other current liabilities	(308,164)	3,101
Deferred revenue	42,502	114,805
Net cash used in operating activities	(856,642)	(365,069)
INVESTING ACTIVITIES:		
Purchase of property and equipment	(25,094)	
Net cash used in investing activities	(25,094)	
FINANCING ACTIVITIES:		
Proceeds from issuance of common stock, net of commissions of $65,000	435,000	540,865
Proceeds from issuance of notes payable		225,000
Proceeds from preferred stock subscriptions		87,500
Payments on notes payable	(2,423)	(17,932)
Net cash provided by financing activities	432,577	835,433
Foreign currency translation adjustment	(2,149)	(4,333)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(451,308)	466,031
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	3,069,571	37,942
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 2,618,263	$ 503,973
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid for interest	$ 802	$ 589
Cash paid for income taxes		

(continued)

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SUPPLEMENTAL DISCLOSURE OF NON-CASH ACTIVITY:

During the quarter ended March 31, 2005, the Company had the following transactions:

The Company issued 40,045 shares of common stock valued at $49,255 for preferred stock dividends.

Certain stockholders converted 930 preferred shares valued at $93,000 for 75,610 common shares.

During the quarter ended March 31, 2004, the Company had the following transactions:

The Company issued 25,000 shares of common stock along with debt. Such stock was valued at $64,000 and recorded as a discount on the note payable.

The Company granted 20,000 common stock options valued at $26,000 to an employee.

The Company issued 50,000 warrants valued at $49,427 for professional business advisory services.

See notes to unaudited condensed consolidated financial statements.

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QUEPASA CORPORATION AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Statements

Note 1 Description of Business and Summary of Significant Accounting Policies

Quepasa Corporation, (the Company or Quepasa), a Nevada Corporation, was incorporated in June 1997. The Company is a Spanish/English language Internet Portal with a proprietary search engine targeting the U.S. Hispanic and Latin American markets. The Company s web site provides users unique search engine capabilities and pay-per-performance marketing applications as well as traditional portal services centered around the Spanish market. The Quepasa.com web site is operated and managed by the Company s majority owned Mexico-based subsidiary, Quepasa.com de Mexico. Because the language preference of many U.S. Hispanics is English, it also offers users the ability to access information and services in the English language.

Restatement of Financial Statements

The Company is restating its financial statements as of March 31, 2005 and for the quarter then ended to properly reflect the beneficial conversion feature amounting to $1,897,700 imbedded in the Company s preferred stock which was previously recorded in July 2004. There are no changes to the 2005 financial information other than beginning balances.

Concentrations of Credit Risk and Significant Customers

Financial instruments, which potentially subject the Company to concentration of credit risk, consist principally of cash and cash equivalents. The Company places their temporary cash investments with what management believes are high-credit, quality financial institutions.

Use of Estimates

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

Revenue Recognition

The Company recognizes revenue on arrangements in accordance with Securities and Exchange Commission Staff Accounting Bulletin No. 104 Revenue Recognition, and Emerging Issues Task Force Issue 00-21, Revenue Arrangements with Multiple Deliverables. In all cases, revenue is recognized only when the price is fixed or determinable, persuasive evidence of an arrangement exists, the service is performed, and collectibility of the resulting receivable is reasonably assured.

Revenue is primarily generated from pay-for-performance search advertisements and banner advertisements. The Company recognizes revenue related to banner advertisements ratably over the contract period. Pay-for-performance search advertisements are recognized in the period in which the click-throughs occur. Click-throughs are defined as the number of times an internet user clicks on an advertisement or search result. Pay-for-performance revenue is recognized when there is evidence that the qualifying transactions have occurred.

Customers generally make advance deposits, which are recorded as deferred revenue, for pay-for-performance services which are recorded as revenue when an internet user clicks on a sponsored advertisement. Most advertisers utilize self-service tools to open and manage accounts online including tracking, price management and measurement features.

Note 2 Basis of Presentation

The Company s accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for financial information and pursuant to rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for a complete financial statement presentation. In the Company s opinion, such unaudited information reflects all adjustments, consisting only of normal recurring adjustments, necessary to present the financial position and results of operations for the periods presented. The Company s results of operations for interim periods are not necessarily indicative of the results to be expected for a full fiscal year. The Company s condensed consolidated balance sheet as of December 31, 2004 was derived from its audited consolidated financial statements as of that date but does not include all the information and footnotes required by accounting principles generally accepted in the United States of America. The Company suggests that these unaudited condensed consolidated financial statements be read in conjunction with the audited consolidated financial statements included in its Annual Report on Form 10-KSB as of and for the year ended December 31, 2004, plus other SEC filings made by the Company from time to time.

Note 3 Liquidity

The Company has incurred net losses from operations since inception and has an accumulated deficit of approximately $112.1 million through March 31, 2005. There is no assurance that the Company will earn profits in the future.

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In the spring of 2002, the Company s founder re-joined the Company and began efforts in the development of a new business model. The new revenue model includes offering Internet search and retrieval capacities for wholesale users, and paid link capabilities for advertisers. Because the Company intends to target online content providers who in turn service a large number of users, the Company believes it can limit its advertising and marketing expenses. In order to generate significant revenue in the future, the Company must continue to enhance and make more robust its information retrieval and successfully direct marketing to potential advertising customers and distribution partners. The Company intends to price the retrieval and information technology services competitively against other retrieval companies.

The Company expects to continue to incur costs, particularly general and administrative costs during 2005, and does not expect sufficient revenue to be realized to offset these costs until later in 2005. The Company believes that its current cash balances, cash generated from its operations, and its financing activities are sufficient to finance its business objective through the next twelve months.

Note 4 Stockholders Equity

Common Stock Transactions

In January 2005, the Company completed an offering of common stock, $.001 par value, under a Selling Agreement, under which the Company issued 80,000 units for proceeds of $435,000, net of commissions of $65,000. Each unit is comprised of two shares of common stock and one warrant, for .4 of 1 share of common stock, resulting in the issuance of 160,000 shares of common stock and 64,000 warrants valued at $182,146. These warrants are exercisable by the holders at $4.50 per share through January 3, 2007.

In January 2005, the Company issued 40,045 shares of common stock valued at $49,255 for preferred stock dividends.

Preferred Stock

During in the three months ended March 31, 2005, certain preferred shareholders elected to convert 930 shares of preferred stock valued at $93,000 to 75,610 shares of common stock.

Warrants

In January 2005, the Company issued 64,000 warrants valued at $182,146 related to a private placement.

Stock Options

The Company has a stock-based compensation plan, which is fully described in Note 1 to the Audited Consolidated Financial Statements included in the Company s annual report on Form 10-KSB for the year ended December 31, 2004. The Company accounts for those plans using the intrinsic value method in accordance with Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations. The Company granted 140,000 stock options during the three months ended March 31, 2004, which expire at various times between January and March 2011. Stock based compensation totaled $0 and $26,000 for the three months ended March 31, 2005 and 2004, respectively.

Had compensation cost for the Company s stock-based employee compensation plans been determined based on the fair value of such awards at the grant dates consistent with the provisions of SFAS No. 123, the Company s total and per share net income would be reduced as follows:

	For the 3 months Ended March 31,	
	2005	**2004**
Net loss as reported	$ (620,588)	$ (656,561)
Add back: stock based compensation expense recognized, net of related tax effects		26,000
Pro forma effect of stock based compensation expense determined under the fair value method for all awards, net of related tax effects.		(248,333)
Net loss pro forma	$ (620,588)	$ (878,894)
Basic loss per common share as reported	$ (0.09)	$ (0.17)
Basic loss per common share pro forma	$ (0.09)	$ (0.23)

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The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions used:

	For the 3 Months Ended March 31,	
	2005	**2004**
Approximate risk free rate	N/A	4.5%
Average expected life	3 years	3 years
Dividend yield	N/A	0%
Volatility	N/A	274%
Estimated per share weighted average fair value of total options granted	N/A	$ 1.22

Note 5 Commitments and Contingencies

Litigation

On June 14, 2004, TIABFES, a California Corporation doing business as New Capital Advisors, filed suit against Quepasa Corporation, et. al., in the United States District Court for the Central District of California in Los Angeles, CA. The civil action was brought in connection with a claim by the Plaintiff through the Plaintiff s counsel, Sarah Jane Barney, Esq., for damages associated with an alleged professional financial advisory and business strategy services agreement. The action seeks damages under various causes of action, in amounts up to $2 million.

The company has reviewed the claims with its counsel, finds the claims to be wholly without merit, and intends to vigorously defend them. Moreover, management believes that the amount claimed has been grossly overstated, in an attempt to induce the company to settle the action rather than litigate it.

On March 14 2005, Mr. Craig Behar, filed case no. CV2005-004439 against Quepasa Corporation, et. al., in the Maricopa County Superior Court at Phoenix, AZ. The civil action was brought in connection with a claim by the Plaintiff for damages associated with an alleged employment agreement. The action seeks damages under various causes of action, in amounts up to $418,700.

The company has reviewed the claims with its counsel, finds the claims to be wholly without merit, and intends to vigorously defend them. Moreover, management believes that the amount claimed has been grossly overstated, in an attempt to induce the company to settle the action rather than litigate it.

The Company is not aware of any additional pending legal proceedings against it that, individually or in the aggregate, would have a material adverse effect on our business, operating results or financial condition. The Company may in the future be party to litigation arising in the course of its business, including claims that the Company allegedly infringes third-party trademarks and other intellectual property rights. Such claims, even if not meritorious, could result in the expenditure of significant financial and managerial resources.

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Information

This Quarterly Report on Form 10-QSB and the information incorporated by reference may include forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. In particular, we direct your attention to Item 1. Financial Statements, Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations and Item 3. Quantitative and Qualitative Disclosures About Market Risk. We intend the forward-looking statements to be covered by the safe harbor provisions for forward-looking statements in these sections. All statements regarding our expected financial position and operating results, our business strategy, our future business operations and the outcome of any contingencies are forward-looking statements. These statements can sometimes be identified by our use of forward-looking words such as may, believe, plan, will, anticipate, estimate, expect, intend and other phrases of similar meaning. Known and unknown risks, uncertainties and other factors could cause the actual results to differ materially from those contemplated by the statements. The forward-looking information is based on various factors and was derived using numerous assumptions. Although we believe that our expectations expressed in these forward-looking statements are reasonable, we cannot promise that our expectations will turn out to be correct. Our actual results could be materially different from our expectations.

The following discussion of our financial condition and results of operations for the three months ended March 31, 2005 and 2004 should be read in conjunction with our condensed consolidated financial statements, the notes related thereto, and the other financial data included elsewhere in this Form 10-QSB.

Company Overview

Quepasa Corporation operates a Spanish/English language Internet Portal with proprietary search engine technology targeting the U.S. Hispanic and Latin American markets. We are focused on providing users unique search engine capabilities while providing advertisers with a high return on their investment. Our strategy currently includes the following initiatives to generate sales and profit growth:

Market Share Expansion We seek to expand market share by investing in new equipment and technology.

New Business Model We intend to concentrate on performance-based marketing activities to attract advertisers.

Focus on U.S. Hispanic Market We believe we can use our brand to tap into the significant Hispanic consumer population.

Our revenue is primarily generated from pay-for-performance search advertisements and banner advertisements. We recognize revenue related to banner advertisements ratably over the contract period. Pay-for-performance search revenue is recognized in the period in which the click-throughs occur. Click-throughs are defined as the number of times an internet user clicks on an advertisement or search result. Pay-for-performance revenue is recognized when there is evidence that the qualifying transactions have occurred at a set price.

Customers generally make advance deposits, which are recorded as deferred revenue, for pay-for-performance services which are recorded as revenue when an internet user clicks on a sponsored advertisement. Most advertisers utilize self-service tools to open and manage accounts online including tracking, price management and measurement features.

We believe that our current cash balances, cash generated from our operations, and our financing activities are sufficient to finance our level of operations through the next twelve months.

Our operating expenses mainly consist of search services, sales and marketing, product and content development, general and administrative expenses and depreciation and amortization.

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Critical Accounting Policies

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make a number of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Such estimates and assumptions affect the reported amounts of revenues and expenses during the reporting period. On an ongoing basis, we evaluate our estimates and assumptions based upon historical experience and various other factors and circumstances. We believe that our estimates and assumptions are reasonable in the circumstances; however, actual results may differ from these estimates under different future conditions.

Management believes that the estimates and assumptions that are most important to the portrayal of Quepasa s financial condition and results of operations, in that they require management s most difficult subjective or complex judgments, form the basis for the accounting policies deemed to be most critical to Quepasa. These critical accounting policies relate to revenue recognition including the ultimate collectibility of receivables, valuation and useful lives of long-lived assets, valuation of equity transactions such as the fair value assigned to common stock and warrants, and litigation. Revenue recognition resulting from sales of paid search advertising placement is discussed in Note 1 to our consolidated financial statements. We believe our estimates and assumptions related to these critical accounting policies are appropriate under the circumstances; however, should future events or occurrences result in unanticipated consequences, there could be a material adverse impact on future financial condition and results of operations.

Liquidity and Capital Resources

We have substantial capital resource requirements relative to our revenue generation, but limited sources of liquidity and capital resources. We have generated significant net losses and negative cash flows from our inception and anticipate that we will experience continued net losses and negative cash flows for the next few quarters.

At March 31, 2005, we had $2.6 million in cash and cash equivalents compared to $3.1 million at December 31, 2004.

Net cash used in operating activities was $857 thousand for the three months ended March 31, 2005 as compared to $365 thousand for the three months ended March 31, 2004. For the three months ended March 31, 2005, net cash used by operations consisted of a net loss of $621 thousand offset by non-cash expenses of $25 thousand in depreciation and amortization. Net cash used by operations for the three months ended March 31, 2004 consisted of the net loss of $657 thousand, which was offset by non-cash expenses of $96 thousand in depreciation and amortization plus $26 thousand in stock compensation expense, $13 thousand in amortization of discount on notes payable, and $49 thousand in warrants issued for professional services.

Net cash used in investing activities was $25 thousand for the three months ended March 31, 2005 as compared to net cash used by investing activities of $0 for the three months ended March 31, 2004. The primary use of cash was for investments in capital equipment.

Net cash provided by financing activities was $433 thousand for the three months ended March 31, 2005 as compared to $835 thousand for the three months ended March 31, 2004. In the three months ended March 31, 2005, we received $435 thousand, net of commissions, from the issuance of common stock. In the three months ended March 31, 2004, we received $541 thousand, net of commissions, from the issuance of common stock, $225 thousand, net of commissions, from the issuance of notes payable and $88 thousand from the issuance of preferred stock.

We believe that our current cash balances, cash generated from our operations, and our financing activities are sufficient to finance our level of operations through the next twelve months.

Results of Operations

Comparison of the three months ended March 31, 2005 with the three months ended March 31, 2004

For the three months ended March 31, 2005 the net loss attributable to common stockholders was $621 thousand compared to a net loss of $657 thousand for the three months ended March 31, 2004. The decreased loss was attributable to the increased revenue we generated and to a decrease in depreciation and amortization expense. These decreases in the net loss were partially offset by an increase in search services costs associated with the new business model as well as the increase in resources associated with the management of our Quepasa.com website by our Mexican subsidiary, Quepasa.com de Mexico, and the development of our proprietary Internet information search and retrieval software.

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Revenues

For the three months ended March 31, 2005, the new business model generated revenues of $126 thousand compared to $24 thousand in revenue for the three months ended March 31, 2004. In order to generate significant revenue under the new model, we must continue to enhance the development and marketing of our proprietary search and retrieval software. For the three months ended March 31, 2005, our revenue was primarily generated from two principal sources: revenue earned from pay-for-performance insertion of results from our search engine based on proprietary technologies and the sale of advertising on our web site.

Pay-for-Performance Revenue. Pay-for-performance search advertisements are recognized in the period in which the click-throughs occur. Click-throughs are defined as the number of times a user clicks on an advertisement or search result. Pay-for-performance revenue is recognized when there is evidence that the qualifying transactions have occurred. During the three months ended March 31, 2005 and 2004, pay-for-performance revenue accounted for 100% and 17% of total revenue, respectively.

Banner Advertising Revenue. The Company recognizes revenue related to banner advertisements ratably over the contract period. During the three months ended March 31, 2005 and 2004, banner advertising revenue accounted for 0% and 83% of total revenue, respectively. Payments received from advertisers prior to displaying their advertisements on our website are recorded as deferred revenue, as are all payments received from advertisers for performance based marketing initiatives.

Operating Expenses

Our principal operating expenses are, or have been: Search Services, Sales and Marketing, Product and Content Development, General and Administrative, and Depreciation and Amortization expenses. Operating expenses for the three months ended March 31, 2005 were $746 thousand an increase from $662 thousand for the three months ended March 31, 2004. The increased expenses are principally attributable to the increase in search services expenses to $105 thousand for the three months ended March 31, 2005, from $4 thousand for the three months ended March 31, 2004, an increase in general and administrative expenses to $486 thousand for the three months ended March 31, 2005, from $428 thousand for the three months ended March 31, 2004, and a decrease in depreciation and amortization expense to $25 thousand for the three months ended March 31, 2005 from $96 thousand for the three months ended March 31, 2004.

Search Services Expenses. Our search services expenses increased to $105 thousand in the three months ended March 31, 2005 from $4 thousand in the three months ended March 31, 2004. This change is attributable to an increase in our search partner expenses and results from our new search distribution partner agreements. The new search partner agreements have contributed to the increases in revenue for the three months ended March 31, 2005.

Sales and Marketing Expenses. Our Sales and marketing expense decreased to $89 thousand in the three months ended March 31, 2005 from $100 thousand for the three months ended March 31, 2004. These changes are mainly attributable to reductions in our sales and marketing workforce.

Product and Content Development Expenses. Our product and content development expenses increased to $41 thousand in the three months ended March 31, 2005 from $33 thousand in the three months ended March 31, 2004. This increase is attributable to increasing our development staff. Quepasa.com de Mexico provides significantly all of our design, translation services, and website management and development services for the Company.

General and Administrative Expenses. Our general and administrative expenses increased to $486 thousand in the three months ended March 31, 2005 from $428 thousand in the three months ended March 31, 2004. This increase is mainly attributable to increases in advertising expense, rent expense and general and administrative salaries. Advertising expense increased to $37 thousand for the three months ended March 31, 2005, from $2 thousand for the three months as the Company expands its promotion of our site and services. Rent expense increased to $45 thousand for the three months ended March 31, 2005, from $28 thousand for the three months ended March 31, 2004 due to the expansion of our office space. General and administrative salaries increased to $164 thousand for the three months ended March 31, 2005, from $122 thousand for the three months ended March 31, 2004 due to additional staffing requirements. Partially offsetting these increases is the reduction in professional fees to $100 thousand for the three months ended March 31, 2005, from $128 thousand for the three months ended March 31, 2004.

Depreciation and Amortization Expense. Our depreciation and amortization expense decreased to $25 thousand in the three months ended March 31, 2005 from $96 thousand for the three months ended March 31, 2004. This decrease is attributable to the decrease in depreciation associated with our proprietary software which was fully depreciated at December 31, 2004, and the decrease in amortization expense associated with a bridge loan.

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Other Income (Expense). Other income (expense) which primarily consists of interest income offset by interest expense was ($1) thousand in the three months ended March 31, 2005 and ($19) thousand in the three months ended March 31, 2004. The decreased expense is mainly attributable to the elimination of $13 thousand in amortization of discount on bridge loans and $9 thousand in accrued interest on the bridge loans.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

There were no material changes with respect to this item from the disclosure included in the company s Annual Report on Form 10-KSB for the year ended December 31, 2004.

Item 4. Controls and Procedures

As of March 31, 2005, an evaluation was performed under the supervision and with the participation of the Company s management, including the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and operation of the Company s disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act). Based on that evaluation, the Company s management, including the Chief Executive Officer and the Chief Financial Officer, concluded that the Company s disclosure controls and procedures were effective as of March 31, 2005. There have been no significant changes in the Company s internal controls or in other factors that could significantly affect internal controls subsequent to March 31, 2005.

In connection with the audit of the year ended December 31, 2004, there were no Reportable Events within the meaning of Item 304(a)(1)(v) of Regulation S-K. However, during the review of the Company s 10-QSB for the quarterly period ended March 31, 2005, the Company s auditors communicated to the Registrant matters it considered to be a weakness in the Registrant s internal controls relating to the adequacy of staffing of its accounting and finance department. The auditors considered the scope of responsibilities and duties of the Chief Financial Officer to be somewhat overextended. The auditors communicated that additional resources were needed in the finance and accounting department to take the workload off this individual. This staffing situation contributed to certain business transactions not documented in an appropriate manner. The Registrant is addressing this concern and is in the process of further enhancing its staff.

QUEPASA CORPORATION AND SUBSIDIARIES

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

On June 14, 2004, TIABFES, a California Corporation doing business as New Capital Advisors, filed suit against Quepasa Corporation, et. al., in the United States District Court for the Central District of California in Los Angeles, CA. The civil action was brought in connection with a claim by the Plaintiff through the Plaintiff s counsel, Sarah Jane Barney, Esq., for damages associated with an alleged professional financial advisory and business strategy services agreement. The action seeks damages under various causes of action, in amounts up to $2 million.

The company has reviewed the claims with its counsel, finds the claims to be wholly without merit, and intends to vigorously defend them. Moreover, management believes that the amount claimed has been grossly overstated, in an attempt to induce the company to settle the action rather than litigate it.

On March 14 2005, Mr. Craig Behar, filed case no. CV2005-004439 against Quepasa Corporation, et. al., in the Maricopa County Superior Court at Phoenix, AZ. The civil action was brought in connection with a claim by the Plaintiff for damages associated with an alleged employment agreement. The action seeks damages under various causes of action, in amounts up to $418,700.

The company has reviewed the claims with its counsel, finds the claims to be wholly without merit, and intends to vigorously defend them. Moreover, management believes that the amount claimed has been grossly overstated, in an attempt to induce the company to settle the action rather than litigate it.

The Company is not aware of any additional pending legal proceedings against it that, individually or in the aggregate, would have a material adverse effect on our business, operating results or financial condition. The Company may in the future be party to litigation arising in the course of its business, including claims that the Company allegedly infringes third-party trademarks and other intellectual property rights. Such claims, even if not meritorious, could result in the expenditure of significant financial and managerial resources.

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Item 2. Changes in Securities and Use of Proceeds

In January 2005, the Company completed an offering of common stock, $.001 par value, under a Selling Agreement, under which the Company issued 80,000 units for proceeds of $435,000, net of commissions of $65,000. Each unit is comprised of two shares of common stock and one warrant, for .4 of 1 share of common stock, resulting in the issuance of 160,000 shares of common stock and 64,000 warrants valued at $182,146. These warrants are exercisable by the holders at $4.50 per share through January 3, 2007.

In January 2005, the Company issued 40,045 shares of common stock valued at $49,255 for preferred stock dividends.

During the three months ended March 31, 2005, certain preferred shareholders elected to convert 930 shares of preferred stock valued at $93,000 to 75,610 shares of common stock.

In January 2005, the Company issued 64,000 warrants valued at $182,146 related to a private placement.

Item 3. Defaults upon Senior Securities

None.

Item 4. Submissions of Matters to a Vote of Security Holders

None

Item 5. Other Information

None.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

Exhibit Number	Description
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32.1	Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(b) Reports on Form 8-K.

On February 7, 2005, we furnished a report on Form 8-K announcing the resignation of Brian Lu from the Board of Directors.

On March 9, 2005, we furnished a report on Form 8-K announcing the appointment of Fernando Ascencio to Chief Executive Officer.

On March 15, 2005, we furnished a report on Form 8-K announcing a civil lawsuit filed against the Company.

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QUEPASA CORPORATION AND SUBSIDIARIES

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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, in the city of Phoenix, state of Arizona, on November 9, 2005.

Quepasa Corporation

By: /s/ Jeffrey Peterson
Name: Jeffrey Peterson
Title: Chairman and Chief Executive Officer

(Principal Executive Officer)

By: /s/ Charles B. Mathews
Name: Charles B. Mathews
Title: Chief Financial Officer

and Chief Operating Officer

(Principal Financial Officer)