

QUEPASA CORP
Form 10-Q
October 24, 2008

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2008

OR

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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: 001-33105

QUEPASA CORPORATION

(Exact name of registrant as specified in its charter)

NEVADA

86-0879433

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(State of Incorporation)

(I.R.S. Employer Identification No.)

224 Datura Street, Suite 1100

West Palm Beach, Florida 33401

(Address of Principal Executive Office)

(561) 491-4181

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company R

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Shares Outstanding as of October 23, 2008
Common Stock, \$.001 par value per share	12,673,661

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QUEPASA CORPORATION AND SUBSIDIARY

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PART I. FINANCIAL INFORMATION**Item 1.****Condensed Consolidated Financial Statements****QUEPASA CORPORATION AND SUBSIDIARY****Condensed Consolidated Balance Sheets**

	September 30,	December 31,
	2008	2007
	(Unaudited)	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 5,945,533	\$ 3,673,281
Accounts receivable, net of allowance of \$18,000 and \$15,000, respectively	15,324	38,306
Other current assets	326,134	146,876
Total current assets	6,286,991	3,858,463
Property and equipment, net	1,072,234	1,023,041
Jet rights, net		885,712
Note receivable, \$350,000 face amount, non-interest bearing, due January 8, 2011 (less unamortized discount of \$83,586 based on imputed interest rate of 12.75%)	266,414	
Other assets	241,039	133,692
Total assets	\$ 7,866,678	\$ 5,900,908
LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT)		
CURRENT LIABILITIES:		
Accounts payable	\$ 74,046	\$ 887,598
Accrued expenses	272,904	306,130
Unearned grant income	44,666	65,917
Current portion of long-term debt		1,668,808
Total current liabilities	391,616	2,928,453
Long-term debt		5,526,506
Notes payable, net of unamortized discount of \$2,288,788	4,924,559	

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Total liabilities	5,316,175	8,454,959
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COMMITMENTS AND CONTINGENCIES (see Note 7)

STOCKHOLDERS EQUITY (DEFICIT):

Preferred stock, \$.001 par value; authorized - 5,000,000 shares; 25,000 shares issued and outstanding at September 30, 2008	25	
Common stock, \$.001 par value; authorized - 50,000,000 shares; 12,676,161 shares issued and outstanding at September 30, 2008 and 12,284,511 shares issued and outstanding at December 31, 2007	12,676	12,285
Additional paid-in capital	148,145,806	138,880,462
Accumulated deficit	(145,620,701)	(141,452,663)
Accumulated other comprehensive income	12,697	5,865
Total stockholders equity (deficit)	2,550,503	(2,554,051)
Total liabilities and stockholders equity (deficit)	\$ 7,866,678	\$ 5,900,908

See notes to unaudited condensed consolidated financial statements.

QUEPASA CORPORATION AND SUBSIDIARY

Condensed Consolidated Statements of Operations and Comprehensive Income (Loss)

(Unaudited)

	For the Three Months Ended		For the Nine Months Ended	
	September 30,		September 30,	
	2008	2007	2008	2007
REVENUES	\$ 10,989	\$ 64,197	\$ 42,626	\$ 189,939
OPERATING COSTS AND EXPENSES:				
Sales and marketing	54,896	147,772	190,568	909,876
Product development and content	658,051	1,667,768	1,910,350	3,710,821
General and administrative	380,098	1,422,224	1,830,782	4,628,814
Stock based compensation	2,278,231	312,564	4,840,489	1,416,149
Depreciation and amortization	113,710	127,559	335,133	323,820
TOTAL OPERATING COSTS AND EXPENSES	3,484,986	3,677,887	9,107,322	10,989,480
LOSS FROM OPERATIONS	(3,473,997)	(3,613,690)	(9,064,696)	(10,799,541)
OTHER INCOME (EXPENSE):				
Interest income	34,544	88,779	132,048	380,603
Interest expense	(151,502)		(779,315)	
Gain (Loss) on disposal		2,829	(42,977)	6,278
Gain on extinguishment of debt			5,056,052	
Other income	511,371	7,130	530,850	21,367
TOTAL OTHER INCOME (EXPENSE)	394,413	98,738	4,896,658	408,248
INCOME (LOSS) BEFORE INCOME TAXES	(3,079,584)	(3,514,952)	(4,168,038)	(10,391,293)
Income taxes				
NET INCOME (LOSS)	(3,079,584)	(3,514,952)	(4,168,038)	(10,391,293)
Foreign currency translation adjustment	5,159	(1,508)	6,832	(1,472)
COMPREHENSIVE INCOME (LOSS)	(3,074,425)	(3,516,460)	\$ (4,161,206)	(10,392,765)

NET LOSS PER COMMON SHARE, BASIC AND DILUTED	\$	(0.24)	\$	(0.29)	\$	(0.33)	\$	(0.85)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING, BASIC AND DILUTED:		12,654,887		12,270,761		12,595,900		12,217,299

See notes to unaudited condensed consolidated financial statements.

QUEPASA CORPORATION AND SUBSIDIARY**Condensed Consolidated Statement of Changes in Stockholders' Equity (Deficit)****For the Nine Months Ended September 30, 2008****(Unaudited)**

	Preferred Stock		Common Stock		Additional	Accumulated	Other	Total
	Shares	Amount	Shares	Amount	Paid-in	Deficit	Comprehensive	Stockholders'
					Capital		Income	Equity (Deficit)
December 31,		\$	12,284,511	\$ 12,285	\$ 138,880,462	\$ (141,452,663)	\$ 5,865	\$ (2,5
of stock					4,450,456			4,4
or					1,605,382			1,6
ation					268,556			2
g of					63,775			
of common			70,000	70	2,499,975			2,5
professional					377,200			3
of common							6,832	
directors for						(4,168,038)		(4,1
ation			21,650	21				
of preferred	25,000	25						
of stock			300,000	300				
currency								
n adjustment								
September 30,	25,000	\$ 25	12,676,161	\$ 12,676	\$ 148,145,806	\$ (145,620,701)	\$ 12,697	\$ 2,5

See notes to unaudited condensed consolidated financial statements.

QUEPASA CORPORATION AND SUBSIDIARY

Condensed Consolidated Statements of Cash Flows

(Unaudited)

	For the Nine Months Ended	
	September 30,	
	2008	2007
<i>Cash flows from operating activities:</i>		
Net loss	\$ (4,168,038)	\$ (10,391,293)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	335,133	323,820
Gain on extinguishment of debt	(5,056,052)	
Write-off of accounts payable	(508,610)	
Issuance of stock options and warrants for compensation	4,450,456	1,189,048
Issuance of common stock to directors for compensation	63,796	227,101
Issuance of common stock and stock options for professional services	268,626	
Loss / (Gain) on disposal of property and equipment	42,977	
Grant income	(21,251)	(22,115)
Bad debt expense	15,496	6,175
Non-cash interest related to notes receivable	(21,167)	
Non-cash interest related to MATT.org agreement	379,243	
Non-cash interest related to notes payable	213,337	
Amortization of discounts on notes payable and debt issuance costs	198,795	
Changes in operating assets and liabilities:		
Accounts receivable	7,486	(29,131)
Other current assets and other assets	(163,125)	(286,332)
Accounts payable and accrued expenses	(338,168)	775,489
Net cash used in operating activities	(4,301,066)	(8,207,238)
<i>Cash flows from investing activities:</i>		
Proceeds from disposal of property and equipment	10,601	
Purchase of property and equipment	(431,134)	(729,437)
Advance to BRC / La Alianza	(350,000)	
Net cash used in investing activities	(770,533)	(729,437)
<i>Cash flows from financing activities:</i>		
Proceeds from exercise of stock options and warrants	377,500	913,150

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Debt issuance costs associated with issuance of notes payable	(40,481)	
Proceeds from the issuance of notes payable	7,000,000	
Net cash provided by financing activities	7,337,019	913,150
Effect of foreign currency exchange rate on cash	6,832	(1,472)
Net decrease in cash and cash equivalents	2,272,252	(8,024,997)
Cash and cash equivalents at beginning of period	3,673,281	14,093,811
Cash and cash equivalents at end of period	\$ 5,945,533	\$ 6,068,814

Supplemental Disclosure of Cash Flow Information:

Cash paid for interest	\$	\$	684
Cash paid for income taxes	\$	\$	

Supplemental Disclosure of Non-Cash Investing and Financing Activities:

On January 25, 2008, the exercise prices of outstanding warrants were reduced as part of the issuance of \$7,000,000 in notes payable, resulting in a \$1,605,382 increase in additional paid-in capital. See Note 6 below.

On June 30, 2008, 25,000 preferred shares were exchanged for \$7,556,052 in long-term debt, resulting in a \$25 increase in preferred stock and a \$2,499,975 increase in additional paid-in capital and recognition of gain on extinguishment of debt of \$5,056,052. See Note 5 and Note 8 below.

See notes to unaudited condensed consolidated financial statements.

QUEPASA CORPORATION AND SUBSIDIARY

Notes to Unaudited Condensed Consolidated Financial Statements

Note 1 Description of Business and Summary of Significant Accounting Policies

Quepasa Corporation, a Nevada corporation (the Company), was incorporated in June 1997. In 2007, the Company transitioned from being a bilingual search engine into a Hispanic social network. With the evolution of the Company's Quepasa.com website into a Hispanic portal and social network, the future revenue will come predominantly from display advertising. The Company re-launched its Quepasa.com website on February 6, 2008, to be solely a Hispanic social network with content provided by the user community. The Quepasa.com community provides users with access to an expansive, bilingual menu of resources that promote social interaction, information sharing, and other topics of importance to Hispanic users. We offer online marketing capabilities which enable marketers to display their advertisements in different formats and in different locations on our website. We work with our advertisers to maximize the effectiveness of their campaigns by optimizing advertisement formats and placement on the website. The Quepasa.com website is operated and managed by the Company's wholly-owned Mexico-based subsidiary, Quepasa.com de Mexico.

Interim Financial Information

The accompanying unaudited condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC) for interim financial information and with the instructions to Form 10-Q. Accordingly, they do not include all of the information required to be included in a complete set of consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and nine months ended September 30, 2008 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2008. The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes included in the Company's 2007 Annual Report filed with the SEC on Form 10-KSB on March 31, 2008.

Principles of Consolidation

The accompanying unaudited condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Quepasa.com de Mexico. All intercompany accounts and transactions have been eliminated in consolidation.

Reclassifications

Certain prior period amounts in the unaudited condensed consolidated statements of operations and comprehensive loss and condensed consolidated statements of cash flows have been reclassified to conform to the current period's presentation.

Cash and Cash Equivalents

The Company considers all highly liquid instruments purchased with an original maturity of three months or less to be cash and cash equivalents. The Company continually monitors its positions with, and the credit quality of, the financial institutions it invests with.

Loss Per Share

Loss per share is computed by dividing net loss attributable to common stockholders by the weighted average number of shares of common stock outstanding during the applicable period. Diluted loss per share is determined in the same manner as basic loss per share, except that the number of shares is increased to include potentially dilutive securities using the treasury stock method. Since the Company incurred a net loss in all periods presented, all potentially dilutive securities were excluded from the computation of diluted loss per share since the effect of including them is anti-dilutive.

The following table summarizes the number of dilutive securities outstanding for each of the periods presented, but not included in the calculation of diluted loss per share:

	September 30,	
	2008	2007
Stock options	6,368,819	1,357,200
Warrants	4,432,500	4,432,500
Totals	10,801,319	5,789,700

Recent Accounting Pronouncements

In May 2008, the FASB issued SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles*. SFAS No. 162 identifies the sources of accounting principles and provides entities with a framework for selecting the principles used in preparation of financial statements that are presented in conformity with GAAP. The current GAAP hierarchy has been criticized because it is directed to the auditor rather than the entity, it is complex, and it ranks FASB Statements of Financial Accounting Concepts, which are subject to the same level of due process as FASB Statements of Financial Accounting Standards, below industry practices that are widely recognized as generally accepted but that are not subject to due process. The Board believes the GAAP hierarchy should be directed to entities because it is the entity (not its auditors) that is responsible for selecting accounting principles for financial statements that are presented in conformity with GAAP. The adoption of FASB 162 is not expected to have a material impact on the Company's consolidated financial position and results of operations.

In May 2008, the FASB issued FASB Staff Position (FSP) APB 14-1, *Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)*. APB 14-1 requires the issuer to separately account for the liability and equity components of convertible debt instruments in a manner that reflects the issuer's nonconvertible debt borrowing rate. The guidance will result in companies recognizing higher interest expense in the statement of operations due to amortization of the discount that results from separating the liability and equity components. APB 14-1 will be effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. The Company is currently evaluating the impact of adopting APB 14-1 on its consolidated financial statements.

In April 2008, the FASB issued FSP 142-3, *Determination of the Useful Life of Intangible Assets*, (FSP 142-3). FSP 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, *Goodwill and Other Intangible Assets*. FSP 142-3 is effective for fiscal years beginning after December 15, 2008. The Company is currently assessing the impact of FSP 142-3 on its consolidated financial position and results of operations.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities* (SFAS No. 161). SFAS No. 161 amends and expands the disclosure requirement for FASB Statement No. 133, *Derivative Instruments and Hedging Activities* (SFAS No. 133). It requires enhanced disclosure about (i) how and why an entity uses derivative instruments, (ii) how derivative instruments and related hedge items are accounted for under SFAS No. 133 and its related interpretations, and (iii) how derivative instruments and related hedge items affect an entity's financial position, financial performance, and cash flows. SFAS No. 161 is effective for the Company as of January 1, 2009. The Company is currently assessing the impact of SFAS 160 on its consolidated financial position and results of operations.

In December 2007, the FASB issued SFAS No. 141 (revised 2007) *Business Combinations* (SFAS No. 141 (R)). SFAS No. 141(R) retains the fundamental requirements of the original pronouncement requiring that the purchase

method be used for all business combinations. SFAS No. 141(R) defines the acquirer as the entity that obtains control of one or more businesses in the business combination, establishes the acquisition date as the date that the acquirer achieves control and requires the acquirer to recognize the assets acquired, liabilities assumed and any non-controlling interest at their fair values as of the acquisition date. SFAS 141(R) also requires that acquisition-related costs be recognized separately from the acquisition. SFAS 141(R) is effective for the Company for fiscal 2010. The Company is currently assessing the impact of SFAS 141(R) on its consolidated financial position and results of operations.

In December 2007, the FASB issued Statement No. 160, *Non-controlling Interests in Consolidated Financial Statements - an amendment of ARB No. 51* (SFAS No. 160). The objective of SFAS No. 160 is to improve the relevance, comparability, and transparency of the financial information that a reporting entity provides in its consolidated financial statements by establishing accounting and reporting standards for the non-controlling interest in a subsidiary and for the

deconsolidation of a subsidiary. SFAS No. 160 applies to all entities that prepare consolidated financial statements, except not-for-profit organizations. SFAS No. 160 amends ARB 51 to establish accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. It also amends certain of ARB 51's consolidation procedures for consistency with the requirements of SFAS No. 141(R). SFAS No. 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008 (that is, January 1, 2009, for entities with calendar year-ends). Earlier adoption is prohibited. The effective date of SFAS No. 160 is the same as that of the related Statement 141(R). SFAS No. 160 will be effective for the Company's fiscal 2010. SFAS No. 160 shall be applied prospectively as of the beginning of the fiscal year in which SFAS No. 160 is initially applied, except for the presentation and disclosure requirements. The presentation and disclosure requirements shall be applied retrospectively for all periods presented. The Company is currently assessing the impact of SFAS 160 on its consolidated financial position and results of operations.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities - Including an Amendment of FASB Statement No. 115" (SFAS 159), which is effective for fiscal years beginning after November 15, 2007. SFAS 159 permits an entity to choose to measure many financial instruments and certain other items at fair value at specified election dates. Subsequent unrealized gains and losses on items for which the fair value option has been elected will be reported in earnings. The adoption of SFAS 159 did not have a material impact on the Company's consolidated financial position and results of operations.

In September 2006, the FASB issued SFAS No. 157, which is effective for fiscal years beginning after November 15, 2007 and for interim periods within those years. This statement defines fair value, establishes a framework for measuring fair value and expands the related disclosure requirements. This statement applies under other accounting pronouncements that require or permit fair value measurements. The statement indicates, among other things, that a fair value measurement assumes that the transaction to sell an asset or transfer a liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability. SFAS 157 defines fair value based upon an exit price model. Relative to SFAS 157, the FASB issued FSP FAS 157-1, FAS 157-2, and FAS 157-3. FSP FAS 157-1 amends SFAS 157 to exclude SFAS 13 and its related interpretive accounting pronouncements that address leasing transactions, while FSP FAS 157-2 delays the effective date of SFAS 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis. FSP FAS 157-3 clarifies the application of SFAS 157 as it relates to the valuation of financial assets in a market that is not active for those financial assets. This FSP is effective immediately and includes those periods for which financial statements have not been issued. We currently do not have any financial assets that are valued using inactive markets, and as such are not impacted by the issuance of this FSP. We adopted SFAS 157 as of January 1, 2008, with the exception of the application of the statement to non-recurring nonfinancial assets and nonfinancial liabilities.

Note 2 Property and Equipment

Property and equipment consist of the following:

	September 30, 2008	December 31, 2007
Software	\$ 489,449	\$ 489,449
Computer equipment	1,814,392	1,390,059
Vehicles	20,806	20,697
Office furniture and equipment	136,587	214,526

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Other equipment	10,877	10,821
	2,472,111	2,125,552
Less accumulated depreciation	(1,399,877)	(1,102,511)
Property and equipment net	\$ 1,072,234	\$ 1,023,041

Depreciation expense was \$328,363 and \$247,387 for the nine months ended September 30, 2008 and 2007, respectively.

Note 3 Jet Rights

In October 2006, as part of a financing transaction to raise capital, Mexicans & Americans Trading Together, Inc. (MATT Inc.) agreed to provide the Company with the use of a corporate jet for up to 25 hours per year through October 2016. The Company recognized the fair value of the jet rights of \$1,007,445 as an asset and an increase to additional paid-in capital.

On January 25, 2008, under the provisions of a Note Purchase Agreement between the Company and MATT Inc., these jet rights were terminated. See Note 6 below.

Note 4 Note Receivable

On January 9, 2008, the Company advanced \$300,000 and received a \$300,000 Multiple Advance Promissory Note (the BRC Note) from BRC Group, LLC (BRC). BRC owns La Alianza de Futbol Hispano (La Alianza), an organization involved in the support and development of amateur Hispanic soccer in the United States. The Company and BRC agreed to the terms of the BRC Note with the understanding that the Company and BRC would work towards finalizing an agreement, which would provide for, among other things, the Company becoming the official social networking sponsor for La Alianza.

On March 27, 2008, the Company entered into a Loan Agreement with BRC for a maximum amount of \$600,000. Among other things, pursuant to the terms of the Loan Agreement: (i) the \$300,000 advanced by the Company pursuant to the BRC Note becomes advancement under the terms of the Loan Agreement; (ii) the Company agreed to advance BRC an additional \$50,000 on April 1, 2008; and (iii) the Company will advance BRC an additional \$250,000 on September 1, 2008.

BRC executed a noninterest bearing promissory note on March 27, 2008, in favor of the Company and agreed to repay all loans made by the Company under the Loan Agreement by January 8, 2011. In exchange for the noninterest bearing promissory note, BRC granted the Company an Equity Interests Purchase Warrant and a Right of Purchase and Right of First Refusal Agreement (Warrant Rights).

Also on March 27, 2008, and in connection with the Loan Agreement, the Company entered into a Website Development and Hosting Agreement with BRC. Pursuant to the terms and conditions of the agreement the Company will: (i) become an official sponsor of the 2008 La Alianza soccer tournament; (ii) retain the online rights to the La Alianza soccer tournament for a period of three years; (iii) host and develop the La Alianza website; (iv) build the La Alianza community within the Quepasa.com website; and (v) share equally with BRC in the advertising revenues generated from the La Alianza website.

On April 1, 2008, the Company advanced \$50,000 to BRC under the terms of the Loan Agreement.

The Company has not advanced any additional funds to BRC. Currently, it has been advised that BRC is the process of being sold and expects that the sale will occur in early 2009. At such time, BRC will repay the Company.

As a result of the above transactions, the Company has recorded a discount to the \$350,000 outstanding note receivable using a 12.75% imputed interest rate in the amount of \$104,753 and assigned this value to the Warrant Rights, which is included in Other Assets line of the balance sheet. As of September 30, 2008, the Company has recorded \$21,167 of interest income related to the amortization of the discount to the \$350,000 outstanding note.

Note 5 Long-term Debt

Corporate Sponsorship and Management Services Agreement

On November 20, 2006, in connection with a financing transaction, the Company entered into Corporate Sponsorship and Management Services Agreement (the "CSMSA") with MATT Inc. and Mexicans & Americans Thinking Together Foundation, Inc. (the "Organization"). The CSMSA provided that the Company will develop, operate and host the Organization's website and provide to it all the services necessary to conduct such operations. During the first three years of the term of the CSMSA, the Organization agreed to reimburse the Company for its costs and expenses in providing these services, not to exceed \$500,000 per annum. The CSMSA further provided that the Company will pay the Organization's operating costs through October 2016 (including certain special event costs commencing in year four), up to a cap of \$1,200,000 per annum minus the Company's costs and expenses for providing the services described above. The Organization's obligations to pay any costs and expenses due to the Company were guaranteed by MATT Inc.

The Company established a reasonable estimate of the long-term debt based on the present value calculation of the expected payout of \$1,200,000 per year, or \$300,000 per quarter, through October 2016, discounted at a 12% annual rate, which was based on available borrowing rates.

On June 30, 2008, the Company entered into a Termination Agreement (the Transaction) with the Organization terminating the CSMSA. In consideration for the Transaction, the Company issued 25,000 shares of Series A Convertible Preferred Stock with a liquidation preference of \$2,500,000 (the Preferred Stock) to the Organization. The Company also provided the Organization with piggyback registration rights for the shares of common stock acquired by the Organization upon conversion of the Preferred Stock.

The effect of the Transaction was to eliminate the Company's current and future obligations for the Organization's operating costs under the CSMSA for which the Company had recorded a reasonable estimate of \$7,556,052 as of June 30, 2008. The Company recognized a gain on the extinguishment of the long-term debt of \$5,056,052, the difference between the value of the long-term liabilities and the value of preferred stock issued in exchange for the debt as of June 30, 2008. See Note 8 below.

Note 6 Notes Payable

On January 25, 2008, the Company and MATT Inc. entered into a Note Purchase Agreement (the MATT Agreement). Pursuant to the terms of the MATT Agreement: (i) MATT Inc. invested \$5,000,000 in Quepasa and Quepasa issued MATT Inc. a subordinated promissory note due October 16, 2016 with 4.46% interest per annum (the MATT Note); (ii) the exercise price of MATT Inc.'s outstanding Series 1 Warrant to purchase 1,000,000 shares of the Company's common stock was reduced from \$12.50 per share to \$2.75 per share; (iii) the exercise price of MATT Inc.'s outstanding Series 2 Warrant to purchase 1,000,000 shares of the Company's common stock was reduced from \$15.00 per share to \$2.75 per share; and (iv) the Amended and Restated Support Agreement between the Company and MATT Inc. was terminated, which terminates MATT Inc.'s obligation to provide the Company with the use of a corporate jet for up to 25 hours per year through October 2016. See Note 3 above. Debt issuance costs of \$24,580 related to this transaction have been capitalized within the Other Assets section of the balance sheet and will be amortized to interest expense over the life of the note. The balance of deferred debt issuance costs was \$22,660 at September 30, 2008.

On January 25, 2008, the Company and Richard L. Scott Investments, LLC (RSI) entered into a Note Purchase Agreement (the RSI Agreement). Pursuant to the terms of the RSI Agreement: (i) RSI invested \$2,000,000 in Quepasa and Quepasa issued RSI a subordinated promissory note due March 21, 2016 with 4.46% interest per annum (the RSI Note); (ii) the exercise price of RSI's outstanding Series 2 Warrant to purchase 500,000 shares of the Company's common stock was reduced from \$4.00 per share to \$2.75 per share; and (iii) the exercise price of RSI's outstanding Series 3 Warrant to purchase 500,000 shares of the Company's common stock was reduced from \$7.00 per share to \$2.75 per share. Debt issuance costs of \$15,901 related to this transaction have been capitalized within the Other Assets section of the balance sheet and will be amortized to interest expense over the life of the note. The balance of deferred debt issuance costs was \$14,571 at September 30, 2008.

Notes payable consist of the following at September 30, 2008:

	MATT		RSI		Total
Notes Payable, face amount	\$ 5,000,000	\$	2,000,000	\$	7,000,000
Discounts on Notes:					
Revaluation of Warrants	(1,341,692)		(263,690)		(1,605,382)
Termination of Jet Rights	(878,942)				(878,942)

Accumulated Amortization	173,498	22,048	195,546
Total Discounts	(2,047,136)	(241,642)	(2,288,778)
Accrued Interest	152,383	60,954	213,337
Notes Payable, net	\$ 3,105,247	\$ 1,819,312	\$ 4,924,559

Note 7 Commitments and Contingencies

Operating Leases

On March 20, 2008, the Company terminated its future lease obligations of \$344,495, relating to one of its operating leases for office space in Scottsdale, Arizona. Under the terms of the Lease Termination Agreement, the Company paid \$64,261 to the Lessor and forfeited the security deposit in the amount of \$44,703.

The Company leases its facilities under three non-cancelable operating leases which expire in 2008 and 2010. Future minimum lease payments under these leases as of September 30, 2008 are as follows:

Remainder of 2008	\$ 86,810
2009	54,832
2010	13,856
	\$ 155,498

Litigation

From time to time, we are party to certain legal proceedings that arise in the ordinary course and are incidental to our business. There are currently no such pending proceedings to which we are a party that our management believes will have a material adverse effect on the Company's consolidated financial position or results of operations. However, future events or circumstances, currently unknown to management, will determine whether the resolution of pending or threatened litigation or claims will ultimately have a material effect on our consolidated financial position, liquidity or results of operations in any future reporting periods.

Note 8 Series A Preferred Stock

On June 30, 2008, the Company entered into the Transaction with the Organization terminating the CSMSA, see note 5. In consideration for the Transaction, the Company issued the Organization 25,000 shares of Preferred Stock, par value \$0.001, with a liquidation preference of \$2,500,000. The Company also provided the Organization with piggyback registration rights for the shares of common stock acquired by the Organization upon conversion of the Preferred Stock. The Preferred Stock may be converted (i) upon election of the Company; (ii) upon liquidation; or (iii) upon election of the Organization after one year. The Preferred Stock may be converted at the Stated Value of \$100.00 per share for a similar value of Common Stock at Fair Market Value, with no fractional shares. Dividends on the Preferred Stock accrue from the date of issuance at the rate per annum of 4.46% on the Stated Value and are cumulative. Dividends are payable in a lump sum at liquidation or conversion. Accrued dividends were \$27,875 at September 30, 2008.

Note 9 Stock-Based Compensation

Effective January 1, 2006, the Company adopted the fair value recognition provisions of SFAS No. 123 (revised 2004), *Share-Based Payment* (SFAS 123(R)), using the modified-prospective transition method. Since all share-based payments made prior to January 1, 2006 were fully vested, compensation cost recognized during the three and nine months ended September 30, 2008 and 2007 represents the compensation cost for all share-based payments granted subsequent to January 1, 2006 based upon the grant-date fair value using the Black-Scholes option pricing model.

The fair values of share-based payments are estimated on the date of grant using the Black-Scholes option pricing model, based on weighted average assumptions. Expected volatility is based on historical volatility of the Company's common stock. The risk-free rate is based on the U.S. Treasury yield curve in effect at the time of grant. Compensation expense is recognized on a straight-line basis over the requisite service period of the award.

In December 2007, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin (SAB) No. 110. This guidance allows companies, in certain circumstances, to utilize a simplified method in determining the expected term of stock option grants when calculating the compensation expense to be recorded under SFAS 123(R), *Share-Based Payment*. The simplified method can be used after December 31, 2007 only if a company's stock option

exercise experience does not provide a reasonable basis upon which to estimate the expected option term. Through 2007, we used the simplified method to determine the expected option term, based upon the vesting and original contractual terms of the option. On January 1, 2008, we continued to use the simplified method to determine the expected option term since the Company's stock option exercise experience does not provide a reasonable basis upon which to estimate the expected option term.

The assumptions used in calculating the fair value of stock-based awards represent our best estimates, but these estimates involve inherent uncertainties and the application of management judgment. As a result, if factors change and we use different assumptions, our stock-based compensation expense could be materially different in the future.

Stock Option Plans*1998 Stock Option Plan*

A summary of employee stock option activity under the 1998 Stock Option Plan during the nine months ended September 30, 2008 is as follows:

	Number of Stock Options	Weighted- Average Exercise Price
Options		
Outstanding at December 31, 2007 (1)	814,506	\$2.76
Granted		\$
Exercised	(300,000)	\$1.26
Forfeited or expired	(414,506)	\$3.73
Outstanding at September 30, 2008 (2)	100,000	\$3.23
Exercisable at September 30, 2008 (2)	100,000	\$3.23

(1)

Excludes stock options to purchase 105,000 shares of common stock at a weighted average exercise price of \$1.73 per share being held by consultants.

(2)

Excludes stock options to purchase 100,000 shares of common stock at a weighted average price of \$1.50 per share being held by a consultant.

In September 2006, the Board of Directors approved, subject to stockholder approval, the 2006 Stock Incentive Plan (See 2006 Stock Incentive Plan section below). On June 27, 2007, the stockholders approved the 2006 Stock Incentive Plan. As a result, no new awards will be available for issuance under the 1998 Plan, effective September 2006.

2006 Stock Incentive Plan

On June 27, 2007, the stockholders approved the 2006 Stock Incentive Plan (the 2006 Plan), providing for the issuance of up to 3,700,000 shares of common stock plus an additional number of shares of common stock equal to the number of shares previously granted under the 1998 Stock Option Plan that either terminate, expire, or lapse after the date of the Board of Directors approval of the 2006 Plan.

In April 2008, our Board of Directors approved and on June 27, 2008, the stockholders approved an amendment to the 2006 Plan to authorize the issuance of an additional 2,000,000 shares of common stock. As of September 30, 2008, there were 589,456 shares of common stock reserved for issuance under the 2006 Plan. Pursuant to the terms of the 2006 Plan, eligible individuals may be granted incentive stock options, non-qualified stock options, stock appreciation rights, restricted stock, or stock grant awards.

A summary of employee stock option activity under the 2006 Stock Incentive Plan during the nine months ended September 30, 2008 is as follows:

	Number of Stock Options	Weighted- Average Exercise Price
Options		
Outstanding at December 31, 2007 (1)	3,600,319	\$3.57
Granted (2)	2,695,250	\$2.26
Exercised		\$
Forfeited or expired	(259,000)	\$6.60
Outstanding at September 30, 2008 (3)	6,042,819	\$2.86
Exercisable at September 30, 2008 (4)	597,208	\$2.79

(1)

Excludes stock options to purchase 1,000 shares of common stock at a weighted average price of \$10.00 per share being held by a consultant.

(2)

Excludes stock options to purchase 125,000 shares of common stock at a weighted average exercise price of \$2.94 per share being held by consultants.

(3)

Excludes stock options to purchase 126,000 shares of common stock at a weighted average exercise price of \$3.00 per share being held by consultants.

(4)

Excludes stock options to purchase 124,625 shares of common stock at a weighted average exercise price of \$3.28 per share being held by consultants.

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

	For the Nine Months Ended	
	September 30,	
	2008	2007
Risk-free interest rate:	3.10 %	5.00 %
Expected term:	5.7 Years	5 Years
Expected dividend yield:		
Expected volatility:	142 %	156 %

The Company recognized stock-based compensation expense for the issuance of options of \$2,170,795 and \$276,951 for the three months ended September 30, 2008 and 2007, respectively, and \$4,437,079 and \$1,189,048 for the nine months ended September 30, 2008 and 2007, respectively.

As of September 30, 2008, there was \$9,737,442 in total unrecognized compensation cost, which is expected to be recognized over a weighted average period of 2.3 years.

Unrestricted Shares

During the nine months ended September 30, 2008, the Company issued 78,750 shares of unrestricted common stock to consultants and its non-employee directors under the 2006 Plan. The shares are fully vested. The fair value of the unrestricted shares is determined based on the closing price of the Company's stock on the date of issuance. The Company recognized stock-based compensation expense of \$41,200 and \$291,675, respectively, for the unrestricted shares issued during the three and nine months ended September 30, 2008.

Restricted Shares

On January 18, 2008, the Board of Directors granted 25,800 shares of restricted common stock to the Company's non-employee directors for compensation during 2008 under the 2006 Plan. The restricted shares vest monthly, on the last day of the month, through December 31, 2008. On July 22, 2008, the Board of Directors granted an additional 3,500 shares of restricted common stock, prorated to 1,750 for 2008, to a new non-employee director under the 2006 Plan. These shares will vest monthly, on the last day of the month, through June 30, 2009. On July 25, 2008, an additional 20,000 shares of restricted stock were granted to a consultant. Restricted shares activity during the nine months ended September 30, 2008 was as follows:

	Weighted-Average	
	Shares	Share Price
Unvested at January 1, 2008		\$

Granted	47,550	\$2.29
Vested during period	(20,225)	\$2.47
Cancelled during period		\$
Unvested at September 30, 2008	27,325	\$2.16

The fair value of the restricted shares is based on the closing price of the Company's common stock on the date of the grant. The Company recognized stock-based compensation expense of \$17,872 and \$49,993 for the restricted shares that vested during the three and nine months ended September 30, 2008, respectively. As of September 30, 2008, there was \$59,072 in total unrecognized stock-based compensation expense related to non-vested restricted share grants, which is expected to be recognized over a weighted average period of 0.6 years. During the three months ended September 30, 2008, the Company issued 7,325 of the vested restricted shares, resulting in an increase of \$18,232 to stockholders' equity.

Note 10 Warrant Re-pricing

In October 2006, the Company issued two series of warrants to purchase 1,000,000 shares of common stock each at exercise prices of \$12.50 and \$15.00 per share to MATT Inc. in connection with the issuance of common stock. On January 25, 2008, the Company and MATT Inc. entered into a Note Purchase Agreement (the "MATT Agreement").

Pursuant to the terms of the MATT Agreement the exercise price of MATT Inc.'s outstanding warrants were reduced to \$2.75 per share. The warrant re-pricing resulted in a discount on the Note Payable of \$1,341,692, to be amortized over the life of the note, see Note 6 above. These warrants expire in October 2016 and were still outstanding as of September 30, 2008. The fair value of the warrant re-pricing was determined using the Black-Scholes option pricing model with the following assumptions:

Risk-free interest rate:	2.81 %
Expected term:	4.36 years
Expected dividend yield:	
Expected volatility:	103.55 %

In March 2006, the Company issued three series of warrants to purchase 500,000 shares of common stock each at exercise prices of \$2.87, \$4.00 and \$7.00 per share to RSI as compensation for certain strategic initiatives. The first warrant was exercised in 2006. On January 25, 2008, the Company and RSI entered into a Note Purchase Agreement (the RSI Agreement). Pursuant to the terms of the RSI Agreement the exercise price of RSI's outstanding warrants were reduced to \$2.75 per share. The warrant re-pricing resulted in a discount on the Note Payable of \$263,690, to be amortized over the life of the note, see Note 6. The Series 2 and Series 3 warrants were still outstanding at September 30, 2008 and expire in March 2016. The fair value of the warrant re-pricing was determined using the Black-Scholes option pricing model with the following assumptions:

Risk-free interest rate:	2.81 %
Expected term:	4.08 years
Expected dividend yield:	
Expected volatility:	105.68 %

Note 11 Related Party Transactions

Alonso Ancira serves on the Company's Board of Directors as a non-employee director. Mr. Ancira also serves on the Board of Directors of the Organization and is the Chairman of the Board of Directors of MATT Inc. The Company has participated in several significant transactions with MATT Inc. and the Organization; see Note 3 - Jet Rights, Note 5 - Long-term debt, Note 6 - Notes Payable, Note 8 - Preferred Stock, and Note 10 - Warrant Re-pricing. MATT Inc. is also the Company's largest shareholder.

Item 2.

Management's Discussion and Analysis of Financial Condition and Results of Operation

You should read the following discussion in conjunction with our condensed consolidated financial statements, which are included in Item 1 of this Form 10-Q.

Company Overview

In 2007, Quepasa transitioned from being a bilingual search engine into a bilingual portal and Hispanic social network. With the evolution of our website into a Hispanic portal and social network, we expect future revenues will come from predominately display advertising. In December 2006, the portal service of Quepasa was discontinued.

Highlights for the first three quarters of 2008 included:

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In late January 2008, we borrowed \$7,000,000, including \$5,000,000 from a company controlled by one of our non-employee directors. The notes are due in 2016;

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On February 6, 2008, we re-launched our website as a Hispanic social network;

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On June 30, 2008, we terminated the CSMSA issuing the Organization \$2,500,000 of Preferred Stock and recorded a one-time non-cash gain of \$5,056,052 based upon the difference between the value of the liabilities we eliminated and the value of the Preferred Stock; and

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Our website traffic began to show growth as the third quarter evolved. In part, this was due to our improved ability to deliver emails inviting persons to become members of Quepasa.

Critical Accounting Policies, Judgments and Estimates

Our discussion and analysis of our financial condition and results of operations is based upon our condensed consolidated financial statements, which have been prepared in accordance with Generally Accepted Accounting Principles. The preparation of these condensed consolidated financial statements requires us to make estimates, judgments and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the related disclosure of contingent assets and liabilities. We base our estimates on historical experience and on various other assumptions that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

An accounting policy is considered to be critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time the estimate is made, and if different estimates that reasonably could have been used, or changes in the accounting estimate that are reasonably likely to occur, could materially impact the consolidated financial statements. We believe that the following critical accounting policies reflect the more significant estimates and assumptions used in the preparation of the consolidated financial statements.

Management has discussed the development and selection of these critical accounting estimates with the Audit Committee of our Board of Directors. In addition, there are other items within our financial statements that require estimation, but are not deemed critical as defined above. Changes in estimates used in these and other items could have a material impact on our financial statements.

Stock-Based Compensation Expense

See Note 9 - Stock-Based Compensation to our condensed consolidated financial statements included in Item 1 of this Form 10-Q for discussion of stock-based compensation expense.

Contingencies

The Company accrues for contingent obligations, including estimated management support agreements and legal costs, when the obligation is probable and the amount can be reasonably estimated. As facts concerning contingencies become known we reassess our position and make appropriate adjustments to the financial statements. Estimates that are particularly sensitive to future changes include those related to tax, legal, and other regulatory matters that are subject to change as events evolve and additional information becomes available.

Income Taxes

The Company uses the asset and liability method to account for income taxes. Under this method, deferred income taxes are determined based on the differences between the tax basis of assets and liabilities and their reported amounts in the consolidated financial statements which will result in taxable or deductible amounts in future years and are measured using the currently enacted tax rates and laws. A valuation allowance is provided to reduce net deferred tax assets to the amount that, based on available evidence, is more likely than not to be realized.

Results of Operations

Revenue Sources

During the nine months ended September 30, 2008, our revenue was generated from two principal sources: revenue earned from the sale of banner advertising on our website and subscription sales.

Banner Advertising Revenue: Banner advertising revenue is generated when an advertiser purchases a banner placement within our quepasa.com website. We recognize revenue related to banner advertisements upon delivery. Approximately 80% of our revenue came from banner advertising.

Subscription Sales: Subscription sales related to the Internet dating service Corazones.com. We have not focused our efforts on marketing this website. We recognize revenue from subscription sales as services are delivered, or ratably over the subscription period.

Operating Expenses

Our principal operating expenses are divided into the following categories:

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Product Development and Content Expenses: Product development and content expenses consist of personnel costs associated with the development, testing and upgrading of our website and systems, content fees, and purchases of specific technology, particularly software and hardware related to our infrastructure upgrade.

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Sales and Marketing Expenses: Sales and marketing expenses consist primarily of salaries and expenses of marketing and sales personnel, and other marketing-related expenses including our mass media-based branding and advertising.

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General and Administrative Expenses: General and administrative expenses consist primarily of costs related to corporate personnel, occupancy costs, general operating costs and corporate professional fees, such as legal and accounting fees.

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Stock Based Compensation Expenses: Stock based compensation is a non-cash expense that consists primarily of compensation paid for employees, directors, and consultants by the issuance of stock options or common stock. Expense is calculated based upon the grant-date fair value using the Black-Scholes option pricing model recognized on a straight-line basis over the vesting term of the award.

Depreciation and Amortization Expenses: Our depreciation and amortization are non-cash expenses which have consisted primarily of depreciation related to our property and equipment and the amortization pertaining to jet rights acquired in 2006 and disposed in 2008.

Other Income (Expense): Other income (expense) consists primarily of interest earned, interest expense and earned grant income. We have invested our cash in AAA rated, fully liquid instruments. Interest expense relates to our Corporate Sponsorship Agreement and Note Purchase Agreements discussed in notes 5 and 6. Earned grant income represents the amortized portion of a cash grant received from the Mexican government for approved capital expenditures. The grant is being recognized on a straight-line basis over the useful lives of the purchased assets. In the nine months ended September 30, 2008, we recognized a one-time non-cash gain resulting from termination of the CSMSA.

Comparison of the three months ended September 30, 2008 with the three months ended September 30, 2007

The following table sets forth a modified version of our Condensed Consolidated Statements of Operations and Comprehensive Loss that is used in the following discussions of our results of operations:

	For the the three months ended September 30,			
	2008	2007	Change (\$)	Change (%)
REVENUES	\$ 10,989	\$ 64,197	\$ (53,208)	-83 %
CASH-BASED OPERATING EXPENSES				
Sales and marketing	54,896	147,772	(92,876)	-63 %
Product development and content	658,051	1,667,768	(1,009,717)	-61 %
General and administrative	380,098	1,422,224	(1,042,126)	-73 %
Total cash-based operating expenses	1,093,045	3,237,764	(2,144,719)	-66 %
NET CASH BURN	(1,082,056)	(3,173,567)	2,091,511	-66 %
<i>Net Cash Monthly Burn Rate</i>	<i>(360,685)</i>	<i>(1,057,856)</i>	<i>697,170</i>	<i>-66 %</i>
NON-CASH OPERATING EXPENSES				
Stock based compensation expense	2,278,231	312,564	1,965,667	629 %
Depreciation and amortization	113,710	127,559	(13,849)	-11 %
Total Non-Cash Operating Expenses	2,391,941	440,123	1,951,818	443 %
LOSS FROM OPERATIONS	(3,473,997)	(3,613,690)	139,693	-4 %
OTHER INCOME (EXPENSE):				
Interest income	34,544	88,779	(54,235)	-61 %
Interest expense	(151,502)		(151,502)	-100 %
Gain/ (Loss) on disposal		2,829	(2,829)	-100 %
Other income	511,371	7,130	504,241	7072 %
TOTAL OTHER INCOME (EXPENSE)	394,413	98,738	295,675	299 %

NET INCOME (LOSS)	\$ (3,079,584)	\$ (3,514,952)	\$ 435,368	-12 %
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Revenues

Our revenues were \$10,989 for the three months ended September 30, 2008, a decrease of 83% compared to the third quarter of 2007. In September 2007, we launched a new beta version of our website, which experienced technical difficulties and performance issues that adversely affected the amount of traffic visiting our website. In late October 2007, a new senior management team was put into place and immediately began to address the performance issues with the website. The bulk of the banner advertising campaigns were discontinued in the fourth quarter of 2007, and efforts to generate additional banner advertising campaigns were temporarily put on hold while emphasis was placed on enhancing the functionality and the content of our website, in order to drive sustained traffic to the site. In February 2008, we re-launched our website. We experienced a 222% increase in page views during the second quarter of 2008 from the first quarter of 2008, and a 316% increase in page views during the third quarter 2008 from the second. We are hopeful that website traffic will continue to increase in the fourth quarter of 2008. We believe there will be a direct correlation between website traffic and our ability to increase revenue.

As part of our website development strategy, we have focused on establishing a platform for sustained, viral growth based on (i) simple user registration and invitation process; and (ii) effective email deliverability. In June, 2008, we redesigned the sign-up and invitation pages of our site, resulting in approximately a 50% increase in the number of new users who invited friends and contacts to join Quepasa.com. In addition, with the help of a third-party consultant, we have substantially reduced the number of Quepasa.com invitation emails that fail to reach recipients email inboxes. Improved deliverability, together with the redesign of our sign-up and invitation steps, has resulted in meaningful gains in the number new registered users and site traffic.

Operating Costs and Expenses

Sales and Marketing: Sales and marketing expenses decreased \$92,876, or 63%, to \$54,896 for the three months ended September 30, 2008. The decrease is primarily attributed to the closing of the New York sales office and a reduction of our sales force in November 2007, which resulted in a decrease in salaries of approximately \$133,000 versus the third quarter of 2007.

Product Development and Content: Product development and content expenses decreased \$1,009,717, or 61%, to \$658,051 for the three months ended September 30, 2008. This decrease is attributable to a focused effort to reduce costs. During the three months ended September 30, 2008, we had decreases in technology consulting fees of \$785,000, salaries within our U.S. operations of \$180,000, other professional fees of \$84,000 and content fees of \$44,000, partially offset by an increase in salaries and associated payroll costs of \$59,000 for our product development and technology personnel within Quepasa.com de Mexico, which, under the direction of our U.S.-based Chief Technology Officer, provides substantially all of our design, translation services, and website management and development services.

General and Administrative: General and administrative expenses decreased \$1,042,126, or 73%, to \$380,098, for the three months ended September 30, 2008. The significant changes consisted of:

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a decrease in professional fees of \$430,000, primarily made up of decreases in legal fees of \$218,000 and accounting fees of \$139,000, due to unusually high activity in 2007;

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a decrease in recruiting fees of \$46,000, due to reduced hiring during 2008;

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a decrease in travel related expenses of \$174,000;

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a decrease in rent expenses of \$75,000, due to the closing our Scottsdale, AZ headquarters;

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a decrease in salaries and related payroll costs of \$216,000, due to a reduction in personnel in our Scottsdale headquarters during the fourth quarter of 2007 and reduction of some salaries in exchange for stock based compensation; and

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a decrease in dues and subscriptions of \$46,000, a decrease in printing and reproduction of \$15,000, and a decrease in office supplies and maintenance costs of \$16,000 attributable to a focused effort to reduce costs;

Stock Based Compensation: Stock based compensation expense increased \$1,965,667 to \$2,278,231 for the three months ended September 30, 2008. This increase is attributable to stock options issued to the new senior management team hired during the fourth quarter of 2007 and the first quarter of 2008, a performance based incentive grant made in the third quarter of 2008, and a shift toward issuing stock based compensation to reduce other cash expenses. At

September 30, 2008, we had \$9,737,442 of unrecognized stock based compensation expense, almost all of which we expect to recognize over the next eight quarters.

Depreciation and Amortization: Depreciation and amortization expense decreased \$13,849, or 11%, to \$113,710 for the three months ended September 30, 2008. This decrease is primarily attributable to the termination of the jet rights in the first quarter of 2008 and the associated amortization expense.

Other Income (Expense): Other income increased \$295,675 to \$394,413 for the three months ended September 30, 2008. The increase is mainly attributable to the write-off of invoices totaling \$508,610 initially recorded in the third quarter of 2007 for a technical consultant. The gain was partially offset by \$152,000 of interest expense associated with the Note Purchase Agreements entered into in the first quarter of 2008 (see note 6 of the condensed consolidated financial statements) and a decrease of \$54,000 of interest income associated with lower average cash balances during the third quarter of 2008 versus the third quarter of 2007.

Comparison of the nine months ended September 30, 2008 with the nine months ended September 30, 2007

The following table sets forth a modified version of our Condensed Consolidated Statements of Operations and Comprehensive Loss that is used in the following discussions of our results of operations:

	For the the nine months ended September 30,			Change
	2008	2007	Change (\$)	(%)
REVENUES	\$ 42,626	\$ 189,939	\$ (147,313)	-78 %
CASH-BASED OPERATING EXPENSES				
Sales and marketing	190,568	909,876	(719,308)	-79 %
Product development and content	1,910,350	3,710,821	(1,800,471)	-49 %
General and administrative	1,830,782	4,628,814	(2,798,032)	-60 %
Total cash-based operating expenses	3,931,700	9,249,511	(5,317,811)	-57 %
NET CASH BURN	(3,889,074)	(9,059,572)	5,170,498	-57 %
<i>Net Cash Monthly Burn Rate</i>	<i>(432,119)</i>	<i>(1,006,619)</i>	<i>574,500</i>	<i>-57 %</i>
NON-CASH OPERATING EXPENSES				
Stock based compensation expense	4,840,489	1,416,149	3,424,340	242 %
Depreciation and amortization	335,133	323,820	11,313	3 %
Total Non-Cash Operating Expenses	5,175,622	1,739,969	3,435,653	197 %
LOSS FROM OPERATIONS	(9,064,696)	(10,799,541)	1,734,845	-16 %
OTHER INCOME (EXPENSE):				
Interest income	132,048	380,603	(248,555)	-65 %
Interest expense	(779,315)		(779,315)	-100 %
Gain/ (Loss) on disposal	(42,977)	6,278	(49,255)	-785 %
Gain on extinguishment of debt	5,056,052		5,056,052	100 %
Other income	530,850	21,367	509,483	2384 %

TOTAL OTHER INCOME (EXPENSE)	4,896,658	408,248	4,488,410	1099 %
NET INCOME (LOSS)	\$ (4,168,038)	\$ (10,391,293)	\$ 6,223,255	-60 %

Revenues

Our revenues were \$42,626 for the nine months ended September 30, 2008; a decrease of 78% compared to the nine months ended September 30, 2007. In September 2007, we launched a new beta version of our website, which experienced technical difficulties and performance issues that adversely affected the amount of traffic visiting our website. In late October 2007, a new senior management team was put into place and immediately began to address the performance issues with the website. The bulk of the banner advertising campaigns were discontinued in the fourth quarter of 2007, and efforts to generate additional banner advertising campaigns were temporarily put on hold while emphasis was placed on enhancing the functionality and the content of our website, in order to drive sustained traffic to the site. In February 2008, we re-launched our website. We experienced a 222% increase in page views during the second quarter of 2008 from the first quarter of 2008 and a 316% increase in page views during the third quarter 2008 from the second. We are hopeful that website traffic will continue to increase in the fourth quarter of 2008. We believe there will be a direct correlation between website traffic and our ability to increase revenue.

Operating Costs and Expenses

Sales and Marketing: Sales and marketing expenses decreased \$719,308, or 79%, to \$190,568 for the nine months ended September 30, 2008. The decrease is primarily attributed to the discontinuance of advertising efforts in the first nine months of 2008, which resulted in savings of approximately \$456,000 versus the first nine months of 2007. In addition, we closed the New York sales office and reduced our sales force in November 2007, which resulted in a decrease in salaries of approximately \$300,000 versus the first nine months of 2007.

Product Development and Content: Product development and content expenses decreased \$1,800,471, or 49%, to \$1,910,350 for the nine months ended September 30, 2008. This decrease is attributable to a focused effort to reduce costs. During the nine months ended September 30, 2008, we had decreases in technology consulting fees of \$1,455,000, content fees of \$190,000, salaries within our U.S. operations of \$393,000 and other professional fees of \$115,000, partially offset by an increase in salaries and associated payroll costs of \$244,000 for our product development and technology personnel within Quepasa.com de Mexico, which provides substantially all of our design, translation services, and website management and development services.

General and Administrative: General and administrative expenses decreased \$2,798,032, or 60%, to \$1,830,782 for the nine months ended September 30, 2008. The significant changes consisted of:

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a decrease in professional fees expense of \$1,263,000, primarily made up of decreases in legal fees of \$524,000 and accounting fees of \$528,000, due to unusually high activity in 2007, and a settlement of \$135,000 toward legal fees received during the second quarter of 2008;

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a decrease in recruiting fees of \$481,000, due to reduced hiring during 2008;

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a decrease in salaries and related payroll costs of \$343,000, due to a reduction in personnel in our Scottsdale headquarters during the fourth quarter of 2007 and reduction of some salaries in exchange for stock based compensation; and

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a decrease in travel related expenses of \$349,000, a decrease in dues and subscriptions of \$123,000, a decrease in printing and reproduction of \$89,000, a decrease in office supplies and maintenance of \$51,000, a decrease in licenses and fees of \$17,000, a decrease in insurance costs of \$35,000, and a decrease in other general and administrative costs of \$50,000, attributable to a focused effort to reduce costs.

Stock Based Compensation: Stock based compensation expense increased \$3,424,340, or 242%, to \$4,840,489 for the nine months ended September 30, 2008. This increase is attributable to stock options issued to the new senior management team hired during the fourth quarter of 2007 and the first quarter of 2008, a performance based incentive grant made in the third quarter of 2008, and a shift toward issuing stock based compensation to reduce other cash expenses. At September 30, 2008, we had \$9,737,442 of unrecognized stock based compensation expense, almost all of which we expect to recognize over the next nine quarters.

Depreciation and Amortization: Depreciation and amortization expense increased \$11,313, or 3%, to \$335,133 for the nine months ended September 30, 2008. This increase is attributable to the depreciation associated with capital purchases from 2007, offset by the termination of the jet rights in the first quarter of 2008 and the associated amortization expense.

Other Income (Expense): Other income increased \$4,488,410 to \$4,896,658 for the nine months ended September 30, 2008. The increase is primarily attributable to a gain on extinguishment of debt of \$5,056,052 recorded in the second quarter of 2008 as a result of the termination of the CSMSA discussed in Note 5 of the condensed consolidated financial statements and the write-off of invoices totaling \$508,610 initially recorded in the third quarter of 2007 for a technical consultant. The gains were partially offset by \$779,000 of interest expense associated with the CSMSA and

the Note Purchase Agreements entered into in the first quarter of 2008 (see note 6 of the condensed consolidated financial statements), a decrease of \$249,000 of interest income associated with lower average cash balances during the first nine months of 2008 versus the first nine months of 2007, and a \$43,000 loss recorded in the second quarter of 2008 on the disposal of office furniture and equipment associated with the shutdown of our Scottsdale, AZ headquarters.

Liquidity and Capital Resources

	For the Nine months Ended	
	September 30,	
	2008	2007
Net cash used in operating activities	\$ (4,301,066)	\$ (8,207,238)
Net cash used in investing activities	\$ (770,533)	\$ (729,437)
Net cash provided by financing activities	\$ 7,337,019	\$ 913,150

Cash used in operating activities for the nine months ended September 30, 2008 is driven by our net loss, adjusted for non-cash items. Non-cash adjustments include a gain on the extinguishment of debt, depreciation and amortization, the issuance of stock options and common stock for compensation, and interest associated with long-term debt. Net cash used in operations was \$4,301,066 for the nine months ended September 30, 2008 compared to \$8,207,238 for the first nine months of 2007. For the nine months ended September 30, 2008, net cash used by operations consisted primarily of a net loss of \$4,168,039 plus a gain on extinguishment of debt of \$5,056,052 and a write-off of invoices totaling \$508,610, offset by non-cash expenses of \$335,133 in depreciation and amortization, \$571,413 in non-cash interest, \$198,795 in amortization of discounts on notes payable and debt issuance costs, \$42,977 loss on the disposal of fixed assets, and \$4,782,879 related to the issuance of stock options, warrants, and common stock for compensation and professional services. Additionally, changes in working capital impacted the net cash used in operating activities. These changes included a decrease in accounts payable and accrued expenses of \$338,168, offset by decreases in other current assets and other assets of \$163,125. Net cash used by operations for the nine months ended September 30, 2007 consisted of a net loss of \$10,391,293 offset by non-cash expenses of \$323,820 in depreciation and amortization and \$1,416,149 related to the issuance of stock options and warrants for compensation. Changes in working capital for the nine months ended September 30, 2007 included an increase of \$775,489 in accounts payable and accrued expenses offset by an increase in other current assets and other assets of \$286,332.

Net cash used in investing activities for the nine months ended September 30, 2008 is primarily attributable to Investment in BRC/La Alianza of \$350,000, see note 4 of the condensed consolidated financial statements. Our capital expenditures were \$420,533 for the nine months ended September 30, 2008, compared to capital expenditures of \$729,437 for the same period in 2007.

Net cash provided by financing activities for the nine months ended September 30, 2008 came from net proceeds of \$6,959,519 from our borrowing in January 2008. See note 6 of the condensed consolidated financial statements. Cash proceeds from the exercise of stock options and warrants was \$377,500 for the nine months ended September 30, 2008, compared to \$913,150 for the same period in 2007.

	September 30,	December 31,
	2008	2007
Cash and cash equivalents	\$ 5,945,533	\$ 3,673,281
Total assets	\$ 7,869,387	\$ 5,900,908
Percentage of total assets	76 %	62 %

We invest excess cash predominately in liquid marketable securities to support our growing infrastructure needs for operational expansion. The majority of our cash is concentrated in one large financial institution, Chase Manhattan.

We have substantial capital resource requirements and have generated significant losses since inception. At September 30, 2008, we had \$5,945,533 in cash and cash equivalents compared to \$3,673,281 at December 31, 2007, resulting in a net increase in cash and cash equivalents of \$2,272,252 for the first nine months of 2008.

The increase in cash for 2008 was primarily attributed to the issuance of subordinated notes payable in the amount of \$7,000,000 in January 2008, partially offset by cash-based operating expenses of \$4,052,778 during the first nine months of 2008.

In October 2007, a new senior management team was put into place. Along with addressing the website performance issues, the management team focused their attention on reducing costs while maintaining the efforts to improve the performance of our websites. In November 2007, the management team terminated the majority of the consulting arrangements, closed the sales office in New York, and significantly reduced the headcount at the corporate

headquarters. Based on the reductions initiated in November 2007, the net cash burn rate for the first nine months of 2008 dropped to \$432,119 per month, which included one-time charges of \$129,000 associated with the termination of the lease for our Scottsdale headquarters. The net cash burn rate for the three months ended September 30, 2008 dropped to \$360,685 per month. We expect a net cash burn rate of approximately \$356,000 per month for the remainder of 2008, excluding any promotional activities.

During the first nine months of 2008, we obtained proceeds of \$377,500 from the exercise of common stock options and warrants compared to \$913,150 from the exercise of stock options and warrants during the first nine months of 2007.

Based on the reduction of the net cash burn rate, we believe that our current cash balances are sufficient to finance our current level of operations beyond the next 12 months. We have not budgeted significant capital expenditures for the

remainder of 2008. The capital expenditures through September 30, 2008 were primarily to create a primary data center in the Dallas, Texas metropolitan area leaving the redundant data center in the Phoenix, Arizona metropolitan area as a backup.

Forward-Looking Statements

The statements in this Report relating to our agreement with BRC, our future liquidity and our anticipated capital expenditures are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Additionally, words such as expects, anticipates, intends, believes, will and similar words are used to identify forward-looking statements.

The results anticipated by any or all of these forward-looking statements might not occur. Important factors, uncertainties and risks that may cause actual results to differ materially from these forward-looking statements include changes in the public's approach to social network needs, global economic conditions and the continued slump in the capital and credit markets. We undertake no obligation to publicly update or revise any forward-looking statements, whether as the result of new information, future events or otherwise. For more information regarding some of the ongoing risks and uncertainties of our business, see the risk factors contained in Quepasa's Form 10-KSB for the year ended December 31, 2007.

Item 3.

Quantitative and Qualitative Disclosures about Market Risk

Not applicable for smaller reporting companies.

Item 4T.

Controls and Procedures

Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures that are designed to provide reasonable assurance that information required to be disclosed in reports filed under the Securities Exchange Act of 1934 (Exchange Act) is recorded, processed, summarized, and reported within the specified time periods and accumulated and communicated to the Company's management, including its Principal Executive Officer and Principal Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

The Company's management, under the supervision and with the participation of its Principal Executive Officer and its Principal Financial Officer, evaluated the effectiveness of its disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) promulgated under the Exchange Act) as of the end of the period covered by this report. Based on that evaluation, the Company's Principal Executive Officer and Principal Financial Officer concluded that the Company's disclosure controls and procedures were effective as of September 30, 2008 to provide reasonable assurance in the Company's financial reporting.

Remediation of Certain Weaknesses and Changes in Internal Controls

As discussed in the Company's Annual Report on Form 10-KSB for the year ended December 31, 2007, filed with the SEC on March 31, 2008, during the financial reporting process for the fiscal year end December 31, 2007, certain weaknesses in the Company's internal control over financial reporting were identified, including inadequate

documentation of policies, procedures, and internal controls; weaknesses in information technology controls and procedures; a lack of sufficient accounting personnel and expertise to address the Company's expanding and increasingly complex financial reporting needs; and incorrect accounting treatment of certain expenses and equity issuances. The Company believes that the primary cause of those control issues stemmed from the lack of accounting personnel and expertise.

In addition to the new Chief Financial Officer hired in October 2007, the Company replaced the Controller during the first quarter of 2008. As a result of these new hires, the Company believes that the lack of sufficient accounting personnel and expertise has been addressed. Additionally, in January 2008, the Company hired a Chief Technology Officer to help address the information technology control issues. During the remainder of 2008, the new financial management team will continue to address and improve the identified weaknesses in the Company's internal controls.

Management believes that there are no material inaccuracies or omissions of material fact and, to the best of its knowledge, believes that the condensed consolidated financial statements for the quarter ended September 30, 2008, fairly present in all material respects the financial condition and results of operations for the Company in conformity with accounting principles generally accepted in the United States of America.

There have not been any other changes in the Company's internal control over financial reporting during the quarter ended September 30, 2008, which have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Limitations on the Effectiveness of Controls

A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. The Company's management, including its Principal Executive Officer and its Principal Financial Officer, do not expect that the Company's disclosure controls will prevent or detect all errors and all fraud. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with associated policies or procedures. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

PART II. OTHER INFORMATION

Item 1.

Legal Proceedings

From time to time, we are party to certain legal proceedings that arise in the ordinary course and are incidental to our business. There are currently no such pending proceedings to which we are a party that our management believes will have a material adverse effect on the Company's consolidated financial position or results of operations. However, future events or circumstances, currently unknown to management, will determine whether the resolution of pending or threatened litigation or claims will ultimately have a material effect on our consolidated financial position, liquidity or results of operations in any future reporting periods.

Item 1A.

Risk Factors

Not applicable for smaller reporting companies.

Item 2.

Unregistered Sales of Equity Securities and Use of Proceeds

Not applicable

Item 3.

Defaults upon Senior Securities

None.

Item 4.

Submissions of Matters to a Vote of Security Holders

(a)

The Annual Meeting of the stockholders of the Company (the Annual Meeting) was held on June 27, 2008.

(b)

The following directors were elected at the Annual Meeting:

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Lionel Sosa

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Dr. Jill Syverson-Stork

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Jeffrey Valdez

The following directors terms of office as a director continued after the Annual Meeting:

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John C. Abbott

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Alonso Ancira

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Ernesto Cruz

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Malcolm Jozoff

(c)

The results of the vote taken at the Annual Meeting by ballot and proxies as solicited by the Company on behalf of the Board of Directors were as follows:

(i)

The results of the election of the nominees for our Board of Directors were as follows:

Nominee	For	Against	Withheld
Lionel Sosa	6,636,094	6,525	5,950
Dr. Jill Syverson-Stork	6,636,694	7,925	3,950
Jeffrey Valdez	6,637,594	4,925	6,050

(ii)

Votes were taken on the following additional proposals, the results of which are tabulated in the table below:

Proposal	For	Against	Abstain	Broker Non-Votes
To amend the Company's 2006 Stock Incentive Plan to authorize the issuance of additional 2,000,000 shares under the Plan.	4,195,381	244,309	3,900	2,204,979
To approve and ratify the appointment of Berenfeld Spritzer Shechter & Sheer LLP as the Company's independent registered public accounting firm for 2008.	6,643,284	985	4,300	0

Item 5.

Other Information

None

Item 6.

Exhibits

See Exhibit Index

QUEPASA CORPORATION AND SUBSIDIARY

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Quepasa Corporation

October 24, 2008

By: /s/ JOHN C. ABBOTT
Name: Name: John C. Abbott
Title: Chief Executive Officer
(Principal Executive Officer)

October 24, 2008

By: /s/ MICHAEL D. MATTE
Name: Michael D. Matte
Title: Executive Vice President
and Chief Financial Officer
(Principal Financial Officer)

EXHIBIT INDEX

Exhibit

No.	Description of Exhibit
3.1	Certificates of Restated Articles of Incorporation (1)
3.2	Certificate of Designation (2)
3.3	Amended and Restated Bylaws (3)
10.1	Amendment to the Employment Agreement with John C. Abbott dated March 27, 2008 (4)
10.2	Amendment to the Employment Agreement with Michael D. Matte dated March 27, 2008 (4)
10.3	Note Purchase Agreement dated January 25, 2008 by and between Quepasa Corporation and Mexicans & Americans Trading Together, Inc. (5)
10.4	Note Purchase Agreement dated January 25, 2008 by and between Quepasa Corporation and Richard L. Scott Investments, LLC (5)
10.5	Amendment No. 1 to Series 1 Common Stock Purchase Warrant dated January 25, 2008 by and between Quepasa Corporation and Mexicans & Americans Trading Together, Inc. (5)
10.6	Amendment No. 1 to Series 2 Common Stock Purchase Warrant dated January 25, 2008 by and between Quepasa Corporation and Mexicans & Americans Trading Together, Inc. (5)
10.7	Amendment No. 1 to Series 2 Common Stock Purchase Warrant dated January 25, 2008 by and between Quepasa Corporation and Richard L. Scott Investments, LLC (5)
10.8	Amendment No. 1 to Series 3 Common Stock Purchase Warrant dated January 25, 2008 by and between Quepasa Corporation and Richard L. Scott Investments, LLC (5)
10.9	Subordinated Promissory Note dated January 25, 2008 by and between Quepasa Corporation and Mexicans & Americans Trading Together, Inc. (5)
10.10	Subordinated Promissory Note dated January 25, 2008 by and between Quepasa Corporation and Richard L. Scott Investments, LLC (5)
10.11	Consulting Agreement with Jeffrey Valdez dated October 24, 2007 (6)

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- 10.12 Loan Agreement dated March 27, 2008 by and between Quepasa Corporation and BRC Group, LLC. (4)
- 10.13 Right of First Refusal dated March 27, 2008 by and between Quepasa Corporation and BRC Group, LLC. (4)
- 10.14 Webpage Development and Hosting Agreement dated March 27, 2008 by and between Quepasa Corporation and BRC Group, LLC. (4)
- 10.15 Promissory Note dated March 27, 2008 by BRC Group, LLC. (4)
- 10.16 Equity Interests Purchase Warrant dated March 27, 2008 by and between Quepasa Corporation and BRC Group, LLC. (4)
- 10.17 Lease Termination Agreement dated March 10, 2008 by and between Quepasa Corporation and Airpark Billorado, LLC (4)
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Exhibit

No.	Description of Exhibit
10.18	Employment Agreement with Louis Bardov dated as of January 22, 2008 (2)
10.19	Termination Agreement with Mexicans & Americans Thinking Together Foundation, Inc. and Mexicans & Americans Trading Together, Inc. dated June 30, 2008. (2)
<u>31.1</u> *	Certification of Principal Financial Officer (Section 302)
<u>31.2</u> *	Certification of Principal Financial Officer (Section 302)
<u>32.1</u> **	Certification of Principal Executive Officer (Section 906)
<u>32.2</u> **	Certification of Principal Financial Officer (Section 906)

*

Filed herewith

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Furnished herewith

(1)

Incorporated by reference from the Registrant's Quarterly Report on Form 10-QSB as filed with the SEC on August 15, 2007.

(2)

Incorporated by reference from the Registrant's Quarterly Report on Form 10-Q as filed with the SEC on July 25, 2008.

(3)

Incorporated by reference from the Registrant's Current Report on Form 8-K as filed with the SEC on July 3, 2007.

(4)

Incorporated by reference from the Registrant's Annual Report on Form 10-KSB as filed with the SEC on March 31, 2008.

(5)

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Incorporated by reference from the Registrant's Current Report on Form 8-K as filed with the SEC on January 30, 2008.

(6)

Incorporated by reference from the Registrant's Quarterly Report on Form 10-Q as filed with the SEC on May 13, 2008

Copies of any of the exhibits referred to above will be furnished at no cost to stockholders who make a written request therefore to Michael D. Matte, Quepasa Corporation, 224 Datura Street, Suite 1100, West Palm Beach, FL 33401.