QUEPASA COM INC
Form 10-Q/A
August 15, 2001

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

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# FORM 10-Q/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 JUNE 30, 2000

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.COM, INC.
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

| DELAWARE | 84-0879433 |
|---|---|
| (STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION) | (I.R.S. EMPLOYER IDENTIFICATION NO.) |
| ONE ARIZONA CENTER, 400 E. VAN BUREN 4TH FLOOR, PHOENIX, AZ | 85004 |
| (ADDRESS OF PRINCIPAL EXECUTIVE OFFICES) | (ZIP CODE) |

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE: 602-716-0100

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

| TITLE OF EACH CLASS | NAME OF EXCHANGE ON WHICH REGISTERED |
|---|---|
| NONE. | NONE. |

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:
COMMON STOCK, PAR VALUE $.001 PER SHARE
(TITLE OF CLASS)

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

August 14, 2000 was approximately 18,693,942 shares.

QUEPASA.COM, INC.

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PART I FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

QUEPASA.COM, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

| | JUNE 30, 2000 (UNAUDITED) (restated) | DECEMBER 3 1999 |
|---|---|---|
| ASSETS | | |

| | | |
|---|---|---|
| Current assets: | | |
| Cash and cash equivalents ........................ | $ 3,924,134 | $ 6,961, |
| Trading securities .............................. | 10,044,184 | 22,237, |
| Accounts receivable (net of allowance for doubtful accounts of $191,308 and $4,813, respectively) | 362,261 | 297, |
| Forgivable loans ................................ | 93,167 | 368, |
| Prepaid expenses ................................ | 2,096,481 | 2,161, |
| Other current assets ............................ | 5,793,391 | |
| Total current assets ....................... | 22,313,618 | 32,025, |
| Prepaid marketing services .......................... | 8,554,707 | 10,120, |
| Property and equipment, net ......................... | 2,015,191 | 2,051, |
| Goodwill, net ....................................... | 18,195,137 | |
| Other assets ........................................ | 968,993 | 153, |
| Total assets ........................................ | $ 52,047,646 | $ 44,350, |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable ................................ | 1,616,541 | $ 2,775, |
| Accrued liabilities ............................. | 388,417 | 1,023, |
| Deferred revenue ................................ | 15,417 | 85, |
| Total current liabilities.................. | 2,020,375 | 3,884, |
| Redeemable common stock ............................. | -- | 2,000, |
| Deferred advertising expense ........................ | -- | (1,600, |
| Stockholders' equity: | | |
| Preferred stock, authorized 5,000,000 shares, no par value, -- none issued or outstanding ............ | -- | |
| Common stock, authorized 50,000,00 shares, $0.001 par value; issued and outstanding 17,763,290 shares and 14,536,058 shares, respectively ............. | 17,763 | 14, |
| Additional paid-in capital .......................... | 104,379,401 | 75,829, |
| Accumulated deficit ................................. | (54,369,893) | (35,777, |
| Total stockholders' equity................. | 50,027,271 | 40,066, |
| Total liabilities and stockholders' equity........... | $ 52,047,646 | $ 44,350, |

See accompanying notes to condensed consolidated financial statements.

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QUEPASA.COM, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

| | THREE MONTHS ENDED JUNE 30, | | SIX MO |
|---|---|---|---|
| | 2000 (restated) | 1999 | 2000 (res |
| Gross revenue .......................... | $ 1,015,412 | $ 16,562 | $ 1,74 |
| Less commissions ...................... | (74,873) | (8,119) | (13 |
| Net revenue ........................... | 940,539 | 8,443 | 1,60 |
| Operating expenses: | | | |
| Product and content development ..... | 1,777,581 | 278,872 | 3,49 |
| Advertising and marketing ........... | 4,111,568 | 3,062,841 | 11,18 |
| General and administrative .......... | 1,701,486 | 6,320,117 | 3,39 |
| Amortization of goodwill ............ | 1,752,228 | -- | 2,83 |
| Total operating expenses | 9,342,863 | 9,661,830 | 20,91 |
| Loss from operations .................. | (8,402,324) | (9,653,387) | (19,30 |
| Other income (expense): | | | |
| Interest expense .................... | (19,889) | (113,122) | (5 |
| Interest income and other ........... | 468,736 | 2,568 | 89 |
| Short-term gain on trading securities | -- | -- | |
| Unrealized gain (loss) on trading securities ...................... | (17,960) | 1,053 | (13 |
| Other income (expenses), net .......... | 430,887 | (109,501) | 71 |
| Net loss .............................. | $ (7,971,437) | $ (9,762,888) | $(18,59 |
| Net loss per share, basic and diluted .. | $ (.45) | $ (.98) | $ |
| Weighted average number of shares outstanding, basic and diluted ......... | 17,906,142 | 9,920,338 | 16,83 |

See accompanying notes to condensed consolidated financial statements.



QUEPASA.COM, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

Six
2000

| | (restat |
|---|---|
| **Cash flows from operating activities:** | |
| Net loss | $(18,592 |
| Adjustments to reconcile net loss to net cash used in operating activities: | |
| Depreciation and amortization | 3,416 |
| Stock based compensation | 41 |
| Forgiveness of forgivable loans | 361 |
| Amortization of prepaid marketing services | 1,565 |
| Consulting services received in exchange for stock | |
| Unrealized (gain) loss on trading securities | 137 |
| Short-term gain on trading securities | (2 |
| Increase (decrease) in cash resulting from changes in assets and liabilities: | |
| Sale (purchase) of trading securities, net | 12,059 |
| Accounts receivable | (65 |
| Prepaid expenses | (1,101 |
| Other assets | (6,658 |
| Accounts payable | (1,262 |
| Accrued liabilities | (638 |
| Amortization of deferred advertising credit | 766 |
| Deferred revenue | (70 |
| Net cash used in operating activities | (10,043 |
| **Cash flows from investing activities:** | |
| Forgivable loans | (87 |
| Cash paid for acquisitions | (238 |
| Cash received in acquisition | 578 |
| Purchase of fixed assets | (244 |
| Net cash (used in) provided by investing activities | 8 |
| **Cash flows from financing activities:** | |
| Stock subscription receivable | |
| Net proceeds from issuance of stock | 9,000 |
| Proceeds from the exercise of stock options | 367 |
| Proceeds from draws on line of credit | 12 |
| Issuance (payment) of notes payable | (2,382 |
| Accrued commissions | |
| Stock subscription | |
| Net cash provided by financing activities | 6,997 |
| Net increase (decrease) in cash and cash equivalents | (3,037 |
| Cash and cash equivalents, beginning of period | 6,961 |
| Cash and cash equivalents, end of period | $ 3,924 |
| Supplemental disclosure of non-cash operating, financing and investing activities: | |
| Interest paid | $ 32 |
| Barter transactions | $ 725 |
| Notes payable assumed in acquisitions | $ 2,370 |
| Stock issued for advertising credits | $ |

| | |
|---|---|
| Issuance of stock in acquisitions ............................................... | $ 20,073 |

See accompanying notes to condensed consolidated financial statements.



QUEPASA.COM, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2000 AND 1999

(1) THE COMPANY

quepasa.com, inc. (the "Company"), a Nevada Corporation, was incorporated in June 1997. The Company is a Bilingual Internet portal and on-line community focused on the United States Hispanic market. quepasa.com offers a number of services in both Spanish and English such as a search engine, news feeds, chat, games, maps, message boards and free e-mail. The Company's portal draws viewers to its Web site by providing a one-stop destination for identifying, selecting and accessing resources, services, content and information on the Web. 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.

To date the Company's expenses have significantly exceeded revenue and there is no assurance that the Company will earn profits in the future.

(2) BASIS OF PRESENTATION

Our accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim 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 our opinion, such unaudited interim information reflects all adjustments, consisting only of normal recurring adjustments, necessary to present our financial position and results of operations for the periods presented. Our results of operations for interim periods are not necessarily indicative of the results to be expected for a full fiscal year. Our Condensed Consolidated Balance Sheets as of December 31, 1999 was derived from our audited financial statements as of that date but does not include all the information and footnotes required by generally accepted accounting principles. We suggest that these condensed consolidated financial statements be read in conjunction with the audited financial statements included in our Annual Report on Form 10-K/A for the year ended December 31, 1999.

(3) SIGNIFICANT TRANSACTIONS

On January 28, 2000, the Company acquired credito.com, an on-line credit company targeted to the U.S. Hispanic population for a purchase price of $8.4 million consisting

of 681,818 shares of common stock valued at $11 per share and assumption of an $887,000 note payable. The Company included the 681,818 shares of common stock issued unconditionally in determining the cost of credito.com recorded at the date of acquisition. Contingent consideration consisted of warrants to purchase 681,818 shares of common stock exercisable upon credito.com's achievement of certain performance objectives related to gross revenue as of January 2001 and January 2002. The value of the stock was determined using the average stock price between the date of the merger agreement and the date the merger was publicly announced, or $11 per share. The Company accounted for the acquisition using the purchase method of accounting. Accordingly, the purchase price was allocated to the assets purchased and the liabilities assumed based upon the estimated fair values on the date of the acquisition. The excess of the purchase price over the fair value of the net assets acquired was approximately $7.8 million and was recorded as goodwill, which is being amortized on a straight-line basis over a 3-year period.

On January 28, 2000, the Company acquired eTrato.com, an on-line trading community developed especially for the Spanish language or bilingual Internet user for an aggregate purchase price of $10.85 million, consisting of 681,818 shares of common stock valued at $14.09 per share, and assumption of a $1.25 million promissory note. The note payable is due in whole on January 28, 2002 and has a stated interest rate at the greater of 6% per annum or the federal rate then in effect with respect to debt instruments having a term of two years. An additional 681,818 shares will be held in escrow pending the outcome of certain revenue and web site contingencies over the 6-month period following the acquisition. The value of the stock was determined using the average stock price between the date of the merger agreement and the date the merger was publicly announced, or $14.09 per share. The Company accounted for the acquisition using the purchase method of accounting. Accordingly, the purchase price was allocated to the assets purchased and the liabilities assumed based upon the estimated fair values on the date of the acquisition. The excess of the purchase price over the fair value of the net assets acquired was approximately $10.1 million and was recorded as goodwill, which is being amortized on a straight-line basis over a 3-year period.

On March 9, 2000, the Company acquired RealEstateEspanol.com, a real estate services site providing the Hispanic-American community with bilingual home buying services for an aggregate purchase price of $3.3 million. The purchase price for RealEstateEspanol.com consisted of 335,925 shares of the Company's common stock valued at $3.0 million and the assumption of $300,000 in debt paid immediately following the closing of the acquisition. Contingent consideration consisted of 248,834 shares of common stock which were held in escrow pending RealEstateEspanol.com's achievement of gross revenue targets within 12 months of the date of the agreement. The value of the stock was



determined using the average stock price between the date of the merger

agreement and the date the merger was publicly announced, or $8.83 per share. The Company accounted for the acquisition using the purchase method of accounting. Accordingly, the purchase price was allocated to the assets purchased and the liabilities assumed based upon the estimated fair values on the date of the acquisition. The excess of the purchase price over the fair value of the net assets acquired was approximately $3.2 million and was recorded as goodwill, which is being amortized on a straight-line basis over a 3-year period.

The following summary, prepared on a pro forma basis, combines the consolidated results of operations (unaudited) as if the acquisitions had taken place on January 1, 1999. Amortization of goodwill related to the acquisitions of credito.com, eTrato.com and RealEstateEspanol.com has been recorded for the period of inception, August 17, 1999, June 16, 1999 and August 30, 1999, respectively, through December 31, 1999 based on an estimated useful life of 3 years. Such pro forma amounts are not necessarily indicative of what the actual results of operations might have been if the acquisition had been effective on January 1, 1999, including $3,504,000 and $138,000 amortization of goodwill during the six months ended June 30, 2000 and June 30, 1999, respectively (in thousands, except per share amounts):

| | Six Months Ended June 30, | |
|---|---|---|
| | 2000 | 1999 |
| Gross revenue | $ 1,745 | $ 17 |
| Net revenue | 1,605 | 8 |
| Operating expenses | 24,699 | 13,479 |
| Net loss | (22,380) | (13,585) |
| Net loss per share, basic and diluted | (1.33) | (1.43) |

While issuance of the contingent shares of common stock held in escrow is believed to be remote, the contingent shares of common stock held in escrow as a result of the acquisitions, if subsequently issued, would increase the purchase price of the entities by $7,500,000, $9,607,000, and $2,197,000, for credito.com, eTrato.com, and RealEstateEspanol.com, respectively, assuming the same fair value for the contingent shares of common stock as that which was used for the shares of common stock that were issued as a result of the transaction on the respective acquisition dates. In addition, pro forma operating expenses for the second quarter of 2000 would increase to $27,917,000, from $24,699,000, and would increase to $13,611,000, from $13,479,000, for the second quarter of 1999, net loss for the second quarter of 2000 would increase to $25,598,000, from $22,380,000, and would increase to $13,716,000, from $13,585,000, for the second quarter of 1999, and net loss per share for the second quarter of 2000 would increase to $1.52, from $1.33, and would increase to $1.45, from $1.43, for the second quarter of 1999.

On March 30, 2000, Gateway, Inc. invested $9.0 million (restated) in exchange for 1,428,571 shares of common stock which represents 7.6% of quepasa.com's outstanding common stock. The amount attributable to common stock

and additional paid-in capital was $7,685,712, the value of the 1,428,571 shares of common stock on the date issued ($5.38 per share). Additionally, quepasa granted a 60-day warrant to acquire 483,495 shares of common stock at $7 per share. The warrants were valued at $386,000 using the Black Scholes option-pricing model. The assumptions used for the Gateway warrants are as follows: expected dividend yield 0%, risk-free interest rate of 5.67%, expected volatility of 147%, and expected life of two months. In the event that there is a change in ownership of quepasa in excess of 30% prior to September 30, 2000 and for a price per share less than $7.00, Gateway has the right to be reimbursed for the differential in the per share amount. quepasa also committed itself to use a substantial portion of the proceeds of Gateway's investment to further its community and educational initiative program, which includes distributing computers purchased from Gateway accompanied with Spanish language technical support, providing Internet access, and training for quepasa's subscribers. The Company purchased $5.8 million (restated) of computers pursuant to this agreement to be used for promotional activities which are included in other current assets as of June 30, 2000. The Company took title to the computers upon the close of the transaction. Since the Company has no warehousing facilities, the computers were segregated from Gateway's inventory in third party warehouse locations and the Company is responsible for the payment of warehouse storage charges. The Company will partner with Gateway in joint marketing and promotional programs targeting the U.S. Hispanic community. These computers will be amortized as they are donated.

In September 1999, the Company entered into an agreement with Estefan Enterprises, Inc. whereby Gloria Estefan would act as spokesperson for the Company through December 31, 2000 and the Company would sponsor her United States 2000 concert tour. Ms. Estefan's tour was subsequently postponed, and consequently the original terms of the spokesperson agreement have been renegotiated. The revised spokesperson agreement calls for the return of the 156,863 shares of redeemable common stock to the Company, cancellation of the put option for those shares and cancellation of the final installment. The Company obtained the right of first refusal for the sponsorship of Ms. Estefan's next United States and Latin America tours. As of March 31, 2000, amounts related to this contract were recorded as prepaid expenses, deferred advertising expense, and redeemable common stock and were being amortized over the term of the contract. As of June 30, 2000, the remaining prepaid expense and deferred advertising credit, and the issuance of the 156,863 shares of redeemable common stock have been reversed. The Company recognized $1.1 million and $2.3 million of amortization in relation to the Estefan agreement during the three and six months ended June 30, 2000, respectively.

On May 9, 2000 the Company announced that it would reduce its workforce by approximately one third as part of management's effort to further enhance the Company's competitive position and utilize its assets more efficiently. The Company's workforce was 104 as of March 31, 2000 and has been reduced to 72 as of June 30, 2000. The Company recognized $40,000 in employee severance and termination costs for the



three months ended June 30, 2000, which is primarily classified in production and content development expense.

During the three months ended June 30, 2000 the Company announced it had retained Friedman, Billings, Ramsey & Company to explore alternatives including strategic alliances, significant equity investments in the Company or a merger or the sale of the Company or significant portions of its business.

(4) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Uses of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make 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. Additionally, such estimates and assumptions affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

Certain reclassifications have been made to prior year financial statement amounts to conform to current year presentation.

Concentration of Credit Risk and Significant Customers

Financial instruments which potentially subject the Company to concentrations of credit risk are principally accounts receivable, cash and cash equivalents and trading securities. The Company maintains ongoing credit evaluations of its customers and generally does not require collateral. The Company provides reserves for potential credit losses and such losses have not exceeded management expectations. Periodically during the year the Company maintains cash and investments in financial institutions in excess of the amounts insured by the federal government. During the three months ended June 30, 2000, one customer accounted for 38% of gross revenue, and during the six months ended June 30, 2000, two customers accounted for 25% and 16% of gross revenue. No other single advertiser utilizing banner ads or sponsorship agreements amounted to or exceeded 10% of total gross revenue.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and highly liquid debt instruments with original maturities of three months or less.

Securities



The Company classifies its securities in one of three categories: trading, available-for-sale, or held-to-maturity. Trading securities are bought and held principally for the purpose of selling them in the near term. Held-to-maturity securities are those securities in which the Company has the ability and intent to hold the security until maturity. All other securities not included in trading or held-to-maturity are classified as available-for-sale. Trading securities at June 30, 2000 and December 31, 1999 consist of corporate debt securities.

Trading and available-for-sale securities are recorded at market value. Held-to-maturity securities are recorded at amortized cost, adjusted for the amortization or accretion of premiums or discounts. Unrealized holding gains and losses on trading securities are included in operations. Unrealized holding gains and losses, net of the related tax effect, on available-for-sale securities are excluded from operations and are reported as a separate component of other comprehensive income until realized. Realized gains and losses for trading securities are included in operations and are derived using the specific identification method for determining the cost of securities. All securities held at June 30, 2000 and December 31, 1999 are categorized as trading.

Revenue Recognition

The Company's revenue is derived principally from the sales of banner advertisements and sponsorships. The Company sells banner advertising primarily on a cost-per-thousand impressions, or "CPM" basis, under which advertisers and advertising agencies receive a guaranteed number of "impressions," or number of times that an advertisement appears in pages viewed by users of the Company's Web site, for a fixed fee. The Company's contracts with advertisers and advertising agencies for these types of contracts cover periods ranging from one to twelve months. Advertising revenues are recognized ratably based on the number of impressions displayed, provided that the Company has no obligations remaining at the end of a period and collection of the resulting receivable is probable. Company obligations typically include guarantees of a minimum number of impressions. To the extent that minimum guaranteed impressions are not met, the Company defers recognition of the corresponding revenues until the remaining guaranteed impression levels are achieved. Payments received from advertisers prior to displaying their advertisements on the Company's Web site are recorded as deferred revenue.

The Company also derives revenues from the sale of sponsorships for certain areas or a sponsorship exclusivity for certain areas within its Web site. These sponsorships are for periods up to one year. The Company recognizes revenue during the initial setup, if required under the unique terms of each sponsorship agreement (e.g. co-branded Web site), to the extent that actual costs are incurred. The balance of the sponsorship is recognized ratably over the period of time of the related agreement. Payments received from sponsors prior to displaying their advertisements on the Company's Web site are recorded as deferred revenue.



The Company also derives revenue from slotting fees and commissions. Slotting fees revenue is recognized ratably over the period the services are provided. Setup fees revenue is recognized during the initial setup to the extent that direct costs are incurred. The remaining revenue derived from setup fees is deferred and amortized ratably over the term of the applicable agreement. Commission revenue related to X:Drive is recognized in the month in which a new account is established (i.e. services are provided). Commission revenue and expense related to Net2Phone are recognized during the month in which the service is provided.

The Company in the ordinary course of business enters into reciprocal service arrangements (barter transactions) whereby the Company provides advertising service to third parties in exchange for advertising services in other media. Revenue and expenses from these agreements are recorded at the fair value of services provided. The fair value represents market prices negotiated on an arms' length basis. Revenue from reciprocal service arrangements is recognized as income when advertisements are delivered on the Company's Web site. Expense from reciprocal service arrangements is recognized when the Company's advertisements are run in other media, which are typically in the same period when the reciprocal service revenue is recognized. Related expenses are classified as advertising and marketing expenses in the accompanying statements of operations. During the three months ended June 30, 2000 and 1999 revenues attributable to reciprocal services totaled approximately $613,000 (restated) and $0, respectively, and related expenses totaled approximately $564,000 (restated) and $0, respectively. During the six months ended June 30, 2000 and 1999 revenues attributable to reciprocal services totaled approximately $725,000 (restated) and $0, respectively, and related expenses totaled approximately $725,000 (restated) and $0, respectively.

Computer Promotions Inventory

Computer promotions inventory is recorded at cost and included in Other Current Assets. Amortization expense is provided on an individual basis as each computer is donated.

Property and Equipment

Property and equipment are recorded at cost. Depreciation and amortization expense is generally provided on a straight-line basis using estimated useful lives of the assets, which range from two to five years. Leasehold improvements are amortized on a straight-line basis over the shorter of the lease term or the estimated useful lives of the related improvements. Expenditures for repairs and maintenance are charged to operations as incurred and improvements which extend the useful lives of the assets are capitalized.

Product and Content Development



Costs incurred in the classification and organization of listings within the Company's Web site are charged to expense as incurred. In accordance with SOP 98-1, material software development costs, costs of development of new products and costs of enhancements to existing products incurred during the application development stage are capitalized. Based upon the Company's product development process, and the constant modification of the Company's Web site, costs incurred by the Company during the application development stage have been insignificant.

In March 2000, EITF No. 00-02, ACCOUNTING FOR WEB SITE DEVELOPMENT COSTS, was issued which addresses how an entity should account for costs

incurred in web site development. EITF 00-02 distinguishes between those costs incurred during the development, application and infrastructure development stage and those costs incurred during the operating stage. EITF 00-02 is effective on and after June 30, 2000 although early adoption is encouraged. The adoption of EITF No. 00-02 did not have a material impact on the Company's consolidated financial statements.

Income Taxes

The Company utilizes the asset and liability method of accounting for income taxes. Under the asset and liability method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Impairment of Long-Lived Assets

The Company reviews long-lived assets and certain identifiable intangibles for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value of the assets less costs to sell.

Fair Value of Financial Instruments

The carrying amount of the Company's financial instruments, which principally include cash and cash equivalents, trading securities, accounts receivable, forgivable loans, accounts payable, and accrued liabilities, approximates fair market value because of the short term nature of the instruments.



Stock-based Compensation

The Company accounts for its stock option plan in accordance with the provisions of Accounting Principles Board "APB" Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations. As such, compensation expense is recorded on the date of grant only if the current market price of the underlying stock exceeded the exercise price. The Company has adopted the disclosure provisions of SFAS No. 123, Accounting for Stock-Based Compensation, which permits entities to provide pro forma net earnings (loss) and pro forma earnings (loss) per share disclosures for employee stock option grants as if the fair-value-based method as defined in SFAS No. 123 had been applied.

The Company uses one of the most widely used option pricing models, the Black-Scholes model ("Model"), for purposes of valuing its stock option grants.

The Model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, it requires the input of highly subjective assumptions, including the expected stock price volatility, expected dividend yields, the risk free interest rate, and the expected life. Because the Company's stock options have characteristics significantly different from those of traded options, and because changes in subjective input assumptions can materially affect the fair value estimate, in management's opinion, the value determined by the Model is not necessarily indicative of the ultimate value of the granted options.

Stock based compensation totaled $20,546 and $4,385,270 for the three months ended June 30, 2000 and June 30, 1999, respectively, and is primarily classified in production and content development expense for the three months ended June 30, 2000, and is classified for the three months ended June 30, 1999 as follows: $67,024 in production and content development expense, $15,337 in advertising and marketing expense, and $4,302,909 in general and administrative expense.

Stock based compensation totaled $41,092 and $4,864,270 for the six months ended June 30, 2000 and June 30, 1999, respectively, and is primarily classified in production and content development expense for the six months ended June 30, 2000, and is classified for the six months ended June 30, 1999 as follows: $136,324 in production and content development expense, $50,337 in advertising and marketing expense, and $4,677,609 in general and administrative expense.

Net Loss Per Share

Basic loss per share is computed by dividing net loss available to common stockholders by the weighted-average number of common shares outstanding for the period. Diluted loss per share reflects the potential dilution that could occur if securities or contracts to issue common stock were exercised or converted into common stock or



resulted in the issuance of common stock that then shared in the earnings of the Company. Stock options and warrants are excluded because they are anti-dilutive.

Advertising Costs

Advertising costs are expenses as incurred in accordance with Statement of Position 93-7, "Reporting on Advertising Costs". The Company recognizes the advertising expense in a manner consistent with how the related advertising is displayed or broadcast. Advertising production costs are expensed as incurred.

Segment Reporting

The Company utilizes the management approach in designating business segments. The management approach designates the internal organization that is used by management for making operating decisions and assessing performance as the source of the Company's reportable segments. The Company's one segment

provides Internet Portal and On-Line Community services in both Spanish and English to the Hispanic market. The Company's initial focus is on the U.S. Hispanic market, with substantially all of the Company's assets in and revenues originating from the United States.

(5) COMMITMENTS

Advertising Contracts

In April 1999, the Company entered into an agreement with Telemundo Network Group LLC ("Telemundo"). A director of the Company serves as the Chief Operating Officer of Telemundo. Under this agreement, the Company issued Telemundo 600,000 shares of its common stock and warrants to purchase 1,000,000 shares of its common stock exercisable up to and including June 25, 2001 at $14.40 per share. In exchange, the Company received a $5.0 million advertising credit on the Telemundo television network at the rate of $1.0 million for each of the next five years. As of June 30, 2000, the Company's unused advertising credit amounted to $4.6 million.

The Company has a sponsorship agreement with the Arizona Diamondbacks major league baseball team. A director of the Company serves as the Arizona Diamondbacks' Chief Executive Officer and General Manager. Under this agreement, the Company receives English and Spanish television and radio broadcast time, ballpark signage, and Internet and print promotions for an annual sponsorship fee of $1.5 million which is payable during each season. The $1.5 million annual sponsorship fee is recognized as expense ratably over the baseball season. The Company recognized

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$649,000 and $865,000 in expense related to this agreement during the three and six months ended June 30, 2000, respectively.

Internet Access Agreement

On December 14, 1999, the Company entered into a one-year agreement with NetZero, Inc. ("NetZero"), where they will provide free internet access along with the Company's content to the U.S. Hispanic market. According to the terms of this agreement, the Company is obligated to pay a fee for their subscribers who access the Company's Web site. This fee ranges from $.10 to $.15 per user session. The Company also committed to spend at least $1 million for the production and distribution of CD's containing the customized NetZero service. This commitment was fulfilled in the first quarter of 2000.

(6) CONTINGENCIES

Legal Proceedings

The Company from time to time is involved in various legal proceedings incidental to the conduct of its business. The Company believes, based on advice of legal counsel, that the outcome of all such pending legal proceedings will not in the aggregate have a material adverse effect on the Company's business, financial condition, results of operations or liquidity.

(7) LOSS PER SHARE

The following table sets forth a summary of the reconciliation from basic loss per share to diluted loss per share for the three and six months ended June 30, 2000 and 1999.

| | THREE MONTHS ENDED JUNE 30, | | SIX MON |
|---|---|---|---|
| | 2000 (restated) | 1999 | 2000 (restated |
| Loss available to common stockholders | $ (7,971,437) | $ (9,762,888) | $(18,592,3 |
| Basic EPS-weighted average shares outstanding ....................... | 17,906,142 | 9,920,338 | 16,835,0 |
| Basic and diluted loss per share .... | $ (.45) | $ (.98) | $ (1. |
| Stock options not included in diluted EPS since antidilutive ........... | 3,653,126 | 1,748,000 | 3,653,1 |
| Warrant not included in diluted EPS since antidilutive ........... | 2,081,818 | 1,400,000 | 2,081,8 |



Contingent shares not included in basic and diluted EPS total 930,652 and 0 for the three and six months ended June 30, 2000 and June 30, 1999, respectively.

(8) SUBSEQUENT EVENTS

In July 2000 the Company re-negotiated its spokesperson agreement with Estefan Enterprises. See "Significant Transactions" (Note 3) for more detail.

(9) RESTATEMENT

The Company has restated its June 30, 2000 financial statements to appropriately reflect the classification of prepaid marketing services of $4,629,236 as an asset, reclassified from deferred advertising services, and an increase in the value assigned to the issuance of common stock and warrants related to the Telemundo agreement in the amount of $5,120,192, amounts of which are both reflected as prepaid marketing services on the balance sheet. The increase in amortization associated with the prepaid marketing services was $256,010 and $512,020, respectively, during the three and six months ended June 30, 2000. Additionally, the Company recorded $682,695 of amortization expense (included in the advertising and marketing expenses line item on the statement of operations) in the first quarter of 2000 related to the 1999 amortization of prepaid marketing services. The Company did not adjust the amortization of these

costs in its 1999 Form 10-K/A due to the immaterial impact on its results of operations. Prepaid marketing services were reduced by a total of $1,194,715 in amortization for the six months ended June 30, 2000.

Furthermore, the Company originally recorded the issuance of 1,428,571 shares of common stock in the Gateway transaction at $7.00 per share and immediately expensed a $1,000,000 marketing payment to Gateway. Management has determined that the issuance of shares of common stock should be valued at $5.38 per share representing the closing price of the Company's common stock on the execution date of the transaction. The difference in the price per share noted above has been reflected as a reduction of additional paid-in capital in the amount of $1,928,499, elimination of the $1.0 million advertising expense, and a reduction of $928,499 in other current assets representing a discount assigned to the value of computer promotions inventory purchased as part of the transaction.

The Company has restated its barter revenue and barter expenses for the three and six months ended June 30, 2000 to comply with limitations identified in EITF 99-17. As a result, gross revenues and advertising and marketing expenses were both reduced by $251,000 and $443,000, for the three and six months ended June 30, 2000, respectively. Barter revenue for the three and six months ended June 30, 2000, after the restatement was $613,000 and $725,000, respectively, while advertising and marketing expenses related to barter transactions was $564,000 and $725,000, respectively.

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Therefore, the quarterly financial information as of and for the three and six months ended June 30, 2000, has been restated to properly record these matters in accordance with generally accepted accounting principles. The net loss of the Company for the three-month period ended June 30, 2000, increased from $7.7 million to $8.0 million, causing an increase in basic and diluted net loss per share of $.02. The net loss of the Company for the six-month period ended June 30, 2000, increased from $18.4 million to $18.6 million with no affect on basic and diluted net loss per share.

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

This Quarterly Report on Form 10-Q/A and the information incorporated by reference may include "forward-looking statements" within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act. 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 - Risk Factors 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 financing plans 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, including the following:

- we may not be able to enter into a strategic alliance, obtain a significant equity investment in the Company or arrange a merger or sale of the Company;
- we may lose members or fail to grow our member base;
- we may not successfully integrate new members or assets obtained through acquisitions;
- we may fail to compete with existing and new competitors;
- we may not be able to sustain our current growth;



- we may not adequately respond to technological developments impacting the Internet;
- we may fail to identify and correct problems associated with system migration; and
- we may not be able to find needed financing.

This list is intended to identify some of the principal factors that could cause actual results to differ materially from those described in the forward-looking statements included elsewhere in this report. These factors are not intended to represent a complete list of all risks and uncertainties inherent in our business, and should be read in conjunction with the more detailed cautionary statements included in this Quarterly Report on Form 10-Q/A under the caption "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations -- Risk Factors", "Item 3., Quantitative and Qualitative Disclosures about Market Risk" and our other SEC filings and our press releases.

The following discussion of our financial condition and results of operations for the three months ended June 30, 2000 and 1999 and the six months ended June 30, 2000 and 1999 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-Q/A.

OVERVIEW

We commenced operations on June 25, 1997. The operations for the period June 25, 1997 through May 1998 were limited to organizing quepasa.com, raising operating capital, hiring initial employees and drafting a business plan. From May 1998 to present, we were engaged primarily in content development and acquisition. In May 1999, we launched our first media-based branding and

advertising campaign in the United States. Significant revenues did not commence until the fourth quarter of 1999. For these reasons, we believe that period-to-period comparisons of our operating results are not meaningful and the results for any period should not be relied upon as an indication of future performance. We currently expect to continue investing in marketing and advertising and content development. As a result of these factors, we expect to continue to incur significant losses on a quarterly and annual basis for the foreseeable future.

THE QUEPASA.COM COMMUNITY

quepasa.com is a Bilingual (Spanish/English) Internet portal and online community launched in November of 1998, focused initially on the U.S. Hispanic market. We provide users with information and interactive content centered around the Spanish language. Because the language preference of many acculturated U.S. Hispanics is English, we also offer our users the ability to access information and services in the



English language. We draw viewers to our Web site by providing a one-stop destination for identifying, selecting and accessing resources, services, content and information on the Web. Our online community includes, in both Spanish and English, a search engine, free e-mail, news feeds, chat rooms, message boards, auction and e-commerce sites. We anticipate that our principal source of revenue will be fees paid by third parties for advertising their products and services on our Web site, sponsorship revenue for specific areas within our Web site, auction revenue from our recent acquisition of eTrato.com, e-commerce revenues from our recent acquisitions of credito.com and realestateespanol.com and through other acquisitions and partnerships.

The quepasa.com Web site currently offers a number of categories of topical interest, including the following:

Noticias (News)
Etretenimiento (Entertainment)
Salud (Health)
Mundo Latino (Latino World)
Recetario (Recipe Box)
Compras (Shopping)
Negocios y Finanzas (Business & Finance)
Deportes (Sports)
Computadoras y Tecnologia (Science & Technology)
Empleo (Employment)
Educacion (Education)
Temas de Sociedad (People & Society)
Subastas (Auctions)

Search Engine. The quepasa.com search engine helps users find information on the Web by searching through quepasa.com's index of Web documents. Our search technology is provided by Inktomi which enables us to provide customers with a variety of online search services.

Free E-Mail, Chat and Message Board Features. quepasa.com offers free e-mail and free Web community services that consist of chat services and message boards. These features enable users to discuss topics of mutual interest by participating in ongoing discussions or by creating their own topics for discussion.

24-Hour Real-time News, Maps and Games. quepasa.com offers worldwide news coverage from Associated Press, Reuters and Hispanic Business Magazine including worldwide editorialized, topical news covering areas of special interest to Hispanic users (in Spanish and English), as well as a Spanish and English-language news feed that we format and edit internally to provide broad coverage of news that is of special interest to Hispanic users. Our users are also able to search a database of archived news stories over the prior 30-day period. We were the first to offer maps and door-to-door driving directions in both Spanish and English in connection with a partnership with MapQuest Global Corporation and a bilingual "yellow-pages" directory through a partnership with



MapQuest.com Inc. We also offer several internally developed games on our Web site for free.

Other Services. We will offer our members unified messaging, PC-to-phone and calling card services as part of an agreement with Net2Phone. Through an agreement with GlobalEnglish Corporation we offer English language online learning to our members, and through an agreement with X:Drive, we offer free Internet hard drive space. The Company has entered into a partnership with Insight Guides, providing quepasa.com users with online resources to learn more about the rich U.S. Latino ethnic heritage. quepasa.com members will have online access, in both English and Spanish, to Insight Guide's unique historical, cultural and travel related content for many Latin American destinations. The Company has also entered into a revenue generating alliance with StarTravel Group, who operates a full service travel portal, StarTravel.com. Through this agreement quepasa.com users will be able to access StarTravel.com in both English and Spanish. StarTravel.com is an e-commerce Internet travel portal specializing in the delivery of travel services to the U.S. Hispanic and Latin American online markets. During the three months ended June 30, 2000, quepasa.com also announced a partnership with Telemundo Network Group and the Los Angeles Police Department. Through this agreement, the Company will feature content dedicated to creating awareness among the Latino community and to solving crime.

On-line Auctions

Our goal is to become the most popular auction community for Hispanic Internet users. On January 28, 2000 we acquired eTrato.com, an online trading community developed especially for the Spanish language or bilingual Internet user, for an aggregate purchase price of $10.85 million consisting of 681,818 shares of common stock valued at $9.6 million and assumption of a $1.25 million promissory note. An additional 681,818 shares will be held in escrow pending the outcome of certain revenue and web site contingencies over the 6-month period following the acquisition. Our acquisition of eTrato.com will enable us to move toward this goal. eTrato.com is an online, auction community that:

- facilitates transactions from consumer-to-consumer, business-to-consumer and business-to-business;
- links Hispanic buyers and sellers of goods and services;
- aids transactions with online tools for payment and fulfillment; and

- provides a secure and easy to understand environment for conducting e-business.

Members of the eTrato.com community can list products or services in the site's online auction or classifieds section in Spanish, English or both. If users request, eTrato.com will translate to either language, for a small fee. Some of the features of the



site include escrow payment services, customs and shipping estimates and options, currency conversion tools, chat and discussion forums, a trading resource center and directory, advanced auction functions such as image hosting, user ratings and bulk item uploading and specialized business-to-business areas with sealed bid and reverse auction formats. eTrato.com has live online customer service in order to help users have a positive first experience. We expect online auction revenue from the following sources:

- revenue splits on the sale of value-added trading services (e.g. escrow and freight forwarding);
- premium service fees and premium listing upgrades providing the seller with more prominent ad space;
- the auctioning of our own products through the site;
- fees paid by third parties for advertising their products and services on the site; and
- translation services.

It is estimated that the volume of auction-based or market-priced Internet commerce transactions is close to $4.0 billion, or 10% of total Internet trading today. Projections are for this number to grow to nearly $129.0 billion and 29% of the market by the year 2002. We are unaware of any companies which have successfully targeted the Spanish-language segment of this market. While the online trading market and in particular the auction market is very competitive, we believe that eTrato.com's Spanish/English language advantage represents an attractive alternative for Hispanic users.

On-line Financing and Real Estate Services

On January 28, 2000 we acquired credito.com, an online credit company targeted to the U.S. Hispanic population for a purchase price of $8.4 million consisting of 681,818 shares of common stock valued at $11 per share and assumption of an $887,000 note payable. Contingent consideration consisted of warrants to purchase 681,818 shares of common stock exercisable upon credito.com's achievement of certain performance objectives related to gross revenue as of January 2001 and January 2002. Credito.com will provide our members with information, interactive tools and resources to help them build and manage their credit needs and will provide a secure and easy process to apply for a wide variety of credit products and services. The site will also provide lenders with the opportunity to communicate with credit educated customers using its consumer profiling and marketing technologies. We will offer our members the ability to apply for mortgage loans, credit cards, auto finance loans, home equity loans and student loans.

On March 9, 2000, we acquired RealEstateEspanol.com, a real estate services site providing the Hispanic-American community with bilingual home buying services, for 335,925 shares of the Company's common stock valued at $3.0 million and assumption of $300,000 in debt paid immediately following the closing of the acquisition. Contingent consideration consisted of 248,834 shares of common stock which were held in escrow pending RealEstateEspanol.com's achievement of gross revenue targets within 12 months of the date of the agreement. RealEstateEspanol.com has been designated the official internet site of the National Association of Hispanic Real Estate Professionals. RealEstateEspanol.com's functionality has been incorporated into the quepasa.com site and once fully developed will allow members to search for a real estate agent, access school information, take virtual tours, apply for a mortgage, and view homes for sale among the more than 800,000 online listings provided through a partnership with homeseekers.com.

## RESULTS OF OPERATIONS

### Introduction

The Company derives its net revenues from three principal sources: advertising on our Website; sales of sponsorships for different areas within our Website; and e-commerce related revenue. The Company's principle expenses are: Product and Content Development; Marketing and Advertising; General and Administrative; and Amortization of Goodwill.

### THREE MONTHS ENDED JUNE 30, 2000 COMPARED TO THE THREE MONTHS ENDED JUNE 30, 1999 AND THE SIX MONTHS ENDED JUNE 30, 2000 COMPARED TO THE SIX MONTHS ENDED JUNE 30, 1999

Our results of operations for the three and six months ended June 30, 2000 and 1999 were characterized by increased expenses that more than offset revenue growth during these periods. We reported a net loss of $8.0 million (restated) for the three months ended June 30, 2000, compared to a net loss of $9.8 million for the three months June 30, 1999 and reported a net loss of $18.6 million (restated) for the six months ended June 30, 2000, compared to a net loss of $13.4 million for the six months ended June 30, 1999. During the three and six months ended June 30, 2000, we have continued to enter into strategic partnerships, develop our content and capitalize on our branding efforts and newly created sales force. As a result of our marketing initiatives, including the NetZero partnership, our number of registered users increased 31% to approximately 460,000 as of June 30, 2000 from 350,000 as of March 31, 2000. Approximately 35% of total user sessions during the three months ended June 30, 2000 originated from the quepasa.com/NetZero co-branded service. Advertising impressions increased 184% during the three months ended June 30, 2000 to 167.0 million from 58.7 million for the three months ended March 31, 2000. The Company realized nominal revenue ($648) but incurred approximately $607,000 in expenses as a result of the acquisitions of credito.com, eTrato.com and RealEstateEspanol.com during the second quarter 2000.

Net Revenues

Net Revenue increased 11,040% to $940,539 (restated) for the three months ended June 30, 2000 from $8,443 for the three months ended June 30, 1999. For the six months ended June 30, 2000, net revenues increased 18,851% to $1.6 million (restated) from $8,443 for the six months ended June 30, 1999. We launched our Web site in the fourth quarter 1998 and first generated revenue during the second quarter 1999. During the six months ended June 30, 2000, revenue was principally derived from two sources: 1) banner advertising arrangements under which we receive revenue based on cost per thousand ad impressions "CPM" and on cost per clicks and 2) sponsor agreements which allow advertisers to sponsor an area or receive exclusivity on an area within our Web site. For the three and six months ended June 30, 2000, approximately, 49% and 49% of the gross revenue was generated from banner advertising and 51% and 51% was generated from sponsorship agreements. With the exception of Folgers, representing 38% of gross revenue for the three months ended June 30, 2000 and Folgers and Star Travel representing 25% and 16%, respectively, for the six months ended June 30, 2000, no other single advertiser utilizing banner ads or sponsorship agreements amounted to or exceeded 10% of total gross revenue. Sponsor revenues are recognized ratably over the term of the agreement. During the three and six months ended June 30, 2000, we recognized $613,248 (restated) and $725,394 (restated) of barter revenue respectively, which is included in the amounts noted above.

Operating Expenses

Product and Content Development Expenses. Our product and content development expenses increased 545% to $1.8 million for the three months ended June 30, 2000 from $279,000 for the three months ended June 30, 1999. For the six months ended June 30, 2000, Product and Content Development Expenses increased 651% to $3.5 million from $466,000 for the six months ended June 30, 1999. For the three and six months ended June 30, 2000 and 1999, the period-to-period increase was principally attributable to an increase in personnel costs relating to the development of content and technological support, an increase in expenses for telecommunications links, and an increase in third-party content and development expenses.

Advertising and Marketing Expenses. Our advertising and marketing expenses increased 32% to $4.1 million (restated) for the three months ended June 30, 2000 from $3.1 million for the three months ended June 30, 1999. For the six months ended June 30, 2000, Advertising and Marketing Expenses increased 120% to $11.2 million (restated) from $5.1 million for the six months ended June 30, 1999. For the three and six months ended June 30, 2000 and 1999, the period-to-period increase was principally attributable to an increase in marketing and sales personnel costs, an increase in the amortization of advertising agreements and the initial expenditures related to the NetZero campaign comprised of production expenses, CD distribution and other

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related expenses. The three month period-to-period increase was partially offset by a decrease in advertising expenditures.

General and Administrative Expenses. Our general and administrative expenses decreased 73% to $1.7 million for the three months ended June 30, 2000 from $6.3 million for the three months ended June 30, 1999. For the six months

ended June 30, 2000, General and Administrative Expense decreased 56% to $3.4 million from $7.7 million for the six months ended June 30, 1999. For the three and six months ended June 30, 2000, the period-to-period decrease was principally attributable to a decrease in stock based compensation partly offset by increases in professional fees, depreciation and rent, and an increase in other office and related expenses. Stock Based compensation for the three and six months ended June 30, 2000 and 1999 is comprised of expense recognized in accordance with APB Opinion No. 25, for various employee stock options vesting over time. The expense recognized for the three and six months ended June 30, 1999 consisted primarily of employee stock options which vested immediately.

Amortization of Goodwill. During the six months ended June 30, 2000, the Company completed the acquisition of eTrato.com, credito.com and RealEstateEspanol.com. These three acquisitions were accounted for using the purchase method of accounting. The Company recorded approximately $21 million of goodwill in relation to these acquisitions, which is being amortized over a period of three years. Amortization of goodwill amounted to $1.8 and $2.8 million for the three and six months ended June 30, 2000.

Other income (expense), which primarily consists of interest income, unrealized gains or losses and short-term gains or losses on trading securities, offset by interest expense, increased 492% to $431,000 for the three months ended June 30, 2000 from ($110,000) for the three months ended June 30, 1999. For the six months ended June 30, 2000, other income (expense) increased 726% to $714,000 from ($114,000) for the six months ended June 30, 1999. This change resulted primarily from interest income and short-term gains on trading securities purchased with the remaining proceeds of the June 1999 initial public offering.

On May 9, 2000 the Company announced that it would reduce its workforce by approximately one third as part of management's effort to further enhance the Company's competitive position and utilize its assets more efficiently. The Company's workforce was 104 as of March 31, 2000 and has been reduced to 72 as of the end of June 30, 2000.

LIQUIDITY AND CAPITAL RESOURCES

We have substantial liquidity and capital resource requirements, but limited sources of liquidity and capital resources. We have generated net losses and negative cash flows from our inception and anticipate that we will experience substantial and increasing net losses and negative cash flows for at least the next several years. As we implement



our strategy and seek to take advantage of our market opportunity, we anticipate that our liquidity and capital resource requirements will increase significantly.

From our inception to date, we have relied principally upon equity investments to support the development of our business. We have retained the investment banking firm of Friedman, Billings, Ramsey & Co., Inc. to explore alternatives including strategic alliances, significant equity investments in the Company or a merger or the sale of the Company or significant portions of its business.

As of June 30, 2000, we had $3.9 million in cash and cash equivalents

and $10.0 million in short-term investments. These resources are principally the remaining funds generated from our June 24, 1999 Initial Public Offering, which raised approximately $42.4 million, net of offering costs and an additional $6.3 million, net of offering costs, from the exercise in July 1999 of an option granted to our underwriters to cover overallotments from the IPO. In March 2000, Gateway purchased a 7.6% equity stake in the Company for $9.0 million (restated).

Net cash used in operating activities was $10.0 million (restated) for the six months ended June 30, 2000 and $34.0 million for the six months ended June 30, 1999. The decrease in net cash used by operations for the six months ended June 30, 2000 was primarily due to the sale of trading securities, an increase in other assets principally due to the purchase of computers pursuant to the Gateway agreement, an increase in depreciation and amortization, and a decrease in stock based compensation.

Net cash provided by (used in) investing activities amounted to $9,000 for the six months ended June 30, 2000 and ($570,000) for the six months ended June 30, 1999. The increase is primarily attributed to net cash obtained from newly acquired subsidiaries.

Net cash provided by financing activities was $7.0 million (restated) for the six months ended June 30, 2000 and $44.2 million for the six months ended June 30, 1999. The decrease is primarily attributed to the proceeds generated from our June 24, 1999 Initial Public Offering, which raised approximately $42.4 million, net of offering costs. During the six months ended June 30, 2000, Gateway purchased a 7.6% equity stake in the Company which was partially offset by the repayment of long-term notes payable and accrued interest.

Currently, we have commitments under non-cancelable operating leases for office facilities and equipment requiring payments of $177,000 for the remainder of 2000. We paid $1.5 million in the six months ended June 30, 2000 under our spokesperson agreement with Gloria Estefan. Under the terms of the revised spokesperson agreement we are no longer obligated to pay the final installment called for in the original agreement and Estefan has agreed to return the 156,863 shares of our common stock (issued in September, 1999) and the $2.0 million put option originally linked to these shares has been cancelled. We are required to pay $125,000 for the remainder of 2000 pursuant to the terms of our search technology licensing agreement with Inktomi which extends through September 2001. The Inktomi agreement may require additional payments based

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upon the level of use; however, we believe the additional payments, if any, will not be material. Including the Inktomi agreement, we are obligated to pay approximately $619,000 for the remainder of 2000 for technology and content used on our Web site portal furnished by service providers such as Reuters, Zacks, Associated Press, STATS, Inc., EFE News Services. We are required to pay an annual fee of $1.5 million under our sponsorship agreement with the Arizona Diamondbacks for the 2000 baseball season. In addition, the Company entered into a one-year agreement with NetZero, Inc. ("NetZero"), where they will provide free internet access along with our content to the U.S. Hispanic market.

According to the terms of this agreement, we are obligated to pay a fee for their subscribers who access our Web site. This fee ranges from $.10 to $.15 per user session. We also committed to spend at least $1.0 million for the production and distribution of CD's containing the customized NetZero service. This commitment was fulfilled in the first quarter of 2000. We recognize the expense related to advertising, content and technology agreements in a manner consistent with the timing of the services provided for under the terms of the respective agreements. Generally, the services are received evenly over the terms of the agreements.

We expect to continue to incur costs, particularly sales, marketing and advertising costs, product content and development costs, general and administrative costs and technology and equipment purchase costs during the third and fourth quarters of 2000 in order to execute our strategic objectives. We expect to expend the largest portion of our existing capital on sales, marketing and advertising expenses and product content and development costs and do not expect sufficient revenue to be realized to offset these costs. We believe that our cash on hand, along with our planned cost cutting measures, will be sufficient to meet our working capital and capital expenditure needs through the second quarter of 2001, however, we believe it will be necessary for us to raise additional capital to ensure our continued operations beyond the second quarter of 2001. In the event we are not able to raise capital our ability to continue operations will be severely impacted and could include a significant reduction in our advertising spending, a reduction in our personnel and other spending cuts which could have an adverse effect on the Company. On May 9, 2000 the Company announced that it would reduce its workforce by approximately one third as part of management's effort to further enhance the Company's competitive position and utilize its assets more efficiently. Our workforce was 104 as of March 31, 2000 and has been reduced to 72 as of June 30, 2000. There can be no assurance that we will be successful in raising the necessary funds or that these funds will be on terms which are beneficial to us.

SYSTEM ISSUES

We have successfully completed our migration from a Windows NT-based platform to a Sun Solaris-based platform in March of 2000. We depend on the delivery of information over the Internet, a medium that depends on information contained primarily in electronic format, in databases and computer systems maintained by third parties and us. A disruption of third-party systems or our systems interacting with these third party systems could prevent us from delivering search results or other services in a timely manner, which could materially adversely affect our business and results of operations.

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ACCOUNTING MATTERS

In March 2000, the Financial Accounting Standards Board issued FASB Interpretation No. 44, Accounting for Certain Transactions involving Stock compensation (an interpretation of APB Opinion No. 25). This interpretation provides guidance regarding the application of APB Opinion 25 to Stock Compensation involving employees. This interpretation is effective June 1, 2000 and is not expected to have a material effect on the Company.

RISK FACTORS

You should carefully consider the risks described below.

OUR OPERATING HISTORY IS EXTREMELY LIMITED

We were incorporated in June 1997 and have generated no significant revenue to date. Accordingly, we have no operating history upon which an investor can evaluate us, and our prospects are subject to the risks and uncertainties encountered by companies that are in the early stages of operation and particularly companies which operate in the new and rapidly evolving Internet market.

These risks include, among others, our ability to:

- enter into a strategic alliance, obtain a significant equity investment in the Company or arrange a merger or sale of the Company;
- expand the contents and services on our Web site;
- maintain and increase levels of traffic on our Web site;
- increase awareness of our quepasa.com brand;
- attract advertisers and sponsors to our Web site;
- generate significant revenues from e-commerce;
- respond effectively to competitive pressure;
- maintain our current, and develop new, strategic relationships;
- recruit and retain personnel, including sales, content and technology personnel;



- anticipate and adapt to developing markets;
- upgrade and develop our systems and infrastructure;
- respond to any failure of our network and to handle efficiently our Web traffic; and
- manage our rapidly expanding operations.

If we are unsuccessful in addressing these and other risks, our business, financial condition and results of operations will be materially and adversely affected.

WE EXPECT FUTURE LOSSES AND WILL NEED MORE CAPITAL

We have never been profitable. As of June 30, 2000, we had an accumulated deficit of approximately $54.4 million (restated). Our limited operating history and the uncertainty of the Internet market in which we operate our business make any prediction of our future results of operations difficult or impossible. We expect to make significant expenditures in marketing and advertising and content development. We also expect our expenses to increase from the acquisitions of eTrato.com, credito.com and realestateespanol.com. We do not expect that our revenue will cover our expenses in the foreseeable future. As a result, we will continue to incur significant losses and will need to raise additional capital. In addition, because we have generated negligible

revenue and have incurred significant operating losses to date we have reduced our workforce by approximately one third in order to utilize our limited capital and assets more efficiently. As a result of the reduction in our workforce, our ability to execute our business plan and our business may be materially and adversely affected. Further, in the event we fail to generate improved revenue in the near future, we may be required to further reduce our workforce, curtail our operations and raise additional capital. We cannot assure that we will be able to raise additional capital and we do not know what the terms of such capital raising would be. Any future sale of our equity securities would dilute the ownership and control of our stockholders.

IF WE FAIL TO CONSUMMATE A STRATEGIC BUSINESS TRANSACTION, OUR BUSINESS AND OUR CONTINUED VIABILITY MAY BE ADVERSELY AFFECTED

We have retained the investment banking firm of Friedman, Billings, Ramsey & Co., Inc. to consider strategic business alternatives in an effort to further enhance our competitive position and maximize shareholder value. Friedman, Billings, Ramsey & Co., has been authorized to consider a number of strategic alternatives including strategic alliances, significant equity investments in our company, and a merger or the sale of our company or significant portions of our business. There is no assurance that any transaction will be consummated or that any transaction that is approved and consummated will effectively enhance our competitive position or maximize shareholder value. If we are unable to consummate an acceptable strategic business transaction, our business and our continued viability may be materially and adversely affected.



WE ARE SUBJECT TO RISKS ASSOCIATED WITH ACQUISITIONS

In the first quarter of 2000, we acquired the stock of three companies. As part of our long-term business strategy, we continually evaluate strategic acquisitions of businesses. Acquisitions often involve a number of special risks, including the following:

- we may experience difficulty integrating acquired operations and personnel;
- we may be unable to retain acquired subscribers;
- the acquisition may disrupt our ongoing business;
- we may not be able to successfully incorporate acquired technology and rights into our offerings and maintain uniform standards, controls, procedures, and policies;
- the businesses we acquire may fail to achieve the revenues and earnings we anticipated;
- we may ultimately be liable for contingent and other liabilities, not previously disclosed to us, of the companies that we acquire; and
- our resources may be diverted in asserting and defending our legal rights.

We may not successfully overcome problems encountered in connection with our recent and potential future acquisitions. In addition, an acquisition could materially adversely affect our operating results by:

- o causing us to incur additional debt;
- o forcing us to accelerate amortization of expenses related to goodwill and other intangible assets; and
- o diluting our stockholders' ownership interest.

WE WILL BE UNABLE TO GENERATE SUFFICIENT REVENUE IF OUR TARGET AUDIENCE DOES NOT ACCEPT OUR PRODUCTS AND SERVICES

We have been promoting our site for less than two years and we cannot give assurances that the Spanish-speaking population will accept our products and services or that we will attract repeat users to our Web site. Because the market for our products and services is new and evolving, it is difficult to predict the future growth rate, if any, and the size of the market we have targeted. If the market develops more slowly than we expect or becomes saturated with competitors, or if our products and services are not



accepted by the market, we will be unable to generate enough revenue to offset our expenses and to earn profits.

OUR INABILITY TO MAINTAIN THE QUEPASA.COM BRAND WILL SIGNIFICANTLY REDUCE OUR REVENUE

We believe that maintaining the quepasa.com brand is of critical importance to our efforts to attract and expand our user base and our advertising, sponsorships and e-commerce revenues. We also believe that brand recognition will become more important due to the increasing number of Internet sites. Promotion and enhancement of the quepasa.com brand will depend largely on our success in providing high quality products and services and Web site content that is of interest to the worldwide Spanish-speaking population. We cannot assure that success. Failure to develop brand loyalty among our users could result in our being unable to generate enough revenue to offset our expenses and to earn profits.

WE WILL BE ADVERSELY AFFECTED IF THE INTERNET DOES NOT BECOME A MORE WIDELY ACCEPTED MEDIUM FOR ADVERTISING AND E-COMMERCE

We will need revenue from the sale of advertisements and sponsorships on our Web pages and from e-commerce transactions to offset expenses. At the present time, Web advertisers generally enter into only short-term advertising contracts. Because Web site advertising is a new phenomenon, few advertisers have significant experience with the Web as an advertising medium. Consequently, many advertisers have not devoted a substantial portion of their advertising expenditures to Web-based advertising, and may not find Web-based advertising to be effective for promoting their products and services as compared to traditional print and broadcast media.

No standards have yet been widely accepted for the measurement of the effectiveness of Web-based advertising, and we can give no assurance that such standards will be developed or adopted sufficiently to sustain Web-based advertising as a significant advertising medium. We cannot give assurances that banner advertising, the predominant revenue producing mode of advertising currently used on the Web, will be accepted as an effective advertising medium or that we can effectively transition to any other forms of Web-based advertising, should they develop. Software programs are available that limit or remove advertisements from an Internet user's desktop. This software, if

generally adopted by users, may materially and adversely affect Web-based advertising.

OUR WEB SITE OPERATIONS COULD BE IMPAIRED IF WE LOSE THE SERVICES OF THIRD PARTY TECHNOLOGY AND CONTENT PROVIDERS

Our business depends upon third parties, including providers of technology, infrastructure, content and features.

We supplement our Web site directory listings with Web search results provided by Inktomi under a non-exclusive agreement. We depend upon Inktomi for ongoing



maintenance and technical support to ensure accurate and rapid presentation of search results to users of our Web site. Termination of our relationship with Inktomi or Inktomi's failure to renew our agreement upon expiration could result in substantial additional costs to us in developing or replacing technology. We also rely on GTE for our Internet and Critical Path for our e-mail connections. Any interruption in the Internet access provided by GTE or any other provider of access could disrupt our Web site operations and impair relations with our users.

We license content, including technology and related databases, from third parties for portions of our quepasa.com Web site, including news from Associated Press, Reuters, Hispanic Business and EFE News Services, stock quotes and other stock information from Zacks Investment Research and sports scores and statistics from STATS, Inc. Any errors, delays or failures experienced in connection with these third party technologies and services could have a negative effect on our relationship with users of our Web site, could materially and adversely affect our brand and our business and could subject us to liability to third parties for business negligence such as defamation or libel.

SYSTEM FAILURE COULD DISRUPT OUR WEB SITE OPERATIONS

The continued and uninterrupted performance of our hardware and software is critical to our reputation and our success in attracting traffic to our Web site. Users of our site and our services, such as our e-mail services, may become dissatisfied by system failures that may limit our Web site services. Sustained or repeated system failures could significantly reduce the traffic on our Web site and may impair our reputation and brand name. Our operations depend on our ability to protect our computer systems from damage from fire, power loss, water damage, telecommunications failures, vandalism and other malicious acts, and similar unexpected adverse events.

The number of pages of information transmitted over our network, commonly referred to as "page views," has continued to increase over time. We are actively trying to increase our level of page views. As a result, our network must accommodate a high volume of traffic, often at unexpected times. We have experienced periodic capacity constraints in terms of our ability to serve our increasing user volumes. We are in the process of improving our network infrastructure to ensure that we will be able to handle future increases in traffic. We have migrated our platform and our applications to a Unix platform using Sun Microsystems servers. Any break in the continuous operations of our network could have a material adverse effect on our operating expenses, our brand and our business.

We may, from time to time, experience interruptions due to several factors including hardware failures, unsolicited bulk e-mail and operating

system failures. Because our revenues depend on the number of users of our network, we will be adversely affected if we experience frequent or long system delays or interruptions. If delays or interruptions continue to occur our users could perceive our network as being unreliable, traffic on our Web site could deteriorate and our brand could be adversely



affected. Any failure on our part to minimize or prevent capacity constraints or system interruptions could have an adverse effect on our brand and our business.

We may not carry enough business interruption insurance to compensate for losses that may occur as a result of any of these adverse events. We also depend upon Internet browsers and Internet service providers that provide users with access to the Internet and our Web site. Users may experience difficulties due to system failures unrelated to our systems. Any disruption in Internet access by Internet service providers and other third party access providers, or any failure of such providers to handle higher volumes of user traffic, could disrupt our Web site operations and impair relations with our users.

OUR MANAGEMENT IS INEXPERIENCED AND MAY NOT BE ABLE TO MANAGE OUR GROWTH

Several executive officers and members of our board of directors joined us in 1999, and none of our executive officers has extensive experience managing a rapidly growing business enterprise prior to joining the Company. Any growth we experience will place a significant strain on our management and financial resources. Any inability of our management to manage growth effectively could increase our operating expenses, impair our marketing efforts and limit the development of our Web site.

GROWTH OF OUR WEB SITE MAY BE LIMITED BY GOVERNMENTAL REGULATIONS

Government regulation has not materially restricted use of the Internet in our markets to date. However, the legal and regulatory environment pertaining to the Internet remains relatively undeveloped and may change. New laws and regulations could be adopted, and existing laws and regulations could be applied to the Internet and, in particular, to e-commerce. New laws and regulations may be adopted with respect to the Internet covering, among other things, sales and other taxes, user privacy, pricing controls, characteristics and quality of products and services, consumer protection, cross-border commerce, libel and defamation, intellectual property matters and other claims based on the nature and content of Internet materials. Any laws or regulations adopted in the future affecting the Internet could subject us to substantial liability. Such laws or regulations could also adversely affect the growth of the Internet generally, and decrease the acceptance of the Internet as a communications and commercial medium. In addition, the growing use of the Internet has burdened the existing telecommunications infrastructure. Areas with high Internet use relative to the existing telecommunications structure have experienced interruptions in phone service leading local telephone carriers to petition regulators to govern Internet service providers and impose access fees on them. Such regulations, if adopted in the United States or other places, could increase significantly the costs of communicating over the Internet, which could in turn decrease the demand for our products and services. The adoption of various proposals to impose additional taxes on the sale of goods and services through the Internet could also reduce the demand for Web-based commerce.

WE MAY FACE LIABILITY FOR INFORMATION CONTENT AND COMMERCE-RELATED ACTIVITIES

Because materials may be downloaded by the services that we operate or facilitate and the materials may subsequently be distributed to others, we could face claims for errors, defamation, negligence, or copyright or trademark infringement based on the nature and content of such materials. We could also be exposed to liability because of the listings that we select and make available through our Web site, or through content and materials posted by users in chat room and message board services that we provide. We could face personal injury or other product liability claims arising from the use of products sold through our Web site. We offer e-mail services, which expose us to potential liabilities or claims resulting from unsolicited e-mail, lost or misdirected messages, illegal or fraudulent use of e-mail or interruptions or delays in e-mail service. Even to the extent that claims made against us do not result in liability, we may incur substantial costs in investigating and defending such claims.

Although we carry general liability insurance, our insurance may not cover all potential claims to which we are exposed or may not be adequate to indemnify us for all liabilities that may be imposed. Any imposition of liability that is not covered by insurance or is in excess of insurance coverage could have a material adverse effect on our financial condition. In addition, the increased attention focused on liability issues as a result of these lawsuits and legislative proposals could impact the overall growth of Internet use.

CONCERNS ABOUT SECURITY OF E-COMMERCE TRANSACTIONS AND CONFIDENTIALITY OF INFORMATION ON THE INTERNET MAY REDUCE THE USE OF OUR WEB SITE AND IMPEDE OUR GROWTH

A significant barrier to e-commerce and confidential communications over the Internet has been the need for security. Internet usage could decline if any well-publicized compromise of security occurred. We may incur significant costs to protect against the threat of security breaches or to alleviate problems caused by these breaches. Unauthorized persons could attempt to penetrate our network security. If successful, they could misappropriate proprietary information or cause interruptions in our services. As a result, we may be required to expend capital and resources to protect against or to alleviate these problems. Security breaches could have a material adverse effect on our business, financial condition and results of operations.

COMPETITION FOR INTERNET USERS MAY LIMIT TRAFFIC ON, AND THE VALUE OF, OUR WEB SITE

The market for Internet products and services and the market for Internet advertising and electronic commerce arrangements are extremely competitive, and we expect that competition will continue to intensify. There are many companies that provide Web sites and online destinations targeted to Spanish-language Internet users. Competition for visitors, advertisers and e-commerce partners is intense and is expected to increase significantly in the future because there are no substantial barriers to entry in our market. We believe that the principal competitive factors in these markets are name

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recognition, distribution arrangements, functionality, performance, ease of use, the number of services and features provided and the quality of support. Our primary competitors are other companies providing portal or other online services, especially to Spanish-language Internet users such as StarMedia, Terra Network, El Sitio, Yahoo! Espanol, America Online Latin America, Yupi, Prodigy

and Microsoft networks in Latin America, Mexico and Spain. Most of our competitors, as well as a number of potential new competitors, have significantly greater financial, technical and marketing resources than we do. Our competitors may offer Internet products and services that are superior to ours or that achieve greater market acceptance. There can be no assurance that competition will not limit traffic on, and the value of, our Web site.

TECHNOLOGICAL CHANGES COULD IMPAIR OUR ABILITY TO COMPETE AND SUBJECT US TO SIGNIFICANT EXPENDITURES

The market for Internet products and services is characterized by rapid technological developments, frequent new product and service introductions and evolving industry standards. The emerging character of these products and services and their rapid evolution will require that we continually improve the performance, features and reliability of our Internet content, particularly in response to competitive offerings. There can be no assurance that we will be successful in responding quickly, cost effectively and sufficiently to these developments. In addition, the widespread adoption of new Internet technologies or standards could require substantial expenditures by us to modify or adapt our Web site and services and could fundamentally affect the character, viability and frequency of Web-based advertising, either of which could have a material adverse effect on our business. In addition, new Internet services or enhancements offered by us may contain design flaws or other defects that could require costly modifications or result in a loss of consumer confidence.

OUR STOCK PRICE IS HIGHLY VOLATILE

In the past, our common stock has traded at volatile prices and it closed below $1.00 on several days during the month of August. We believe that the market price of our common stock will continue to be subject to significant fluctuations due to various factors and events that may be unrelated to our performance. If the market value of our common stock continues to close below $1.00, we could be delisted from the Nasdaq National Market. Consequently, you could find it difficult or impossible to sell your stock or to determine the value of your stock.

In addition, the stock market has from time to time experienced significant price and volume fluctuations, which have particularly affected the market prices of the stocks of Internet-sector companies and which may be unrelated to the operating performance of such companies. Furthermore, our operating results and prospects from time to time may be below the expectations of public market analysts and investors. Any such event could result in a material decline in the price of your stock.

WE HAVE NO INTENTION TO PAY DIVIDENDS



We have never paid any cash dividends on our common stock. We currently intend to retain all future earnings, if any, for use in our business and do not expect to pay any dividends in the foreseeable future.

FUTURE SALES OF OUR COMMON STOCK OR SHARES ISSUABLE UPON EXERCISE OF STOCK OPTIONS COULD ADVERSELY AFFECT OUR STOCK PRICE AND OUR ABILITY TO RAISE FUNDS IN NEW STOCK OFFERINGS

As of the date of the original filing, we had 18,693,942 shares of common stock outstanding. Sale of substantial amounts of common stock, or the perception that sales could occur, could reduce the market price of the common

stock. At that time, there were outstanding stock options or common stock purchase warrants to acquire 5,734,944 shares of common stock at exercise prices ranging from $1 to $16.65 per share, including 2,081,818 common stock purchase warrants subject to demand and piggy-back registration rights.

EMPLOYEES

As of June 30, 2000, we had 72 employees, including our five executive officers.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

We do not have any derivative financial instruments as of June 30, 2000. Our interest income is sensitive to changes in the general level of interest rates. In this regard, changes in interest rates can affect the interest earned on our cash equivalents. To mitigate the impact of fluctuations in interest rates, we generally enter into fixed rate investing arrangements. As a result, we believe that the market risk arising from holdings of our financial instruments is not material.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company from time to time is involved in various legal proceedings incidental to the conduct of its business. The Company believes, based on advice of legal counsel, that the outcome of all such pending legal proceedings to which it is a party will not in the aggregate have a material adverse effect on the Company's business or financial condition.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

a. The exhibits listed in the accompanying Index to Exhibits are filed as part of this Report on Form 10-Q/A.

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b. Reports on Form 8-K:

(1) On April 14, 2000, the Company filed a report on Form 8-K announcing that it sold 1,428,571 shares of its common stock to Gateway Companies, Inc. ("Gateway") for $9,000,000 (restated) and that it purchased Gateway branded personal computers for $6,710,890 from Gateway.

(2) On April 14, 2000, the Company filed an amended report on Form 8-K (initially filed on February 11, 2000) announcing the Company's acquisition of eTrato.com, inc. and to provide financial statements and pro forma financial information regarding the acquisition.

(3) On June 14, 2000, the Company filed a report on Form 8-K announcing that it retained the investment banking firm of Friedman, Billings, Ramsey & Co., Inc. to consider strategic business alternatives in an effort to further enhance the

Company's competitive position and maximize shareholder value.



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 August 15, 2001.

quepasa.com, inc.

By: /s/ Gary L. Trujillo
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Name: Gary L. Trujillo
Title: President, Chief Executive Officer and Chairman of the Board of Directors (Principal Executive Officer)

By: /s/ Robert J. Taylor
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Name: Robert J. Taylor
Title: Chief Financial Officer



EXHIBIT INDEX

| EXHIBIT NUMBER | DESCRIPTION OF EXHIBITS |
|---|---|
| 27.1 | Financial Data Schedule (1) |

(1) As previously filed with the Registrant's Quarterly Report on Form 10-Q filed on August 14, 2000.