QUEPASA COM INC
Form 10-Q
May 16, 2002

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

(MARK ONE)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2002

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)

NEVADA (STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	84-0879433 (I.R.S. EMPLOYER IDENTIFICATION NO.)
7904 E. Chaparral Road, Suite A-110, PMB # 160 Scottsdale, AZ (ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)	85250 (ZIP CODE)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE: 480-949-3749

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 March 1, 2002 was approximately 17,763,291 shares.

QUEPASA.COM, INC.

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PART I. FINANCIAL INFORMATION

PART I. FINANCIAL INFORMATION

ITEM 1. CONDENSED FINANCIAL STATEMENTS
QUEPASA.COM, INC. AND SUBSIDIARIES

Condensed Balance Sheets

	MARCH 31, 2002 (UNAUDITED)	DE (

ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,725,328	$
Other receivable	229,032	
Note Receivable	--	
Prepaid expenses	459,388	
Other current assets	3,045	
Total current assets	2,416,793	
	$ 2,416,793	$
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 240,035	$
Accrued liabilities	1,461	
Arbitration settlement accrual	--	
Deferred revenue	--	
Total current liabilities	241,496	
Stockholders' equity:		
Preferred stock, authorized 5,000,000 shares, no par value - none issued or outstanding	--	
Common stock, authorized 50,000,000 shares, $0.001 par value; 17,163,291 shares issued and outstanding at March 31, 2002 and December 31, 2001 respectively	17,763	
Additional paid-in capital	104,454,267	10
Accumulated deficit	(102,296,733)	(10
Total stockholders' equity	2,175,297	
	$ 2,416,793	$

See accompanying notes to condensed financial statements.

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QUEPASA.COM, INC. AND SUBSIDIARIES
Condensed Statements of Operations
(Unaudited)

	THREE MONTHS 2002
Gross revenue	$ 20,089

Less commissions	--
Net revenue	20,089
Operating expenses:	
Product and content development expenses	--
Advertising and marketing expenses	--
General and administrative expenses	1,365,633
Amortization of goodwill	--
Total operating expenses	1,365,633
Loss from operations	--
	1,345,544
Other income (expense):	
Interest expense	--
Interest income and other	20,169
Realized and unrealized loss on trading securities	--
Net other income	20,169
Net loss	$ (1,325,375)
Net loss per share, basic and diluted:	
Loss before cumulative effect of a change in accounting principle and net loss per share, basic and diluted	$ (0.08)
Weighted average number of shares outstanding, basic and diluted	17,763,291

See accompanying notes to condensed financial statements.

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QUEPASA.COM, INC. AND SUBSIDIARIES
Condensed Statements of Cash Flows
(Unaudited)

	THREE
	2002
Cash flows from operating activities:	
Net loss	$ (1,325,3
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:	
Depreciation and amortization	
Stock based compensation	

Allowance for note receivable	500,0
Realized and unrealized loss on trading securities	
Increase (decrease) in cash, net of acquisitions, resulting from changes in:	
Sale of trading securities, net	
Accounts receivable	
Prepaid expenses	(207,8
Other receivable and other current assets	(119,0
Accounts payable	164,9
Accrued liabilities	(319,3
Deferred revenue	(20,0
Net cash (used in) provided by operating activities	(1,326,8
Cash flows from investing activities:	
Proceeds from assets held for sale	
Net cash provided by investing activities	
Cash flows from financing activities:	
Net cash provided by financing activities	
Net increase (decrease) in cash and cash equivalents	(1,326,8
Cash and cash equivalents, beginning of period	3,052,1
Cash and cash equivalents, end of period	$ 1,725,3
Supplemental statement of cash flow information:	
Interest paid	$
Supplemental disclosure of non-cash financing and investing activities:	
Barter transactions	$
Acquisitions through balance of stock and notes payable and assumption of liabilities	$

See accompanying notes to condensed financial statements.

QUEPASA.COM, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

March 30, 2002 and 2001

(1) THE COMPANY

quepasa.com, inc. (the "Company" or "quepasa") is a Bilingual (Spanish/English) Internet portal and online community focused on the United States Hispanic market. We provide users with information and content centered around the Spanish language. Because the language preference of many U.S. Hispanics is English, we also offer our users the ability to access information in the English language.

(2) LIQUIDITY

To date, the Company's expenses have significantly exceeded revenue and there is no assurance that the Company will earn profits in the future. The Company's independent accountants issued their auditors' report dated February 27, 2002 stating that the Company has suffered recurring losses from operations, has an accumulated deficit, has been unable to successfully execute its business plan, and is considering alternatives for the Company, all of which raise substantial doubt about its ability to continue as a going concern.

By March 31, 2002, the Company downsized its workforce to two individuals and disposed of certain assets.. Management believes that as a result of its significant cost-cutting measures, there is sufficient cash to operate through the second quarter of 2002. Management of the Company and the Board of Directors continue to evaluate alternatives for the Company including disposing of assets and investigating merger opportunities.

(3) BASIS OF PRESENTATION

The Company's 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 the Company's 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. The Company's results of operations for interim periods are not necessarily indicative of the results to be expected for a full fiscal year. The Company's condensed consolidated balance sheet as of December 31, 2001 was derived from its audited consolidated financial statements as of that date but does not include all the information and footnotes required by accounting principles generally accepted in the United States of America. The Company suggests that these condensed consolidated financial statements be read in conjunction with the audited consolidated financial statements included in its Annual Report on Form 10-K as of and for the year ended December 31, 2001.

(4) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) USES OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities 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.

(b) 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 March 31,2002 and 2001, one and two customers accounted for 100% and 69% of gross revenue, respectively.

(5) COMMITMENTS

(a) EMPLOYMENT AGREEMENTS

In connection with the termination of an employment agreement, the Company was required to pay a severance payment of $100,000 in the first quarter of 2002. In addition all of the employees options (totaling 193,334) became immediately vested.

(b) CONTINGENCIES

The Company from time to time is involved in various legal proceedings incidental to the conduct of its business. The Company believes 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.

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

This Quarterly Report on Form 10-Q 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 Operation - 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 future business operations, our proposed merger transaction, our potential liquidation 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.

The following discussion of our financial condition and results of operations for the three months ended March 31, 2002 and 2001 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.

OVERVIEW

We commenced operations on June 25, 1997. Prior to May 1998, our operations were limited to organizing quepasa.com, raising operating capital, hiring initial employees and drafting a business plan. From May 1998 through May 1999, we were engaged primarily in content development and acquisition. In May 1999, we launched our first media-based branding and advertising campaign in the U.S. Significant revenues from our business activities did not commence until the fourth quarter of 1999. In the first quarter of 2000, we significantly increased our operating expenses as we expanded our sales, marketing and advertising efforts.

During 2001 the Company reduced its workforce as part of managements effort to conserve remaining cash.

Also during the first quarter of 2002:

- In March 2002, the employment agreement for the Company's President was terminated. As a result the company was required to pay $100,000 in severance and all employee stock options became fully vested.

.. On August 1, 2001, we and our landlord executed an agreement pursuant to which we made a $130,000 lump sum payment to our landlord for any and all amounts due and we have subsequently vacated our office.

.. On August 6, 2001, we entered into a merger agreement that would result in the company becoming a wholly owned subsidiary of Great Western Land and Recreation, Inc. Great Western is an Arizona-based, privately held real estate development company with holdings in Arizona, New Mexico and Texas. Great Western's business focuses primarily on condominiums, apartments, residential lots and recreational property development. In addition to holding completed developments in metropolitan areas of Arizona, New Mexico and Texas, Great Western also owns and is currently developing the Wagon Bow Ranch in northwest Arizona and the Willow Springs Ranch in central New Mexico. The merger agreement represents a stock for stock offering, pursuant to which each share of quepasa common stock will be converted into one share of Great Western common stock. In the 1st Quarter of 2002 this agreement was terminated.

THE QUEPASA.COM COMMUNITY

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

RESULTS OF OPERATIONS

INTRODUCTION.

NET REVENUE: We expect to derive future net revenue from one principal source: the sale of advertising on our web site.

ADVERTISING REVENUE: In the first quarter of 2001, we derived approximately 35% of our net revenues from the sale of advertisements on our web site which are received principally from advertising arrangements under which we receive fixed fees for banners placed on our web site for specified periods of time or for a specified number of delivered ad impressions. During the first quarter of 2001, we discontinued the use of our banner ad software and sought a third-party outsourced for our banner ad sales and service. As of September 18, 2001, we have been unsuccessful in retaining a third-party outsourcer for our banner ad sales and service.

SPONSORSHIP REVENUE. In the first quarter of 2001, we derived approximately 65% of our net revenue from the sale of sponsorships for certain areas or exclusive sponsorship rights for certain areas within our web site. These sponsorships typically cover periods up to 1 year. We recognize revenue during the initial setup, if required under the unique terms of each sponsorship agreement (e.g. co-branded web site), ratably over the period of time of the related agreement. Payments received from sponsors prior to displaying their advertisements on our web site are recorded as deferred revenue.

Our principal expenses are: Product and Content Development, Advertising and Marketing and General and Administrative.

THREE MONTHS ENDED MARCH 31, 2002 COMPARED TO THE THREE MONTHS ENDED MARCH 31, 2001

Our results of operations for the three months ended March 31, 2002 and 2001 were characterized by expenses that significantly exceeded revenues during the periods. We reported a net loss of $825,000 for the three months ended March 31, 2002, compared to a net loss of $1.4 million for the three months ended March 31, 2001. During the three months ended March 31, 2002, we focused on reducing our cash expenses in all operation areas.

NET REVENUES

Net revenue decreased 465% to $20,000 for the three months ended March 31, 2002 from $114,000 for the three months ended March 31, 2001 as a result of the Company's curtailment of operations.

OPERATING EXPENSES

PRODUCT AND CONTENT DEVELOPMENT EXPENSES. Our product and content development expenses decreased to $0 for the three months ended March 31, 2002, compared to $335,000 for the three months ended March 31, 2001. The period-to-period decrease was also attributable to the Company's curtailment of operations.

ADVERTISING AND MARKETING EXPENSES. Our marketing, advertising and sales expenses decreased to $0 for the three months ended March 31, 2002, compared to $368,000 for the three months ended March 31, 2001. This decrease was related to the curtailment of operations.

GENERAL AND ADMINISTRATIVE EXPENSES. Our general and administrative expenses increased 58% to $1,357,000 for the three months ended March 31, 2002, compared to $864,000 for the three months ended March 31, 2001. This increase was primarily attributable to the allowance for the note receivable from Great Western.

OTHER INCOME (EXPENSE). Other income (expense), which consists primarily of interest income, net of interest earned, decreased 80% to $20,000 for the three months ended March 31, 2002, compared to $101,000 for the three months ended March 31, 2001. This is the result of a decrease in the Company's cash balances.

LIQUIDITY AND CAPITAL RESOURCES

We have substantial liquidity and capital resource requirements, but limited sources of liquidity and capital resources. We have generated significant net losses and negative cash flows from our inception and anticipate that we will experience continued net losses and negative cash flows for the foreseeable future. Our independent accountants have issued their independent auditor's report dated May 8, 2001 on our consolidated financial statements for 2000 stating that our recurring losses, accumulated deficit and our inability to successfully execute our business plan, among other things, raise substantial doubt about our ability to continue as a going concern.

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 us or a merger or the sale of all or a significant portion of our business.

We expect to continue to incur costs, particularly general and administrative costs during the second, third and fourth quarters of 2002, including our website administration of approximately $2,000 per month, and do not expect sufficient revenue to be realized to offset these costs. We believe that our cash on hand will be sufficient to meet our working capital and capital expenditure needs through the second quarter of 2002. We believe it will be necessary for us to raise additional capital, conclude one or more strategic transactions or merge or sell quepasa by year-end 2002. In the event we are not able to raise capital, conclude one or more strategic transactions or merge or sell quepasa during that period, our ability to continue operations will be severely impacted and could have a significant adverse effect on us. There can be no assurance that we will be successful in raising the necessary funds, concluding one or more strategic transactions, merging or selling quepasa or that the terms of any such transaction will be beneficial to us.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

On February 5, 2002, we announced that we terminated the merger agreement because Great Western had materially breached the agreement. As a result of the termination of the merger agreement, quepasa's outstanding $500,000 loan to Great Western became immediately due and payable under the terms of the loan. We have not yet received repayment of the loan to Great Western. On February 6, 2002, Great Western notified us that it was terminating the merger agreement and on February 11, 2002, Great Western initiated a lawsuit against us in the Superior Court of Arizona. In its complaint, Great Western alleged, among other things, that we breached the merger agreement and, as a result, Great Western is entitled to receive a $500,000 termination fee. Great Western asserted that the $500,000 loan that we made to Great Western in October of 2001 should be deemed paid in full as payment of the termination fee. We intend to vigorously defend the lawsuit filed by Great Western.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

a. EXHIBITS.

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

b. REPORTS ON FORM 8-K.

The Company filed four reports on Form 8K during the quarter covered by this report.

1. Form 8K dated February 28, 2002 reporting the settlement of certain shareholder litigation.

2. Form 8K dated Feb. 6, 2002 reporting the termination of our merger agreement with Great Western Land and Recreation.

3. Form 8K dated Jan. 14, 2002 changing a proxy record date.

4. Form 8K dated Jan. 10, 2002 changing the date of a shareholder meeting.

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On August 16, 2001, the Company filed a Current Report on Form 8-K attaching the press released dated August 15, 2001 announcing that the Company had resolved all issues with the Commission relating to its 1999 Annual Report on Form 10-K, Quarterly Reports on Form 10-Q for the first three quarters of 2000 and a Current Report on Form 8-K, previously filed with the Commission on April 14, 2000.

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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 May 15, 2002.

quepasa.com, inc.

By: /s/ Jeffrey S. Peterson

Name: Jeffrey S. Peterson
Title: President, Chief Executive Officer
and Chairman of the Board of Directors
(PRINCIPAL EXECUTIVE OFFICER)

By: /s/ Jeffrey S. Peterson

Name: Jeffrey S. Peterson
Title: Chief Financial Officer
(PRINCIPAL FINANCIAL OFFICER)