UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-QSB

(Mark One)

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

For the quarterly period ended September 30, 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 ¨

The number of outstanding shares of the registrant s Common Stock as of November 4, 2005 was 7,453,688 shares.

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

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

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QUEPASA CORPORATION AND SUBSIDIARIES

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QUEPASA CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30, 2005	December 31, 2004
	(unaudited)	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 1,478,725	$ 3,069,571
Accounts receivable - trade	30,226	4,363
Accounts receivable - other	789	267
Prepaid expenses	6,029	17,654
Total current assets	1,515,769	3,091,855
NON-CURRENT ASSETS:		
Property and equipment - net	189,452	234,159
Deposits and other assets	28,565	27,535
Total noncurrent assets	218,017	261,694
Total assets	$ 1,733,786	$ 3,353,549
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 214,427	$ 144,301
Accrued and other current liabilities	36,844	55,345
Dividends payable		49,247
Commissions payable		347,588
Deferred revenue	258,602	164,788
Current portion of long-term debt	7,959	7,473
Total current liabilities	517,832	768,742
LONG-TERM DEBT- net of current portion	23,374	29,388
Total liabilities	541,206	798,130
STOCKHOLDERS EQUITY:		
10% Convertible Preferred stock, no par value; authorized 5,000,000 shares; 0 and 3,337 shares issued and outstanding at September 30, 2005 and December 31, 2004, respectively		217,855
Common stock, $.001 par value; authorized 50,000,000 shares; 7,448,688 and 6,851,395 shares issued and outstanding at September 30, 2005 and December 31, 2004, respectively	7,449	6,852
Additional paid-in capital	115,083,180	113,856,594
Accumulated deficit	(113,890,169)	(111,515,865)
Foreign currency translation adjustment	(7,880)	(10,017)

Total stockholders equity	1,192,580	2,555,419
Total liabilities and stockholders equity	$ 1,733,786	$ 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

(UNAUDITED)

	Nine months ended September 30,		Three months ended September 30,	
	2005	2004	2005	2004
REVENUES	$ 475,782	$ 343,385	$ 189,972	$ 215,582
OPERATING COSTS AND EXPENSES:				
Search services expenses	303,701	179,944	76,289	122,652
Sales and marketing expenses	210,119	336,082	63,012	40,740
Product and content development expenses	112,572	123,781	38,721	23,190
General and administrative	2,132,857	1,777,930	782,187	609,081
Depreciation and amortization	78,437	306,828	26,898	97,016
	2,837,686	2,724,565	987,107	892,679
LOSS FROM OPERATIONS	(2,361,904)	(2,381,180)	(797,135)	(677,097)
OTHER INCOME (EXPENSE):				
Interest income and other	2,700	7,426	4	1,897
Interest expense	(1,717)	(77,597)	(356)	(648)
TOTAL OTHER INCOME (EXPENSE)	983	(70,171)	(352)	1,249
NET LOSS	(2,360,921)	(2,451,351)	(797,487)	(675,848)
Deemed preferred stock dividends		(1,897,700)		(1,897,700)
Preferred stock dividends	(13,383)	(14,913)	(8)	
Net loss attributable to common stockholders	$ (2,374,304)	$ (4,363,964)	$ (797,495)	$ (2,573,548)
NET LOSS PER COMMON SHARE, BASIC AND DILUTED	$ (0.33)	$ (0.58)	$ (0.11)	$ (0.15)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING BASIC AND DILUTED	7,189,065	4,231,014	7,394,726	4,409,209
NET LOSS	$ (2,360,921)	$ (2,451,351)	$ (797,487)	$ (675,848)
Foreign currency translation adjustment	2,137	(14,198)	(4,606)	1,624
COMPREHENSIVE LOSS	$ (2,358,784)	$ (2,465,549)	$ (802,093)	$ (674,224)

See notes to unaudited condensed consolidated financial statements.

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QUEPASA CORPORATION

Consolidated Statement of Changes in Stockholders Equity

For the Nine Months Ended September 30, 2005

	Preferred Stock		Common Stock		Additional Paid-in	Accumulated	Foreign Currency Translation	Total Stockholders
	Shares	Amount	Shares	Amount	Capital	Deficit	Adjustment	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 stock options for services					247,447			247,447
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			50,919	51	62,579	(13,383)		49,247
Issuance of additional common shares for offering			50,780	51	114,712			114,763
Issuance of common stock for services			25,000	25	51,225			51,250
Issuance of common stock related to settlement of lawsuit.			39,295	39	98,199			98,238
Conversion of preferred to common	(3,337)	(217,855)	271,299	271	217,584			
Foreign currency translation adjustment							2,137	2,137
Net loss						(2,360,921)		(2,360,921)
Balance September 30, 2005		$	7,448,688	$ 7,449	$ 115,083,180	$ (113,890,169)	$ (7,880)	$ 1,192,580

See notes to unaudited condensed consolidated financial statements.

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QUEPASA CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

	Nine months ended September 30,	
	2005	**2004**
OPERATING ACTIVITIES:		
Net loss	$ (2,360,921)	$ (2,451,351)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	78,437	306,828
Amortization of discount on note payable		64,000
Warrants issued for professional services		256,396
Issuance of additional common shares required in offering	114,763	44,168
Issuance of common stock and options for services	396,935	189,130
Issuance of common stock options for compensation		26,000
Change in assets and liabilities:		
Receivables	(26,385)	10,507
Prepaid expenses and other assets	10,595	6,777
Accounts payable and other current liabilities	(295,963)	165,198
Deferred revenue	93,814	105,960
Net cash used in operating activities	(1,988,725)	(1,276,387)
INVESTING ACTIVITIES:		
Purchases of property and equipment	(33,730)	(54,454)
Net cash used in investing activities	(33,730)	(54,454)
FINANCING ACTIVITIES:		
Proceeds from issuance of common stock, net of commissions of $65,000	435,000	1,502,653
Proceeds from issuance of preferred stock		532,125
Proceeds from issuance of notes payable		225,000
Payments on notes payable	(5,528)	(19,419)
Net cash provided by financing activities	429,472	2,240,359
Foreign currency translation adjustment	2,137	(14,198)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,590,846)	895,320
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	3,069,571	37,942
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 1,478,725	$ 933,262

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:				
Cash paid for interest	$	1,717	$	1,478
Cash paid for income taxes				

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SUPPLEMENTAL DISCLOSURE OF NON-CASH ACTIVITY:

During the nine months ended September 30, 2005, the Company had the following transactions:

The Company issued 40,045 shares of common stock valued at $49,255 for preferred stock dividends, of which $49,247 had been recorded as an accrued dividend at December 31, 2004.

Certain stockholders converted 3,337 shares of preferred stock valued at $217,855 for 271,299 shares of common stock.

The Company issued 10,874 shares of common stock valued at $13,375 for preferred stock dividends.

The Company granted 250,000 common stock options valued at $247,447 for professional business services.

The Company issued 50,780 common shares valued at $114,763 as additional shares required by a private placement.

The Company issued 25,000 shares of common stock valued at $51,250 for services.

The Company issued 39,295 shares of common stock valued at $98,238 related to the settlement of a lawsuit.

During the nine months ended September 30, 2004, the Company had the following transactions:

The Company recorded a deemed preferred stock dividend of $1,897,700 based on the beneficial conversion feature imbedded in the issued convertible preferred stock.

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 200,000 warrants valued at $256,396 for professional business advisory services.

The Company issued 33,975 common shares valued at $44,168 as additional shares required by a private placement.

The Company issued 62,500 shares of common stock valued at $118,750 for professional business advisory services.

The Company issued 2,500 shares of preferred stock as payoff of outstanding bridge loans of $250,000.

Certain stockholders exchanged 752,475 common shares valued at $979,130 for 9,796 preferred shares.

Certain stockholders converted 7,053 preferred shares valued at $705,300 for 573,417 common shares.

The Company issued 60,000 warrants valued at $70,930 related to the cost of raising capital.

The Company issued 12,138 shares of common stock valued at $14,913 for preferred stock dividends.

The Company issued 46,000 shares of common stock valued at $70,380 to two employees for compensation.

The Company acquired property and equipment with a recorded value of $63,442, of which $11,356 was paid with cash. The following details non-cash components of the acquisition:

Net Book Value of old asset traded-in for new asset	$ 32,702
Reduction in trade-in value for balance of note payable on old asset	(20,642)
Amount of note payable created as partial consideration of new asset acquisition	40,026
	$ 52,086

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

Founded in 1997, Quepasa is a leading online community targeting the U.S. Hispanic and certain Latin American markets. Our online network is designed to provide multiple topics of high importance to Hispanic users. We seek to enhance their online experience through offerings of highly interactive content and community applications. The Quepasa.com web site is operated and managed by the Company s majority owned Mexico-based subsidiary, Quepasa.com de Mexico SA de CV. Because the language preference of many U.S. Hispanics is English, we offer users the ability to access our information and services in a fully bilingual format.

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, Google AdSense and banner advertisements. The Company recognizes 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. Google AdSense revenue is recognized in the period in which it is earned as reported by Google.

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 September 30, 2005 and 2004, pay-for-performance revenue accounted for 78% and 99% of total revenue, respectively. For the nine months ended September 30, 2005 and 2004, pay-for-performance revenue accounted for 91% and 93% of total revenue, respectively.

Google AdSense. The Company recognizes revenue from Google AdSense in the period it is earned as reported by Google. During the three months ended September 30, 2005 and 2004, Google AdSense revenue accounted for 22% and 0% of total revenue, respectively. For the nine months ended September 30, 2005 and 2004, Google AdSense accounted for 9% and 0% 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 September 30, 2005 and 2004, banner advertising revenue accounted for 0% and 1% of total revenue, respectively. For the nine months ended September 30, 2005 and 2004, banner advertising revenue accounted for 0% and 7% 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.

Customers generally make advance deposits, which are recorded as deferred revenue, for pay-for-performance services and which are in turn 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.

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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 $114 million through September 30, 2005. There is no assurance that the Company will earn profits in the future.

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. The Company intends to price the retrieval and information technology services competitively against other retrieval companies.

The Company expects to continue to incur substantial costs, particularly general and administrative costs during 2005, and does not expect sufficient revenue to be realized to offset these costs until sometime in 2006. 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 few quarters.

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.

In July 2005, the Company issued 50,780 additional shares of common stock valued at $114,763 as required by the terms of a private placement.

In July 2005, the Company issued 10,874 shares of common stock valued at $13,375 for preferred stock dividends.

In July 2005, the Company issued 25,000 shares of common stock valued at $51,250 for professional services.

In August 2005, the Company issued 39,295 shares of common stock valued at $98,238 related to the settlement of a lawsuit.

During the nine months ended September 30, 2005, the Company converted 3,337 shares of preferred stock to 271,299 shares of common stock.

Subsequent to September 30, 2005, the Company issued 5,000 additional shares of common stock for cash of $7,000 upon exercise of stock options.

Preferred Stock

During the nine months ended September 30, 2005, certain preferred shareholders converted 3,337 shares of preferred stock valued at $217,855 to 271,299 shares of common stock.

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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 1,200,000 stock options, all of which vested upon issuance, during the nine months ended September 30, 2005, which expire at various times between May and June 2012. During the nine months ended September 30, 2004, the Company granted 265,000 stock options, 125,000 of these options vest according to certain performance milestones, the remaining options vested upon issuance and expire at various times between January and March 2011. Stock based compensation totaled $247,447 and $96,380 for the nine months ended September 30, 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 9 Months Ended September 30,	
	2005	2004
Net loss, as reported	$ (2,360,921)	$ (2,451,351)
Add back: stock based compensation expense recognized, net of related tax effects	247,447	96,380
Pro forma effect of stock based compensation expense determined under the fair value method for all awards, net of related tax effects.	(1,511,310)	(248,333)
Net loss, pro forma	$ (3,624,784)	$ (2,603,304)
Basic loss per common share, as reported	$ (.33)	$ (.58)
Basic loss per common share, pro forma	$ (.50)	$ (.62)

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 9 Months Ended

September 30,

	2005	2004
Approximate risk free rate	4.5%	4.5%
Average expected life	3 years	3 years
Dividend yield	0%	0%
Volatility	123%	274%
Estimated per share weighted average fair value of total options granted	$ 1.26	$ 1.22

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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 sought damages under various causes of action, in amounts up to $2 million.

On August 2, 2005, the Company formally agreed to dismiss the lawsuit it filed against TIABFES Corp. d/b/a New Capital Advisors (New Capital) in Superior Court at Phoenix, Arizona (#CV2004-015723) on August 13, 2004 and New Capital agreed to dismiss the lawsuit it filed on June 14, 2004, against the Company in United States District Court, Central District of California (#04-4198). In connection with the final settlement agreement, the Company issued a total of 39,295 shares of common stock.

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.

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 nine months ended September 30, 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 is a leading online community targeting the U.S. Hispanic and certain Latin American markets. Our online network is designed to provide multiple topics of high importance to Hispanic users. We believe we are an industry leader in developing innovative sponsorships that match the desire of marketers to reach Hispanics online, with the needs of Quepasa.com users to obtain timely and relevant products and services. 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, Google AdSense and banner advertisements. 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. We recognize revenue related to banner advertisements ratably over the contract period. Google AdSense revenue is recognized in the period in which it is earned.

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.

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

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 options 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.

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At September 30, 2005, we had $1.5 million in cash and cash equivalents compared to $3.1 million at December 31, 2004.

Net cash used in operating activities was $2.0 million for the nine months ended September 30, 2005 as compared to $1.3 million for the nine months ended September 30, 2004. For the nine months ended September 30, 2005, net cash used by operations consisted of a net loss of $2.4 million offset by non-cash expenses of $78 thousand in depreciation and amortization, $115 thousand in additional common stock shares required in an offering and $397 thousand in stock and options granted for professional services. Net cash used by operations for the nine months ended September 30, 2004 consisted of the net loss of $2.5 million offset by non-cash expenses of $307 thousand in depreciation and amortization plus $256 thousand in warrants issued for professional services, $189 thousand in stock issued for professional services, $64 thousand in amortization of discount on notes payable, $44 thousand in stock related to the extension of a private placement agreement and $26 thousand in stock compensation expense.

Net cash used in investing activities was $34 thousand for the nine months ended September 30, 2005 as compared to net cash used by investing activities of $54 thousand for the nine months ended September 30, 2004. The primary use of cash was for investments in capital equipment.

Net cash provided by financing activities was $429 thousand for the nine months ended September 30, 2005 as compared to $2.2 million for the nine months ended September 30, 2004. In the nine months ended September 30, 2005, we received $435 thousand, net of commissions, from the issuance of common stock. In the nine months ended September 30, 2004, we received $1.5 million, net of commissions, from the issuance of common stock, $532 thousand, net of commissions, from the issuance of preferred stock and $225 thousand from the issuance of notes payable.

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 few quarters. If sufficient revenues are not generated to meet our operating needs, we believe it will be necessary to raise additional capital.

Results of Operations

Comparison of the nine months ended September 30, 2005 with the nine months ended September 30, 2004

For the nine months ended September 30, 2005 the net loss was $2.4 million compared to a net loss of $2.5 million for the nine months ended September 30, 2004. The changes in net loss was attributable, in part, to the increased revenue we generated, a decrease in sales and marketing expense and a decrease in depreciation and amortization expense. These changes were offset by an increase in search services costs associated with the new business model as well as the increase in general and administrative expenses related to the 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.

Comparison of the three months ended September 30, 2005 with the three months ended September 30, 2004

For the three months ended September 30, 2005 the net loss was $797 thousand compared to a net loss of $676 thousand for the three months ended September 30, 2004. The increased loss was attributable, in part, to an increase in general and administrative expense 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. These increases in expenses were partially offset by a decrease in search services costs and a decrease in depreciation and amortization expense.

Revenues

For the three months ended September 30, 2005, the Company generated revenues of $190 thousand compared to $216 thousand in revenue for the three months ended September 30, 2004. For the nine months ended September 30, 2005, revenues were $476 thousand compared to $343 thousand in revenue for the nine months ended September 30, 2004. In order to generate significant revenue under the new model, we must continue to enhance the development and marketing of our targeted online community. For the nine months ended September 30, 2005, our revenue was primarily generated from three principal sources: revenue earned from pay-for-performance search advertisements, Google AdSense and banner advertisements.

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 September 30, 2005 and 2004, pay-for-performance revenue accounted for 78% and 99% of total revenue, respectively. For the nine months ended September 30, 2005 and 2004, pay-for-performance revenue accounted for 91% and 93% of total revenue, respectively.

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Google AdSense. The Company recognizes revenue from Google AdSense in the period it is earned. During the three months ended September 30, 2005 and 2004, Google AdSense revenue accounted for 22% and 0% of total revenue, respectively. For the nine months ended September 30, 2005 and 2004, Google AdSense accounted for 9% and 0% 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 September 30, 2005 and 2004, banner advertising revenue accounted for 0% and 1% of total revenue, respectively. For the nine months ended September 30, 2005 and 2004, banner advertising revenue accounted for 0% and 7% 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 September 30, 2005 were $987 thousand, an increase from $893 thousand for the three months ended September 30, 2004. The increased expenses are principally attributable to the increase in general and administrative expenses to $782 thousand for the three months ended September 30, 2005, from $609 thousand for the three months ended September 30, 2004, an increase in sales and marketing expenses to $63 thousand for the three months ended September 30, 2005, from $41 thousand for the three months ended September 30, 2004, and a increase in product and content development expenses to $39 thousand for the three months ended September 30, 2005, from $23 thousand for the three months ended September 30, 2004. These increases were offset by the decrease in search services expenses to $76 thousand for the three months ended September 30, 2005, from $123 thousand for the three months ended September 30, 2004 and the decrease in depreciation and amortization expenses to $27 thousand for the three months ended September 30, 2005, from $97 thousand for the three months ended September 30, 2004.

For the nine months ended September 30, 2005, operating expenses were $2.8 million, an increase from $2.7 million for the nine months ended September 30, 2004. The increased expenses are principally attributable to the increase in search services expenses to $303 thousand for the nine months ended September 30, 2005, from $180 thousand for the nine months ended September 30, 2004 and the increase in general and administrative expenses to $2.1 million for the nine months ended September 30, 2005, from $1.8 million for the nine months ended September 30, 2004. These increases were offset by the decrease in sales and marketing expenses to $210 thousand for the nine months ended September 30, 2005, from $336 thousand for the nine months ended September 30, 2004, a decrease in product and content development expenses to $113 thousand for the nine months ended September 30, 2005, from $124 thousand for the nine months ended September 30, 2004 and a decrease in depreciation and amortization expense to $78 thousand for the nine months ended September 30, 2005, from $307 thousand for the nine months ended September 30, 2004.

Search Services Expenses. Our search services expenses decreased to $76 thousand in the three months ended September 30, 2005, from $123 thousand in the three months ended September 30, 2004. This decrease is attributable to credits received related to previously billed services. For the nine months ended September 30, 2005, search services increased to $304 thousand from $180 thousand for the nine months ended September 30, 2004. This increase is attributable to an increase in our search partner expenses.

Sales and Marketing Expenses. Our Sales and marketing expense increased to $63 thousand in the three months ended September 30, 2005, from $41 thousand for the three months ended September 30, 2004. For the nine months ended September 30, 2005, sales and marketing expenses decreased to $210 thousand from $336 thousand for the nine months ended September 30, 2004. These changes are mainly attributable to restructuring within our sales and marketing workforce.

Product and Content Development Expenses. Our product and content development expenses increased to $39 thousand in the three months ended September 30, 2005, from $23 thousand in the three months ended September 30, 2004. For the nine months ended September 30, 2005, product and content development expenses decreased to $113 thousand from $124 thousand for the nine months ended September 30, 2004. This decrease is attributable to changes in 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 $782 thousand in the three months ended September 30, 2005, from $609 thousand in the three months ended September 30, 2004. This increase is principally attributable to the increases in professional fees increased to $196 thousand for the three months ended September 30, 2005, from $82 for the three months ended September 30, 2004, the expense of $98 thousand for the three months ended September 30, 2005, related to the settlement of a lawsuit and the expense of $115 thousand for the three months ended September 30, 2005, related to the additional common shares required by a private placement. These increases were partially offset by the decrease in stock based compensation to $0 for the three months ended September 30, 2005, from $70 thousand for the three months ended September 30, 2004.

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For the nine months ended September 30, 2005, general and administrative expenses increased to $2.1 million in the nine months ended September 30, 2005 from $1.8 million in the nine months ended September 30, 2004. This increase is principally attributable to the increase in advertising expense to $140 thousand for the nine months ended September 30, 2005 from $6 thousand for the nine months ended September 30, 2004, an increase in rent expense to $136 thousand for the nine months ended September 30, 2005 from $97 thousand for the nine months ended September 30, 2004 and general and administrative salaries increased to $542 thousand for the nine months ended September 30, 2005 from $455 thousand for the nine months ended September 30, 2004 and an increase in professional fees to $686 thousand for the nine months ended September 30, 2005 from $645 thousand for the nine months ended September 30, 2004.

Depreciation and Amortization Expense. Our depreciation and amortization expense decreased to $27 thousand in the three months ended September 30, 2005 from $97 thousand for the three months ended September 30, 2004. For the nine months ended September 30, 2005, depreciation and amortization expenses decreased to $78 thousand from $307 thousand in the nine months ended September 30, 2004. This decrease is attributable to the decrease in depreciation associated with our proprietary software which was fully depreciated at December 31, 2004.

Other Income (Expense). Other income (expense), which primarily consists of interest income offset by interest expense, was ($352) in the three months ended September 30, 2005, a decrease from $1,249 in the three months ended September 30, 2004. For the nine months ended September 30, 2005, other income (expense) increased to $983 from ($70,171) in the nine months ended September 30, 2004. This increase is attributable to the decrease in an amortization of a discount on bridge loans for the nine months ended September 30, 2004.

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 September 30, 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 September 30, 2005. There have been no changes in the Company s internal controls or in other factors that could materially affect internal controls subsequent to September 30, 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 September 30, 2005, the Company s auditors communicated to the Registrant matters it considered to be a material 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.

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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 sought damages under various causes of action, in amounts up to $2 million.

On August 2, 2005, the Company formally agreed to dismiss the lawsuit it filed against TIABFES Corp. d/b/a New Capital Advisors (New Capital) in Superior Court at Phoenix, Arizona (#CV2004-015723) on August 13, 2004 and New Capital agreed to dismiss the lawsuit it filed on June 14, 2004, against the Company in United States District Court, Central District of California (#04-4198). In connection with the final settlement agreement, the Company issued a total of 39,295 shares of common stock.

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.

Ite m 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.

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

In July 2005, the Company issued 50,780 additional shares of common stock valued at $114,763 as required by the terms of a private placement.

In July 2005, the Company issued 10,874 shares of common stock valued at $13,375 for preferred stock dividends.

In July 2005, the Company issued 25,000 shares of common stock valued at $51,250 for professional services.

In August 2005, the Company issued 39,295 shares of common stock valued at $98,238 related to the settlement of a lawsuit.

During the nine months ended September 30, 2005, certain preferred shareholders elected to convert 3,337 shares of preferred stock valued at $217,855 to 271,299 shares of common stock.

The Company granted 1,200,000 stock options during the nine months ended September 30, 2005, which expire at various times between May and June 2012. Stock-based compensation totaled $247,447 during the nine months ended September 30, 2005, and is classified in general and administrative expenses in the accompanying financial statements.

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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 August 15, 2005, we furnished a report on Form 8-K announcing the settlement of the TIABFES lawsuit.

On August 15, 2005, we furnished a report on Form 8-K announcing an advertising arrangement with Google, Inc. and the results for the prior 30 days.

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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 14, 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)

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