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QUEPASA COM INC
Form 10-Q
November 14, 2001

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

FORM 10-Q

(MARK ONE)

/ / QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2001

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 RD., STE. A110
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 / / No /X/

The number of outstanding shares of the registrant's Common Stock as of November 14, 2001 was approximately 17,763,291 shares.

QUEPASA.COM, INC.

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PART I. FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

QUEPASA.COM, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

	ASSETS	SEPTEMBER 30, 2001 (UNAUDITED)

Current assets:		
Cash and cash equivalents		\$ 5,098,318
Trading securities		--
Accounts receivable, net of allowance for doubtful accounts of \$176,717 and \$184,100, respectively		3,982
Other receivable		--

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Prepaid expenses	131,885
Other current assets	--

Total current assets	5,234,185
Property and equipment, net	--
Assets held for sale	5,000

	\$ 5,239,185
	=====
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current liabilities:	
Accounts payable	\$ 190,356
Accrued liabilities	122,147
Deferred revenue	50,223

Total current liabilities	362,726

Stockholders' equity:	
Preferred stock, authorized 5,000,000 shares, \$0.001 par value - none issued or outstanding	--
Common stock, authorized 50,000,000 shares; \$0.001 par value; 17,763,291 shares issued and outstanding at September 30, 2001 and December 31, 2000	17,763
Additional paid-in capital	104,451,784
Accumulated deficit	(99,593,088)

Total stockholders' equity	4,876,459

	\$ 5,239,185
	=====

See accompanying notes to condensed consolidated financial statements.

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QUEPASA.COM, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Operations

(Unaudited)

	THREE MONTHS ENDED SEPTEMBER 30,	
	2001	2000
	-----	-----
Gross revenue	\$ 30,134	\$ 885,677
Less commissions	--	(45,975)
	-----	-----
Net revenue	30,134	839,702
	=====	=====
Operating expenses:		
Product and content development	16,544	1,645,177
Advertising and marketing	--	4,219,136
General and administrative	770,464	1,426,354
Amortization of goodwill	--	1,752,229

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Total operating expenses	787,008	9,042,896
Loss from operations	(756,874)	(8,203,194)
Other income (expense):		
Interest expense	(315)	(2,214)
Interest income and other	54,925	194,398
Realized and unrealized loss on trading securities	--	(3,018)
Other income, net	54,610	189,166
Loss before the cumulative effect of a change in accounting principle	(702,264)	(8,014,028)
Cumulative effect of a change in accounting principle	--	--
Net loss	\$ (702,264)	(8,014,028)
Loss per share before cumulative effect of a change in accounting principle, basic and diluted	\$ (0.04)	\$ (0.45)
Net loss per share, basic and diluted	\$ (0.04)	\$ (0.45)
Weighted average number of shares outstanding, basic and diluted	17,763,291	17,763,291

See accompanying notes to condensed consolidated financial statements.

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

	NINE MO
	2001
Cash flows from operating activities:	
Net loss	\$ (2,852,6
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:	
Depreciation and amortization	103,2
Stock based compensation	31,2
Forgiveness of forgivable loans	
Amortization of prepaid marketing services	
Amortization of deferred advertising	
Short-term gain on trading securities	
Realized and unrealized loss on trading securities	14,2
Cumulative effect of change in accounting principle	
Increase (decrease) in cash resulting from changes in assets and liabilities:	
Sale of trading securities, net	2,379,7
Accounts receivable	238,2
Prepaid expenses	170,3

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Other receivable and other current assets	1,140,2
Accounts payable	(164,3
Accrued liabilities	(27,1
Deferred revenue	(152,0

Net cash provided by (used in) operating activities	881,0

Cash flows from investing activities:	
Proceeds from assets held for sale	277,0
Cash paid for acquisitions	
Cash received in acquisition	
Purchase of property and equipment	

Net cash provided by investing activities	277,0

Cash flows from financing activities:	
Proceeds from issuance of stock	
Proceeds from exercise of stock options	
Proceeds from draws on line of credit	
Payments on notes payable	

Net cash provided by financing activities	

Net increase (decrease) in cash and cash equivalents	1,158,0
Cash and cash equivalents, beginning of year	3,940,2
	=====
Cash and cash equivalents, end of period	\$ 5,098,3
	=====
Supplemental disclosure of non-cash operating, financing and investing activities:	
Interest paid	\$ 2,2
	=====
Barter transactions	\$
	=====
Notes payable assumed in acquisitions	\$
	=====
Issuance of stock in acquisition	\$
	=====

See accompanying notes to condensed consolidated financial statements.

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QUEPASA.COM, INC. AND SUBSIDIARIES Notes to Condensed Consolidated Financial Statements

September 30, 2001 and 2000

(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

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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 auditors issued their independent auditors' report dated May 8, 2001 (except as to the second paragraph of Note 10(a) and Note 16 to the December 31, 2000 consolidated financial statements, which are as of August 6, 2001) stating that the Company has suffered recurring losses from operations, has an accumulated deficit, has been unable to successfully execute its business plan, and management is considering alternatives for the Company, all of which raise substantial doubt about its ability to continue as a going concern.

By April 30, 2001, the Company downsized its workforce to three individuals, disposed of certain assets, and continues to terminate long-term commitments. 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. On August 6, 2001, the Company executed an agreement to merge with an unrelated entity (see note 4).

(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, 2000, 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, 2000.

Gross revenue increased by \$63,334 for the three months ended September 30, 2000 and decreased by \$138,958 for the nine months ended September 30, 2000 to reflect the adoption of Staff Accounting Bulletin No. 101 as of January 1, 2000. In addition, a cumulative effect of a change in accounting principle in the amount of \$64,583 has been recognized. Refer to note 4 under "revenue recognition" in the Company's Form 10-K as of and for the year-ended December 31, 2000.

(4) MERGER AGREEMENT

On August 6, 2001, the Company entered into a merger agreement that

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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. In the merger, each share of quepasa common stock will be converted into one share of Great Western common stock.

Immediately following the merger the Company's current shareholders would own approximately 49% of Great Western and Amortibanc Management, L.C., Great Western's current sole shareholder, would own approximately 51% of Great Western. In addition, Amortibanc holds warrants to purchase 14,827,175 shares of Great Western common stock that, if exercised, would increase its ownership to a maximum of 65% of the outstanding common stock of Great Western on a fully diluted basis (including an aggregate of 400,000 stock options with an exercise price of \$0.15 per share held by our directors and President, but not including quepasa options or warrants that are considerably out of the money). Amortibanc's warrant is exercisable at any time, and from time to time for ten years following the merger closing. Under the terms of the warrant, Amortibanc may purchase 4,942,392 shares of Great Western common stock for \$.30 per share, 4,942,392 shares for \$.60 per share and 4,942,391 shares for \$1.20 per share. Amortibanc may purchase shares by paying cash for such shares or by surrendering the right to receive a number of shares having an aggregate market value equal to the purchase price for such shares.

Following the merger, the combined company's common stock will be publicly traded under the Great Western name. The merger will be accounted for using the purchase method of accounting. The merger is subject to certain closing conditions, including quepasa stockholder approval. There can be no assurance that the Company will consummate the merger transaction.

(5) SIGNIFICANT TRANSACTIONS AND WORKFORCE REDUCTIONS

On January 28, 2000, the Company acquired credito.com, an on-line credit company targeted to the U.S. Hispanic population for an aggregate purchase price of \$8.4 million consisting of 681,818 shares of common stock valued at \$11 per share and assumption of an \$887,000 note payable. The Company included the 681,818 shares of common stock issued unconditionally in determining the cost of credito.com recorded at the date of acquisition. Contingent consideration consisted of warrants to purchase an additional 681,818 shares of common stock exercisable upon credito.com's achievement of certain performance objectives related to gross revenue as of January 2001 and January 2002. credito.com did not meet the performance objectives as of January 2001, and consequently, the warrants were returned to the Company. The value of the common stock was determined using the average stock price between the date of the merger agreement and the date the merger was publicly announced, or \$11 per share. The Company accounted for the acquisition using the purchase method of accounting. Accordingly, the purchase price was allocated to the assets purchased and the liabilities assumed based upon the estimated fair values on the date of the acquisition. The excess of the purchase price over the fair value of the net assets acquired was approximately \$7.8 million and was recorded as goodwill, which was being amortized on a straight-line basis over a 3-year period. On December 27, 2000, the

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Company's Board of Directors approved the development of a plan of liquidation and sale of the Company's assets in the event that no strategic transaction involving the Company could be achieved. Accordingly, the Company

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performed an impairment analysis of all long-lived assets and identifiable intangibles in accordance with accounting principles generally accepted in the United States of America. As a result, the unamortized balance of goodwill of \$5.6 million recorded in conjunction with the transaction was written off in the fourth quarter of 2000.

On January 28, 2000, the Company acquired eTrato.com, an on-line trading community developed especially for the Spanish language or bilingual Internet user, for an aggregate purchase price of \$10.85 million, consisting of 681,818 shares of the Company's common stock valued at \$14.09 per share, and assumption of a \$1.25 million promissory note. The note payable was due on January 28, 2002, and had a stated interest rate at the greater of 6% per annum or the applicable federal rate in effect with respect to debt instruments having a term of two years. This note was paid in full on May 8, 2000. The value of the common stock was determined using the average stock price between the merger agreement date and the date the merger was publicly announced on December 20, 1999. Contingent consideration consisted of an additional 681,818 shares of common stock which were held in escrow to be released to the seller pending the outcome of certain revenue and website contingencies over the six-month period following the acquisition. The contingencies were not met, and consequently, these shares were returned to quepasa subsequent to year-end and cancelled. The acquisition was accounted for using the purchase method of accounting and, accordingly, the purchase price was allocated to the assets purchased and the liabilities assumed based upon the estimated fair value at the date of acquisition. The excess of the purchase price over the fair value of the net assets acquired was approximately \$10.1 million and was recorded as goodwill, which was being amortized on a straight-line basis over a period of 3 years. On December 27, 2000, the Company's Board of Directors approved the development of a plan of liquidation and sale of the Company's assets in the event that no strategic transaction involving the Company could be achieved. Accordingly, the Company performed an impairment analysis of all long-lived assets and identifiable intangibles in accordance with accounting principles generally accepted in the United States of America. As a result, the balance of unamortized goodwill of \$7.3 million recorded in conjunction with the transaction was written off in the fourth quarter of 2000.

On March 9, 2000, the Company acquired RealEstateEspanol.com, a real estate services site providing the Hispanic-American community with bilingual home buying services, for an aggregate purchase price of \$3.3 million, consisting of 335,925 shares of the Company's common stock for \$8.83 per share and assumption of \$300,000 in debt which was paid immediately following the closing of the acquisition. Contingent consideration consisted of 248,834 shares of common stock which were held in escrow pending RealEstateEspanol.com's achievement of gross revenue targets within 12 months of the date of the agreement. The value of the common stock was determined using the average stock price between the merger agreement date and the date the merger was publicly announced. RealEstateEspanol.com did not meet the agreed-upon targets contingent to the seller receiving the shares of common stock held in

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escrow, and consequently, these shares were returned to quepasa and cancelled subsequent to year-end. The acquisition was accounted for using the purchase method of accounting, and, accordingly, the purchase price was allocated to the assets purchased and the liability assumed based upon the estimated fair value at the date of acquisition. The excess of the purchase price over the fair value of the net assets acquired was approximately \$3.2 million and was recorded as goodwill, which was being amortized on a straight-line basis over a period of 3 years. On December 27, 2000, the Company's Board of Directors approved the development of a plan of liquidation and sale of the Company's assets in the event that no strategic transaction involving the Company could be achieved. Accordingly, the Company performed an impairment analysis of all long-lived assets and identifiable intangibles in accordance with accounting principles generally accepted in the United States of America. As a result, the balance of

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unamortized goodwill of \$5.6 million recorded in conjunction with the transaction was written off in the fourth quarter of 2000.

On March 30, 2000, Gateway, Inc. invested \$9.0 million in exchange for 1,428,571 shares of common stock, which represented 7.6% of quepasa's outstanding common stock. The amount attributable to common stock and additional paid-in capital was \$7,685,712, the value of the 1,428,571 shares of common stock on the date issued (\$5.38 per share). Additionally, quepasa granted a 60-day warrant to acquire 483,495 shares of common stock at \$7 per share. The warrants were valued at approximately \$386,000 using the Black Scholes option-pricing model. The assumptions used for the Gateway warrants are as follows: expected dividend yield 0%, risk-free interest rate of 5.67%, expected volatility of 147%, and expected life of two months. In the event there was a change in ownership of quepasa in excess of 30% prior to September 30, 2000, and for a price per share less than \$7.00, Gateway had a right to be reimbursed for the differential in the per share amount. quepasa also committed itself to use a substantial portion of the proceeds of Gateway's investment to further its community and educational initiative program, which included distributing computers purchased from Gateway accompanied with Spanish language technical support, providing Internet access, and training for quepasa's subscribers. The Company purchased \$5.8 million of computers, net of \$928,500 of a volume purchase discount, pursuant to this agreement to be used for promotional activities. The Company took title to the computers upon the close of the transaction. Since the Company had no warehousing facilities, the computers were segregated from Gateway's inventory in third party warehouse locations and the Company was responsible for the payment of warehouse storage charges. These computers were expensed as donated.

In the fourth quarter of 2000, the Company halted virtually all-promotional activities to conserve cash. In December 2000, the Company, at the direction of the Board of Directors, initiated discussions and sold the majority of its remaining computer inventory back to Gateway at a \$3.5 million loss. The Company was required to approach Gateway first as the original purchase agreement allowed the Company to use the computers only for promotional activities. However, several months after the Gateway transaction closed, as a result of the decline in stock prices for internet businesses, the Company substantially curtailed its business activities because it was unable to obtain financing. Only a small number of the computers had been used in promotional activities at that time. In the fourth quarter of

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2000, the Company's Board of Directors instructed management to liquidate the computer inventory, and management initiated discussions with Gateway regarding the prohibition on resale, at which time, the Company and Gateway negotiated the resale back to Gateway at the price stated above. The Company recognized \$158,421 of expense related to the donation of its remaining 200 computers to a third party during the first quarter of 2001. At March 31, 2001, the Company had no computer inventory remaining.

In September 1999, the Company entered into an agreement with Estefan Enterprises, Inc. whereby Gloria Estefan would act as spokesperson for the Company through December 31, 2000 and the Company would sponsor her United States 2000 concert tour. Ms. Estefan's tour was subsequently postponed, and consequently the original terms of the spokesperson agreement were renegotiated. The revised spokesperson agreement called for the return of the 156,863 shares of redeemable common stock to the Company, cancellation of the put option for those shares and cancellation of the final cash installment. The Company obtained the right of first refusal for the sponsorship of Ms. Estefan's next United States and Latin America tours. The Company recognized \$1.2 million and \$2.3 million of amortization in relation to the Estefan agreement during the three and six months ended June 30, 2000, respectively, in relation to the original contract. The issuance of the 156,863 shares of redeemable common stock was reversed in the second quarter of 2000.

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In December 1999, RealEstateEspanol.com and the National Association of Hispanic Real Estate Professionals entered into an Internet Endorsement Agreement, pursuant to which, in exchange for NAHREP's endorsement of the RealEstateEspanol.com website, RealEstateEspanol.com was required to pay NAHREP an annual \$50,000 fee over a ten-year term. Thereafter, in connection with the Internet Endorsement Agreement, in October 2000, RealEstateEspanol.com, NAHREP, the National Council of La Raza and Freddie Mac entered into a Memorandum of Understanding ("MOU") which, among other things, set forth the business relationship through which the parties agreed to implement a program to deliver the benefits of technology to mortgage origination for low and moderate income Hispanic and Latino borrowers. Contemporaneously, RealEstateEspanol.com and NAHREP entered into an agreement which set forth the terms and conditions of their rights and obligations under the MOU.

Under the MOU, among other things, (1) RealEstateEspanol.com was required to (a) develop a web-based technology tool to be distributed to NCLR and NCLR affiliates, and (b) donate 200 computers, at no charge, to NAHREP for distribution to NCLR and NCLR affiliates for promotional purposes, (2) Freddie Mac was required to provide an aggregate dollar amount of \$250,000 as sponsorship fees to NAHREP, and (3) NAHREP was required, in turn, to deliver the same to RealEstateEspanol.com towards the initial development of the technology tool discussed above. In May 2001, all of the parties agreed to either terminate certain of the agreements or release RealEstateEspanol.com from its duties and obligations thereunder. In exchange for such termination or release, as the case may be, RealEstateEspanol.com (a) transferred ownership of, and exclusive rights to, the in-process technology tool to NAHREP, (b) granted NAHREP a non-exclusive license to operate and use the realestaeespanol.com website the content thereon and any related technology tools, (c) granted NAHREP an exclusive license to operate

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and use any related domain names, (d) permitted NAHREP to retain the full amount of the unpaid sponsorship fee to be paid by Freddie Mac to NAHREP for development of the technology tool, and (e) permitted NAHREP to retain ownership of the previously donated computers in the first quarter of 2001. The \$100,000 sponsorship collected in 2000 was amortized over a six-month period through March 31, 2001.

During the first quarter of 2001, the Company reduced its workforce as part of management's effort to enhance the Company's competitive position, utilize its assets more efficiently, and conserve remaining cash. The Company recognized \$44,000 in employee severance and termination costs for the three months ended March 31, 2001, relating to the reduction in the workforce of approximately 17 employees. As of March 31, 2001, all employee severance and termination costs incurred in 2001 had been paid. There were no additional employee severance or termination costs incurred in the second or third quarters of 2001.

(6) 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) RECLASSIFICATIONS

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

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(C) PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the financial statements of quepasa and its three wholly owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

(D) 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 September 30, 2001, one customer accounted for 100% of gross revenue. During the three months ended September 30, 2000, two customers accounted for 19% and 11% of gross revenue. During the nine months ended September 30, 2001, two customers accounted for 51% and 28% of gross

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revenue. During the nine months ended September 30, 2000, one customer accounted for 18% of gross revenue. No other single advertiser utilizing banner ads or sponsorship agreements amounted to or exceeded 10% of the total gross revenue.

(E) CASH AND CASH EQUIVALENTS

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

(F) SECURITIES

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

Trading and available-for-sale securities are recorded at market value. Held-to-maturity securities are recorded at amortized cost, adjusted for the amortization or accretion of premiums or discounts. Unrealized holding gains and losses on trading securities are included in operations. Unrealized holding gains and losses, net of the related tax effect, on available-for-sale securities are excluded from operations and are reported as a separate component of other comprehensive income until realized. Realized gains and losses from trading securities are included in operations and are derived using the specific identification method for determining the cost of securities. All securities held at December 31, 2000 were categorized as trading. The Company had no securities at September 30, 2001.

(G) REVENUE RECOGNITION

The Company's revenue is derived principally from the sales of banner advertisements and sponsorships. The Company sells banner advertising primarily on a cost-per-thousand impressions, or "CPM" basis, under which advertisers and advertising agencies receive a guaranteed number of "impressions," or number of times that an advertisement appears in pages viewed by users of the Company's website, for a fixed fee. The Company's contracts

with advertisers and advertising agencies for these types of contracts cover periods ranging from one to twelve months. Advertising revenue is recognized ratably based on the number of impressions displayed, provided that the Company has no obligations remaining at the end of a period and collection of the resulting receivable is probable. Company obligations typically include guarantees of a minimum number of impressions. To the extent that minimum guaranteed impressions are not met, the Company defers recognition of the corresponding revenue until the remaining guaranteed impression levels are achieved. Payments received from advertisers prior to displaying their advertisements on the Company's website are recorded as deferred

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revenue.

The Company also derives revenue from the sale of sponsorships for certain areas or a sponsorship exclusivity for certain areas within its website. These sponsorships are typically for periods up to one year. Prior to the adoption of Staff Accounting Bulletin (SAB) 101, the Company recognized revenue during the initial setup, if required under the unique terms of each sponsorship agreement (e.g., co-branded website), to the extent that actual costs were incurred. The balance of the sponsorship was recognized ratably over the period of time of the related agreement. The Company adopted SAB 101 in the fourth quarter of 2000. As such, the Company records initial setup fees as deferred revenue and recognizes the fee over the term of the related agreement.

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

The Company in the ordinary course of business enters into reciprocal service arrangements (barter transactions) whereby the Company provides advertising service to third parties in exchange for advertising services in other media. Revenue and expenses from these agreements are recorded at the fair value of services provided or received, whichever is more determinable in the circumstances. The fair value represents market prices negotiated on an arms' length basis. Revenue from reciprocal service arrangements is recognized as income when advertisements are delivered on the Company's website. Expense from reciprocal services arrangements is recognized when the Company's advertisements are run in other media, which are typically in the same period when the reciprocal service revenue is recognized. Related expenses are classified as advertising and marketing expenses in the accompanying statements of operations. During the three months ended September 30, 2001 and 2000, revenue attributable to reciprocal services totaled zero and approximately \$428,000, respectively, and related expenses totaled zero and approximately \$428,000, respectively. During the nine months ended September 30, 2001 and 2000, revenue attributable to reciprocal services totaled zero and approximately \$1.2 million, respectively, and related expenses totaled zero and approximately \$1.2 million, respectively.

In November 1999, the EITF commenced discussions on EITF No. 99-17, ACCOUNTING FOR ADVERTISING BARTER TRANSACTIONS, concluding that revenue and expenses from advertising barter transactions should be recognized at the fair value of the advertising surrendered or received only when an entity has a historical practice of receiving or paying cash for similar advertising transactions. In evaluating "similarity," the Company ensured reasonableness of

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the target market, circulation, timing, medium, size, placement, and location of the advertisement. In cases where the total dollar amount of barter revenue exceeded the total amount of the "similar" cash transaction, the total barter amount was capped at the lower cash amount. EITF No. 99-17 was effective and was applied prospectively to all transactions occurring after January 20, 2000.

(H) COMPUTER PROMOTIONS INVENTORY

Computer promotions inventory is recorded at cost and included in other current assets. The computer promotions inventory is charged to expense on an individual basis as each computer is donated.

(I) PROPERTY AND EQUIPMENT

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

(J) PRODUCT AND CONTENT DEVELOPMENT

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

In March 2000, EITF No. 00-02, ACCOUNTING FOR WEBSITE DEVELOPMENT COSTS, was issued which addresses how an entity should account for costs incurred in website development. EITF 00-02 distinguishes between those costs incurred during the development, application and infrastructure development stage and those costs incurred during the operating stage. EITF 00-02 was effective on and after June 30, 2000, although early adoption was encouraged. The adoption of EITF No. 00-02 did not have a material impact on the Company's consolidated financial statements.

Pursuant to Statement of Position 98-1, ACCOUNTING FOR THE COSTS OF COMPUTER SOFTWARE DEVELOPED OR OBTAINED FOR INTERNAL USE, the Company capitalized certain material development costs incurred during the acquisition development stage, including costs associated with coding, software configuration, upgrades and enhancements.

(K) INCOME TAXES

The Company utilizes the asset and liability method of accounting

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

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on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

(L) IMPAIRMENT OF LONG-LIVED ASSETS

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

(M) FAIR VALUE OF FINANCIAL INSTRUMENTS

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

(N) STOCK-BASED COMPENSATION

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

The Company uses one of the most widely used option pricing models, the Black-Scholes model (Model), for purposes of valuing its stock option grants. The Model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, it requires the input of highly subjective assumptions, including the expected stock price volatility, expected dividend yields, the risk free interest rate, and the expected life. Because the Company's stock options have characteristics significantly

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different from those of traded options, and because changes in subjective input assumptions can materially affect the fair value estimate, in management's opinion, the value determined by the Model is not necessarily indicative of the ultimate value of the granted options.

(O) NET LOSS PER SHARE

Basic loss per share is computed by dividing net loss available to common stockholders by the weighted-average number of common shares outstanding for the period. Diluted loss per share reflects the potential dilution that could occur if securities or contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the Company. Stock options and warrants are excluded because they are anti-dilutive.

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(P) ADVERTISING COSTS

Advertising costs are expensed as incurred in accordance with Statement of Position 93-7, "Reporting on Advertising Costs." Advertising costs for the three months ended September 30, 2001 and 2000 totaled zero and \$1.5 million, respectively. Advertising costs for the nine months ended September 30, 2001 and 2000 totaled \$23,000 and \$6.1 million, respectively. The Company recognizes the advertising expense in a manner consistent with how the related advertising is displayed or broadcast. Advertising production costs are expensed as incurred.

(Q) SEGMENT REPORTING

The Company utilizes the management approach in designating business segments. The management approach designates the internal organization that is used by management for making operating decisions and assessing performance as the source of the Company's reportable segment. The Company's one segment provides Internet Portal and On-Line Community services in both Spanish and English to the Hispanic market. The Company's initial focus is on the U.S. Hispanic market, with substantially all of the Company's assets in and revenues originating from the United States.

(7) COMMITMENTS

(A) EMPLOYMENT AGREEMENTS

The Company has entered into employment and other agreements with its executive officer and four non-employee directors. Under the terms of the employment agreement with its remaining employee, the Company and the other parties thereto agreed to various provisions relating to base salary, forgivable loans and severance and bonus arrangements. The Company recognized the forgivable loans ratably as expense over the full loan period, or earlier, if the loan is forgiven on the date of the particular employee's termination of employment with the Company, according to such employee's employment agreement.

In the event of a change of control or liquidation, the Company may be required to pay up to a maximum of \$300,000 in severance

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payments under the Company's existing employment agreements with its remaining officer and other agreements with its four non-employee directors as follows:

Robert J. Taylor's employment agreement terminates on its own terms on March 8, 2002, but the Company may terminate his employment for any reason, with or without cause. On October 10, 2001, Taylor and the Company amended Taylor's employment agreement to provide for a bonus payment in the amount of \$100,000, which is payable to Taylor upon the earlier to occur of (a) a change of control, (b) March 8, 2002 or (c) termination without cause by the Company. In addition, upon the closing of the merger with Great Western Land and Recreation Inc., all of Taylor's 193,334 unvested options will become fully vested and exercisable.

A change of control in the Company will also trigger a cash payment due to the Company's four non-employee directors. As of March 2001, the Company agreed to pay each non-employee director a payment of \$50,000 for past and current services, payable only upon any change of control in or liquidation of the Company. In addition, 200,000 unvested options previously granted to the non-employee directors with an exercise price of \$0.15 per share will become fully vested and exercisable.

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During October 2001, the Company's chief executive officer agreed to terminate his employment with the Company (see Note 10).

(B) ADVERTISING CONTRACTS

In April 1999, the Company entered into an agreement with Telemundo Network Group LLC (Telemundo). The Chief Operating Officer of Telemundo served as director of the Company through January, 2001. Under this agreement, the Company issued Telemundo 600,000 shares of its common stock and a warrant to purchase 1,000,000 shares of its common stock exercisable up to and including June 25, 2001 at \$14.40 per share. In exchange, the Company received a \$5.0 million advertising credit on the Telemundo television network at the rate of \$1.0 million for each of the next five years. After completion of the IPO, the shares and warrant became fully vested and were not subject to return for nonperformance by Telemundo. The fair value of the transactions was measured and based on the fair value of the common stock issued at the Company's IPO price of \$12.00 per share plus \$2,920,192 assigned to the warrant based upon the Black-Scholes pricing model using a 50% volatility rate. The Company began amortizing the \$5.0 million advertising credit on January 1, 2000, after a cash purchase from Telemundo of \$1.0 million in advertising services in 1999. The remaining balance of prepaid marketing services of \$5,120,192 was to be amortized over the term of the agreement (5 years). This agreement also provides (1) that the parties will collaborate regarding online content development, co-branded marketing promotions, and other complementary aspects of its business, (2) that the parties will cross-link each other's websites, and (3) exclusivity provisions for a period of six months. On December 27, 2000, the Company's Board of Directors approved the development of a plan of liquidation and sale of the Company's assets in the event that no strategic transaction involving the Company could be achieved.

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Accordingly, the Company performed an impairment analysis of all long-lived assets and identifiable intangibles in accordance with generally accepted accounting principles. As a result, the Company wrote off the \$7.6 million remaining unamortized prepaid marketing services in the fourth quarter of 2000.

In April 1999, the Company issued 50,000 shares of its common stock to an entity partially owned by a former director of the Company for advertising and marketing services valued at \$634,000. The value of the stock and the related advertising costs were adjusted at each quarterly reporting period based on the then fair value of the stock issued through the final measurement date (December 31, 1999). The advertising costs were amortized on a straight-line basis over the full term of the contract as the services were performed ratably over the period. In August 1999, the Company entered into a one-year agreement with this company with a monthly commitment of \$150,000. Payment during the first 5 months of the agreement included amortization of the prepaid amount from the issuance of common stock. This agreement was amended, reducing the monthly commitment to \$50,000 for January 2000 and to \$40,000 through October 2000. The agreement continued on a month-to-month basis with payments totaling \$437,000 through December 2000, when it was terminated.

During 2000 and 1999, the Company was a party to a sponsorship agreement with the Arizona Diamondbacks major league baseball team. A director of the Company serves as the Arizona Diamondbacks' Chief Executive Officer and General Manager. Under this agreement, the Company received English and Spanish television and radio broadcast time, ballpark signage, and Internet and print promotions for an annual sponsorship fee of \$1.5 million which was payable in cash during each season. This agreement was not renewed for the 2001 season. The \$1.5 million annual sponsorship fee was recognized as expense ratably over the 1999 and 2000 baseball seasons.

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(C) CONTENT AND WEBSITE ADMINISTRATION

During 2000, 1999 and 1998, the Company had various agreements with third parties to provide content to the Company's website and incurred license fee expense of zero and \$403,000 for the three months ended September 30, 2001 and 2000, respectively. The Company incurred license fee expense of \$17,000 and \$1.4 million for the nine months ended September 30, 2001 and 2000, respectively. The Company paid \$41,000 during the three months ended March 31, 2001 to terminate all content development agreements. The Company has outsourced the hosting and administration of its website for approximately \$2,000 per month.

(8) CONTINGENCIES

In February 2001, the Company initiated arbitration against Telemundo to defend the enforceability of an agreement between us, and submitted a damages claim for \$4.3 million, plus reasonable attorneys' fees and costs. Alleging that the Company breached the agreement by failing to develop and maintain the Telemundo web site, Telemundo asserted a damages claim in the arbitration for \$655,000, plus reasonable attorneys' fees and costs. The Company does not believe that it has breached the agreement and intends to vigorously assert its rights

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thereunder, particularly its right to use or transfer any unused advertising credits. Arbitration proceedings were held in October 2001. While the Company believes it will be successful in the arbitration proceeding, there can be no assurance that it will succeed. Accordingly, the accompanying consolidated financial statements do not include a provision for loss, if any, that might result from the ultimate outcome of this matter.

On November 1, 2001 an action was filed against quepasa in the First Judicial District Court of the State of Nevada by five quepasa stockholders, Mark Kucher, Gregory Steers, Nick Tintor, Bruce Randle and Michael Silberman. The filing seeks an order compelling quepasa to hold an annual meeting of stockholders to elect directors, enjoining quepasa from closing the merger with Great Western until its annual meeting has taken place and prohibiting quepasa from selling, leasing, exchanging or dissipating its assets until its annual meeting has taken place. The action is based upon provisions of quepasa's bylaws and Nevada corporate law that provide that under certain circumstances stockholders may seek an order that a stockholder meeting be held. On November 13, 2001, quepasa removed the action to the United States District Court for the District of Nevada. As previously announced, quepasa will hold an annual meeting of stockholders following clearance by the Securities and Exchange Commission of the combined proxy statement and registration statement filed by quepasa and Great Western on October 16, 2001. At this meeting, directors will be elected and the merger with Great Western will be voted on by the stockholders. Also as previously announced, stockholder approval is required before the Great Western merger can close.

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.

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(9) LOSS PER SHARE

A summary of the reconciliation from basic loss per share to diluted loss per share follows for the three and nine months ended September 30, 2001 and 2000:

	THREE MONTHS ENDED SEPTEMBER 30,		NI
	2001	2000	2001
Loss before cumulative effect of a change in accounting principle	\$ (702,264)	\$ (8,014,028)	\$ (2,852,6
Net loss	\$ (702,264)	\$ (8,014,028)	\$ (2,852,6
Weighted average number of shares outstanding, basic and diluted	17,763,291	17,763,291	17,763,2

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Loss per share before cumulative effect of a change in accounting principle, basic and diluted	\$	(.04)	\$	(.45)	\$	(.16)
		=====		=====		=====
Basic and diluted net loss per share	\$	(.04)	\$	(.45)	\$	(.16)
		=====		=====		=====
Stock options not included in diluted EPS since antidilutive		2,142,500		3,105,475		2,142,500
		=====		=====		=====
Warrants not included in dilutive EPS since antidilutive		400,000		2,081,818		400,000
		=====		=====		=====

(10) SUBSEQUENT EVENTS

On August 1, 2001, we and our landlord agreed to terminate the lease for our corporate headquarters, which expires on November 30, 2002, for a \$130,000 lump sum payment. Our rent under the lease would have been \$416,000 for the period between August 1, 2001 and November 30, 2002. Our attempts to sublet the space were unsuccessful because of the softening office rental market in Phoenix. We vacated the space on October 31, 2001, relocating our corporate headquarters to a significantly smaller site that we have rented on a month-to-month basis, free of charge.

On October 3, 2001, Gary L. Trujillo agreed to terminate his employment with the Company, effective October 15, 2001. Mr. Trujillo remains Chairman and as a director of the Company. As part of his termination agreement, Mr. Trujillo received a lump sum payment of \$700,000, which constitutes a substantially discounted payment due him under his former employment agreement with the Company.

On October 11, 2001, the Company loaned Great Western \$500,000. This loan bears interest at the prime rate plus 1% and is secured by a pledge of limited liability interests representing a 25% interest in an apartment project in Glendale, Arizona.

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

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

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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 and nine months ended September 30, 2001 and 2000 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.

In May 2000, the Company announced its engagement of Friedman, Billings, Ramsey & Co., an investment banking firm, to assist in developing strategic alternatives to maximize stockholder value. Under the terms of the agreement, in exchange for a nonrefundable retainer and other fees and costs, Friedman Billings agreed to, among other things, evaluate the Company and its operations and projected results, conduct comparable company analyses, identify and participate in discussions with potential investors or purchasers, conduct board presentations and provide a fairness opinion, assist the Company with the liquidation of certain assets and distribution thereof to the Company's stockholders and provide other customary investment banking services. That Agreement was amended on March 22, 2001 and again on September 5, 2001, primarily, to modify the compensation terms. Accordingly, under the terms of the current agreement, as amended, the Company paid Friedman Billings a total nonrefundable retainer of \$200,000 and is required to pay, in cash, a minimum "Success Fee" of \$150,000 which is to be calculated based on the type of transaction consummated; provided, that, if the Success Fee, when calculated, is greater than \$350,000, the Company is required to pay Friedman Billings \$350,000 payable in cash, plus an amount payable in warrants of the surviving corporation/merger partner. In that event, the warrant amount shall be determined by dividing the dollar amount of the Success Fee in excess of \$350,000 by the Company's closing stock price on the day the Purchase Transaction (including the Great Western merger) is closed. Similarly, the strike price of the warrants shall be equal to the closing price of the Company's stock price on the closing date. The Company is also obligated to pay for all of Friedman Billings' out-of-pocket expenses up to \$150,000.

Following the announcement and during the remainder of 2000, we reduced our work force by approximately 80% and significantly reduced the products and content we provide, and our marketing, sales and general operating

expenses, in order to conserve cash. We continue to review the size of our work

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force, the products and content we provide and our marketing, sales and general operating costs with a view to conserve cash.

The Company has been unable to develop a revenue stream to support the carrying value of its long-lived and intangible assets. Accordingly, on December 27, 2000, our Board of Directors approved the development of a plan of liquidation and sale of our assets in the event that no strategic transaction involving the Company can be achieved. As a result, we performed an impairment analysis of all long-lived assets and all identifiable intangibles. Included in our \$61.0 million net loss for 2000 is a \$24.9 million non-cash asset impairment charge that consists of the following: goodwill and domain and license agreements - \$16.2 million unamortized balance; prepaid marketing services - \$7.6 million unamortized balance; and property and equipment - \$1.1 million representing the excess carrying value over sale proceeds. We also recognized a \$3.5 million loss on the resale of our computer promotions inventory to Gateway in December 2000. We anticipate that these developments will contribute to a decrease in both our revenue and expenses in future periods as compared to 2000.

In addition, during the first quarter of 2001, the following events occurred:

- In January 2001, Alan Sokol resigned from our Board of Directors.
- Our common stock was delisted from the Nasdaq National Market in January 2001. In March 2001, our common stock began trading on the Over-The-Counter Bulletin Board.
- We received a cash payment from Gateway, Inc. in January 2001, in an amount equal to \$981,870 for the computers that we sold back to Gateway in December 2000.
- On February 1, 2001, Jose Ronstadt resigned as an officer of the Company.
- In order to conserve cash and limit the services and content we provide, we (1) terminated most of our strategic relationships with our third-party content and service providers, (2) suspended operations of the eTrato.com and credito.com web sites, (3) outsourced the hosting and administration of the quepasa.com web site for approximately \$2,000 per month, and (4) sold substantially all of our furniture, computer and server equipment and office equipment for \$277,000 in cash.
- On March 15, 2001, we granted an aggregate of 400,000 stock options to our remaining officers and directors. The options are exercisable at \$.15 per share (representing a 33% premium over the \$.10 closing price on March 15, 2001) and vest ratably over a 3-year period, or immediately upon a change of control or liquidation. Of that number, we granted 100,000 to each of Gary Trujillo and Robert Taylor, and 50,000 to each of our four non-employee directors.
- On March 22, 2001, we agreed to pay each of our four non-employee directors a lump sum payment of \$50,000 for prior and current service, upon the occurrence of a Significant Event, defined as a change of control or liquidation of the Company.

During the second quarter of 2001, the following events occurred:

- As of April 30, 2001, we had reduced our work force from 20 employees at December 31, 2000, to 3 employees, and one full-time and several part-time contractors.
- In December 1999, realestateespanol.com and the National Association

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of Hispanic Real Estate Professionals entered into an Internet Endorsement Agreement, pursuant to which, in exchange for NAHREP's endorsement of the realestateespanol.com website, realestateespanol was required to pay NAHREP an annual \$50,000 fee over a ten-year term. Thereafter, in connection with the Internet Endorsement Agreement, in October 2000, realestateespanol.com, NAHREP, the National Council of La Raza and Freddie Mac entered into a Memorandum of Understanding which, among other things, set forth the business relationship through which the parties agreed to implement a program to deliver the benefits of technology to mortgage origination for low and moderate income Hispanic and Latino

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borrowers. Contemporaneously, realestateespanol and NAHREP entered into an agreement which set forth the terms and conditions of their rights and obligations under the MOU.

Under the MOU, among other things, (1) realestateespanol was required to (a) develop a web-based technology tool to be distributed to NCLR and NCLR affiliates, and (b) donate 200 computers, at no charge, to NAHREP for distribution to NCLR and NCLR affiliates for promotional purposes, (2) Freddie Mac was required to provide an aggregate dollar amount of \$250,000 as sponsorship fees to NAHREP, and (3) NAHREP was required, in turn, to deliver the same to realestateespanol towards the initial development of the technology tool discussed above. In May 2001, all of the parties agreed to either terminate certain of the agreements or release realestateespanol from its duties and obligations thereunder. In exchange for such termination or release, as the case may be, realestateespanol (a) transferred ownership of, and exclusive rights to, the in-process technology tool to NAHREP, (b) granted NAHREP a non-exclusive license to operate and use the realestateespanol.com website, the content thereon and any related technology tools, (c) granted NAHREP an exclusive license to operate and use any related domain names, (d) permitted NAHREP to retain the full amount of the unpaid sponsorship fee to be paid by Freddie Mac to NAHREP for development of the technology tool, and (e) permitted NAHREP to retain ownership of the previously donated computers in the first quarter of 2001. The \$100,000 sponsorship collected in 2000 was amortized over a six month period through March 31, 2001.

- On June 21, 2001, Michael Weck resigned from our Board of Directors.
- On June 25, 2001, under the agreement between us and Telemundo, the warrants previously issued to Telemundo to purchase 1,000,000 shares of our common stock at \$14.40 per share expired on their own terms. None of the warrants were exercised.

During the third quarter of 2001, the following events occurred:

- On August 1, 2001, we and our landlord agreed to terminate the lease for our corporate headquarters, which expires on November 30, 2002, for a \$130,000 lump sum payment. Our rent under the lease would have been \$416,000 for the period between August 1, 2001 and November 30, 2002. Our attempts to sublet the space were unsuccessful because of the softening office rental market in Phoenix. We vacated the space on October 31, 2001, relocating our corporate headquarters to a significantly smaller site that we have rented on a month-to-month basis, free of charge.

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- In 1999, Jeffrey S. Peterson, our former chief executive officer and director, and Michael A. Hubert, a former officer and director, entered into a voting trust agreement which provides that until June 24, 2004, Messrs. Seidman and Trujillo shall vote all shares of our common stock covered by the agreement in the same proportion as those shares voted by our unaffiliated stockholders. Previously, Mr. Hubert transferred all of his shares of our common stock. In August 2001, Mr. Peterson transferred all but 70,000 of his shares of our common stock (or an aggregate of 1,261,083 shares). Accordingly, there are currently 70,000 shares in the voting trust.
- 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. In the merger, each share of quepasa common stock will be converted into one share of Great Western common stock.

Immediately following the merger, our current stockholders will own approximately 49% of Great Western and Amortibanc Management, L.C., Great Western's current sole stockholder, will own approximately 51% of Great Western. In addition, Amortibanc holds warrants to purchase 14,827,175

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shares of Great Western common stock that, if exercised, would increase its ownership to a maximum of 65% of the outstanding common stock of Great Western on a fully diluted basis (including an aggregate of 400,000 stock options with an exercise price of \$0.15 per share held by our directors and President, but not including quepasa options or warrants that are considerably out of the money). Amortibanc's warrant is exercisable at any time, and from time to time, for ten years following the merger closing. Under the terms of the warrant, Great Western may purchase 4,942,392 shares of Great Western common stock for \$.30 per share, 4,942,392 shares for \$.60 per share and 4,942,391 shares for \$1.20 per share. Great Western may purchase the stock by paying cash for such shares or by surrendering the right to receive a number of shares having an aggregate market value equal to the purchase price for such shares.

Following the merger, the combined company's common stock will be publicly traded under the Great Western name. The merger will be accounted for using the purchase method of accounting. The merger is subject to certain closing conditions, including quepasa stockholder approval. There can be no assurance that we will consummate the merger transaction.

- On September 24, 2001, we filed our final responses to comments that we received from the SEC in connection with our 1999 Form 10-K and 2000 Form 10-Q's. We simultaneously filed all remaining delinquent documents required to be filed with the SEC. As of November 14, 2001, we are current on all of our required securities filings.
- In September 2001, because we were not current in making our 1934

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Securities and Exchange Act filings with the Securities and Exchange Commission pending resolution of the comments, our common stock was de-listed from the OTC and now trades in the "pink sheets."

Subsequent to the third quarter of 2001, the following events occurred:

- On October 3, 2001, Gary L. Trujillo agreed to terminate his employment with the Company, which termination was effective October 15, 2001. Mr. Trujillo remains Chairman and a director of the Company. As part of his termination agreement, Mr. Trujillo received a lump sum payment of \$700,000, which constitutes a substantially discounted payment due him under his former employment agreement with the Company. Robert Taylor, the Company's Chief Financial Officer, was appointed President. The Company amended Mr. Taylor's employment agreement to provide a bonus payment in the amount of \$100,000, in lieu of any severance payment, to be payable on the earlier of (a) an event constituting a change of control, (b) March 8, 2002 or (c) termination without cause by the Company. In addition, effective March 8, 2002, Mr. Taylor's salary will be reduced to \$125,000.
- On October 11, 2001, in connection with an amendment to the merger agreement, we loaned Great Western \$500,000. The loan bears interest at the prime rate plus 1% and is secured by a pledge of limited liability company interests owned by an affiliate of Great Western that represent a 25% interest in an apartment project in Glendale, Arizona. Interest on the loan is payable quarterly; the first quarterly interest payment was prepaid on October 11, 2001. The loan matures on the earlier of April 11, 2002 or the date the merger agreement is terminated. Great Western may use the proceeds of the loan for working capital, investment in new properties, capital expenditures, purchases of quepasa common stock in open-market or privately negotiated transactions and payment of merger transaction costs.
- On October 16, 2001, we concluded testimony in a hearing held in connection with the Telemundo Network Group LLC arbitration. The hearing closed on October 30, 2001. The arbitrator is required to issue his decision and the corresponding award to the prevailing party no later than November 30, 2001. As of November 14, 2001, the arbitrator has not issued that decision or award. See Item 3 - Legal Proceedings in our Annual Report on Form 10-K filed on September 20, 2001, for background information concerning our arbitration with Telemundo Network Group LLC.

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- On October 16, 2001, we filed a form PREM14A Preliminary Proxy Statement with the SEC related to our proposed merger with Great Western. The document is subject to SEC review and comment before we are permitted to mail the Proxy to our stockholders. We anticipate holding an annual meeting early in the first quarter of 2002 to, among other things, allow stockholders to vote on the proposed merger.

We have been unsuccessful in executing our business plan and developing a revenue stream to support the carrying value of our long-lived and intangible assets, have incurred substantial losses since inception and have an accumulated deficit of \$99.6 million as of September 30, 2001. For these reasons, we believe that period-to-period comparisons of our operating results are not meaningful and the results for any period should not be relied upon as an indication of

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future performance.

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: For the nine month period ended September 30, 2001, we derived approximately 58% 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 outsourcer for our banner ad sales and service. As of November 14, 2001, we have been unsuccessful in retaining a third-party outsourcer for our banner ad sales and service, and are not currently generating new advertising sales.

SPONSORSHIP REVENUE. For the nine month period ended September 30, 2001, we derived approximately 42% 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 life of the related agreement. Payments received from sponsors before the advertisements are displayed on our web site are recorded as deferred revenue. We have not received any new sponsorship sales on our website during the nine month period ended September 30, 2001, and do not anticipate new sponsorship sales for the foreseeable future.

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

THREE MONTHS ENDED SEPTEMBER 30, 2001 COMPARED TO THE THREE MONTHS ENDED SEPTEMBER, 2000 AND THE NINE MONTHS ENDED SEPTEMBER 30, 2001 COMPARED TO THE NINE MONTHS ENDED SEPTEMBER 30, 2000

Our results of operations for the three and nine months ended September 30, 2001 and 2000 were characterized by expenses that significantly exceeded revenues during such periods. We reported a net loss of \$702,000 for the three months ended September 30, 2001, compared to a net loss of \$8.0 million for the three months ended September 30, 2000 and reported a net loss of \$2.9 million for the nine months ended September 30, 2001, compared to a net loss of \$26.9 million for the nine months ended September 30, 2000. During the three and nine months ended September 30, 2001, we focused on reducing our cash expenses in all operation areas, including product and content, marketing and advertising, personnel and general and administrative expenses.

During the periods from December 31, 2000 through September 30, 2001, in order

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to conserve cash, we:

- reduced our employee count from 20 to 3 professionals, as compared to 72 professionals as of September 30, 2000;
- suspended the web site operations of eTrato.com, inc., an online auction web site linking Hispanic buyers and sellers of goods and services, and credito.com, inc., a Spanish language Internet web site providing personal credit content and information. We acquired eTrato and credito in January 2000;
- outsourced the hosting and administration of the quepasa.com web site for approximately \$2,000 per month; and
- terminated most of our strategic relationships with our third party content and service providers.

NET REVENUES

Net revenue decreased 96% to \$30,000 for the three months ended September 30, 2001 from \$840,000 for the three months ended September 30, 2000. For the nine months ended September 30, 2001, net revenues decreased 92% to \$175,000 from \$2.2 million for the nine months ended September 30, 2000. The decrease in revenue resulted from the Company's curtailment of operations and the reduction of advertising on our website.

OPERATING EXPENSES

PRODUCT AND CONTENT DEVELOPMENT EXPENSES. Our product and content development expenses decreased 99% to \$17,000 for the three months ended September 30, 2001, compared to \$1.6 million for the three months ended September 30, 2000. For the nine months ended September 30, 2001, our product and content development expenses decreased 92% to \$392,000 from \$5.1 million for the nine months ended September 30, 2000. For the three and nine months ended September 30, 2001 and 2000, the period-to-period decrease was principally attributable to:

- a decrease in personnel costs relating to the development of content and technological support to (a) zero for the three months ended September 31, 2001, compared to \$740,000 for the three months ended September 30, 2000 and (b) \$85,000 for the nine months ended September 31, 2001, compared to \$2.3 million for the nine months ended September 30, 2000;
- a reduction in the products and content we provide;
- the suspension of the operation of the eTrato.com and credito.com web sites;
- the outsourcing of the hosting and administration of the quepasa.com and realestateespanol.com web sites; and
- termination of most of our strategic relationships with third-party content and service providers.

ADVERTISING AND MARKETING EXPENSES. Our marketing, advertising and sales expenses decreased 100% to zero for the three months ended September 30, 2001, compared to \$4.2 million for the three months ended September 30, 2000. For the nine months ended September 30, 2001, marketing, advertising and sales expenses decreased 97% to \$422,000 from \$15.4 million for the nine months ended September 30, 2000. For the three and nine months ended September 30, 2001 and 2000, the period-to-period decrease was principally attributable to:

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- a decrease in marketing and sales personnel costs to (a) zero for the three months ended September 30, 2001, compared to \$585,000 for the three months ended September 30, 2000 and (b) \$100,000 for the nine months ended September 30, 2001, compared to \$1.9 million for the nine months ended September 30, 2000;
- a decrease in advertising expenditures amounting to (a) zero for the three months ended September 30, 2001 compared to \$1.5 million expended on the maintenance of brand awareness for the three months ended

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September 30, 2000 and (b) \$23,000 for the nine months ended September 30, 2001, compared to \$6.1 million for the nine months ended September 30, 2000; and

- a decrease in the amortization of the NetZero, Telemundo and Gloria Estefan contracts which approximated \$1.5 million and \$6.3 million for the three and nine months ended September 30, 2000 and zero in 2001.

GENERAL AND ADMINISTRATIVE EXPENSES. Our general and administrative expenses decreased 45% to \$770,000 for the three months ended September 30, 2001, compared to \$1.4 million for the three months ended September 30, 2000. For the nine months ended September 30, 2001, our general and administrative expenses decreased 50% to \$2.4 million from \$4.8 million for the nine months ended September 30, 2000. For the three and nine months ended September 30, 2001, the period-to-period decrease was principally attributable to a reduction in our work force. Our professional fees, consisting primarily of legal and accounting fees and expenses, were \$455,000, depreciation and rent was \$76,000 and our office and related expenses were \$85,000 for the three months ended September 30, 2001, compared to \$132,000, \$473,000 and \$352,000 for the three months ended September 30, 2000. For the nine months ended September 30, 2001, our professional fees were \$1.2 million, depreciation and rent was \$269,000 and our office and related expenses were \$250,000, compared to \$857,000, \$1.1 million, and \$1.4 million for the nine months ended September 30, 2000. Stock based compensation decreased to \$2,500 for the three months ended September 30, 2001, compared to \$21,000 for the three months ended September 30, 2000. For the nine months ended September 30, 2001, stock based compensation decreased to \$31,000, compared to \$62,000 for the nine months ended September 30, 2000. Stock based compensation for the three and nine months ended September 30, 2001 is comprised of expense recognized in accordance with APB Opinion No. 25, for various employee stock options vesting over time. The expense recognized for the three and nine months ended September 30, 2000 consisted primarily of the immediate vesting of employee stock options.

AMORTIZATION OF GOODWILL. Amortization for the three and nine months ended September 30, 2001 was zero, compared to \$1.8 million and \$4.6 million for the three and nine month periods ended September 30, 2000, respectively. There was no amortization of goodwill during the three and nine months ended September 30, 2001 as a result of the write-off of goodwill in the fourth quarter of 2000.

At December 31, 2000, we determined that the fair market value of certain acquired assets was significantly below their respective carrying values. As a result, we recorded asset impairment charges of \$24.9 million in the fourth quarter of 2000.

OTHER INCOME (EXPENSE). Other income (expense), which consists primarily of interest expense, net of interest earned, decreased 71% to \$55,000 for the three months ended September 30, 2001, compared to \$189,000 for the three months ended September 30, 2000. For the nine months ended September 30, 2001, other income (expense) decreased 77% to \$212,000 from \$903,000. Following

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our initial public offering in 1999 and continuing through 2000, we invested most of our assets in cash or cash equivalents, which were either debt instruments of the U.S. Government, its agencies, or high quality commercial paper. Interest income will decrease over time as cash is used to fund operations.

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 auditors issued their independent auditors' report dated May 8, 2001 (except as to the second paragraph of Note 10(a) and Note 16 to the consolidated financial statements, which are as of August 6, 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.

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As of September 30, 2001 and November 14, 2001, we had \$5.1 million and \$3.5 million (after the loan to Great Western and the termination payment to Gary Trujillo), respectively, in cash and cash equivalents and no short term investments, compared to \$2.3 million and \$7.2 million, respectively, at September 30, 2000. On June 24, 1999, we raised approximately \$42.4 million, net of offering costs, through an initial public offering of our common stock and during July 1999, we raised an additional \$6.3 million, net of offering costs, from the exercise of an option granted to our underwriters to cover overallotments from the initial public offering. In March 2000, we raised \$9.0 million by issuing 1,428,571 shares of our common stock to Gateway Companies, Inc.

Net cash provided by operations for the nine months ended September 30, 2001, consisted of a net loss of \$2.9 million, \$2.4 million net proceeds from the sale of trading securities and the collection of \$1.1 million of the other receivable and other current assets. Net cash used in operations for the nine months ended September 30, 2000 consisted of a net loss of \$26.9 million, \$14.9 million net proceeds from the sale of trading securities, a decrease in accrued liabilities of \$827,000 and a decrease in accounts payable of \$2.2 million offset by a decrease in other assets of \$6.8 million, and non-cash expenses for the depreciation of fixed assets and amortization of \$6.3 million and amortization of prepaid marketing services and deferred advertising of \$3.0 million. Net cash provided by operations for the nine months ended September 30, 2001 primarily resulted from the curtailment of the Company's operations.

Net cash provided by investing activities amounted to \$277,000 for the nine months ended September 30, 2001 and \$100,000 for the nine months ended September 30, 2000. The \$277,000 resulted from the sale of assets held for sale.

Net cash provided by financing activities was zero for the nine months ended September 30, 2001 and \$7.0 million for the nine months ended September 30, 2000. The Company was unable to raise any capital during the nine months ended September 30, 2001.

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As of December 31, 2000, we had commitments under non-cancelable operating leases for office facilities requiring payments of \$629,000 through the end of the longest-term agreement scheduled to expire in November 2002. However, as a result of a reduction in our work force and inability to execute our business strategy, on August 1, 2001, we executed an agreement with our landlord pursuant to which we made a \$130,000 lump sum payment for any and all amounts due and owing under the lease, including any and all future amounts to be paid thereunder. Under the terms of that agreement, because we did not receive earlier notice to vacate from our landlord, as of October 31, 2001, we vacated the property and are currently subletting space, free of charge, from our proposed merger partner, Great Western.

We expect to continue to incur costs, particularly general and administrative costs during the fourth quarter of 2001, primarily consisting of legal and accounting fees and expenses, 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 2001. 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.

IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS

In July 2001, the FASB issued Statement No. 141, Business Combinations, and Statement No. 142, Goodwill and Other Intangible Assets. Statement 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001 as well as all purchase method business combinations completed after June 30, 2001. Statement 141 also specifies criteria that intangible assets acquired in a purchase method business combination must meet to be recognized and reported apart from goodwill, noting that any purchase price allocable to an assembled workforce may not be accounted for separately. Statement 142 will require that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead tested for impairment at least annually in accordance with the provisions of Statement 142 and that intangible assets with definite useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for

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impairment in accordance with SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of.

We are required to adopt the provisions of Statement 141 immediately, except with regard to business combinations initiated prior to July 1, 2001, which we expect to account for using the pooling-of-interests method, and Statement 142 effective January 1, 2002. Furthermore, any goodwill and any intangible asset determined to have an indefinite useful life that is required in a purchase business combination completed after June 30, 2001 will not be amortized but will continue to be evaluated for impairment in accordance with the appropriate pre-Statement 142 accounting literature. Goodwill and intangible assets acquired in business combinations completed before July 1, 2001 will continue to be amortized prior to the adoption of Statement 142. Management does not believe that adoption of Statements 141 and 142 will have a material impact on our

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consolidated financial statements.

On October 3, 2001, the FASB issued Statement No. 144, ACCOUNTING FOR THE IMPAIRMENT OR DISPOSAL OF LONG-LIVED ASSETS, which addresses financial accounting and reporting for the impairment or disposal of long-lived assets. While Statement No. 144 supersedes statement No. 121, ACCOUNTING FOR THE IMPAIRMENT OF LONG-LIVED ASSETS AND FOR LONG-LIVED ASSETS TO BE DISPOSED OF, it retains many of the fundamental provisions of that Statement.

Statement No. 144 also supersedes the accounting and reporting provisions of APB Opinion No. 30, REPORTING THE RESULTS OF OPERATIONS - REPORTING THE EFFECTS OF DISPOSAL OF A SEGMENT OF A BUSINESS, AND EXTRAORDINARY, UNUSUAL AND INFREQUENTLY OCCURRING EVENTS AND TRANSACTIONS, for the disposal of a segment of a business. However, it retains the requirement in Opinion No. 30 to report separately discontinued operations and extends that reporting to a component of an entity that either has been disposed of (by sale, abandonment, or in a distribution to owners) or is classified as held for sale. By broadening the presentation of discontinued operations to include more disposal transactions, the FASB has enhanced management's ability to provide information that helps financial statement users to assess the effects of a disposal transaction on the ongoing operation of an entity. Statement No. 144 is effective for fiscal years beginning after December 15, 2001. At the current time, management does not believe that the adoption of this statement on January 1, 2002 will have a material impact on the Company's financial position.

RISK FACTORS

You should carefully consider the risks described below.

WE HAVE INCURRED SUBSTANTIAL OPERATING LOSSES AND OUR AUDITORS HAVE ISSUED A "GOING CONCERN" AUDIT OPINION.

Our consolidated financial statements as of December 31, 2000 have been prepared on the assumption that we will continue as a going concern. Our auditors issued their independent auditors' report dated May 8, 2001 (except as to the second paragraph of Note 10(a) and Note 16 to the consolidated financial statements, which are dated as of August 6, 2001) stating that the Company has suffered recurring losses from operations, has an accumulated deficit, has not been able to successfully execute its business plan, and is considering liquidating the Company, all of which raise substantial doubt about our ability to continue as a going concern.

THERE CAN BE NO ASSURANCES THAT THE PROPOSED MERGER WILL BE CONSUMMATED, AND FAILURE TO COMPLETE THE MERGER COULD HAVE SUBSTANTIAL CONSEQUENCES TO THE COMPANY.

On August 6, 2001, we executed a merger agreement with Great Western Land and Recreation, Inc., an unrelated entity which operates as a privately-held real estate development company. This merger can only be completed, though, if we and our potential merger partner meet all the closing conditions set forth in the definitive merger documents, including, but not limited to, approval by our stockholders, as well as completion of required filings with the Securities and Exchange Commission. There can be no assurances that we or Great Western will be able to meet all of the closing conditions set forth in such definitive merger documents. Regardless of whether an actual merger is consummated, we have incurred and will continue to incur significant expenses negotiating and executing the definitive merger documents and attempting to comply with all the closing conditions. In light of our limited cash reserves and negative operating cash flow, if the merger fails to be completed we may have no option other than to liquidate.

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WE HAVE FAILED TO EXECUTE OUR BUSINESS PLAN, ARE NOT CURRENTLY GENERATING NEW REVENUE AND EXPECT FUTURE LOSSES.

We have never been profitable and have failed to execute our business plan. We have incurred losses and experienced negative operating cash flow for each month since our formation. As of September 30, 2001, we had an accumulated deficit of approximately \$99.6 million. Our operating history and the general downturn of the Internet market in which we operate our business makes predictions of our future results of operations difficult or impossible. In addition, because we elected to substantially reduce our operations and terminate most of our employees we are not currently generating any new revenue, nor do we have employees, equipment, or any plan in place which would allow us to begin generating any new revenue in the foreseeable future. The limited revenue we do have will not cover our expenses in the foreseeable future and we do not believe we will be able to raise additional capital or debt financing. As a result, we will continue to incur significant losses and eventually may be required to liquidate if our proposed merger is not consummated.

WE HAVE SUBSTANTIALLY REDUCED OUR OPERATIONS AND TERMINATED MOST OF OUR EMPLOYEES.

During the period from December 31, 2000 through September 30, 2001, we substantially reduced the extent and scope of our operations. In order to conserve cash and limit the services and content we provide, we terminated most of our strategic relationships with our third-party content and service providers, suspended operations of the eTrato.com and credito.com websites, outsourced the hosting and administration of the quepasa.com website and sold substantially all of our furniture, computer and server equipment and office equipment. We discontinued the use of our banner advertising software and sought a third-party outsourcer for our banner advertising sales and service, but have been unsuccessful in retaining such a third-party outsourcer. There are no current negotiations taking place with any potential outsourcers at this time and the prospects of obtaining future revenue from this kind of arrangement in the near future is doubtful. In addition, we have reduced our employee count to 2 professionals, as compared to 104 professionals as of March 31, 2000. As a result of this reduction we are currently receiving no new revenue from our website operations.

COMPETITION FOR INTERNET USERS MAY LIMIT TRAFFIC ON, AND THE VALUE OF, OUR WEBSITE.

The market for Internet products and services and the market for Internet advertising and electronic commerce arrangements are extremely competitive, and we expect that competition will continue to intensify for the limited number of customers in our market. There are many companies that provide websites and online destinations targeted to Spanish-language Internet users. Competition for visitors and advertisers is intense and is expected to increase significantly in the future because there are no substantial barriers to entry in our market. We believe that the principal competitive factors in these markets are name recognition, distribution arrangements, functionality, performance, ease of use, the number of services and features provided and the quality of support. Our primary competitors are other companies providing portal or other online services, especially to Spanish-language Internet users such as StarMedia, Terra Lycos, El Sitio, Yahoo! Espanol, America Online Latin America, MSN and Univision online. Most of our competitors, as well as a number of potential new competitors, have significantly greater financial, technical and marketing resources than we do. Our competitors may offer Internet products and services that are superior to ours or that achieve greater market acceptance. There can be no assurance that competition will not limit traffic on, and the value of, our website.

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WE WILL BE ADVERSELY AFFECTED IF THE INTERNET DOES NOT BECOME WIDELY ACCEPTED AS A MEDIUM FOR ADVERTISING.

For our website to have value, it must be able to generate revenue from the sale of advertising. Many advertisers have not devoted a substantial portion of their advertising expenditures to web-based advertising, and may not find web-based advertising to be effective for promoting their products and services as compared to traditional print and broadcast media.

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

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desktop. This software, if generally adopted by users, may materially and adversely affect web-based advertising and the value of our website.

SYSTEM FAILURE COULD DISRUPT OUR WEBSITE OPERATIONS.

We may, from time to time, experience interruptions in the transmission of our website due to several factors including hardware and operating system failures. Because our website's value depends on the number of users of our network, we will be adversely affected if we experience frequent or long system delays or interruptions. If delays or interruptions continue to occur, our users could perceive our network to be unreliable, traffic on our website could deteriorate and our brand could be adversely affected. Any failure on our part to minimize or prevent capacity constraints or system interruptions could have an adverse effect on our brand.

OUR WEBSITE MAY BE LIMITED BY GOVERNMENTAL REGULATION.

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

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

Because materials may be downloaded by the services that we operate or facilitate and the materials may subsequently be distributed to others, we could face claims for errors, defamation, negligence, or copyright or trademark infringement based on the nature and content of such materials. Even to the extent that claims made against us do not result in liability, we may incur substantial costs in investigating and defending such claims.

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

OUR STOCK PRICE IS HIGHLY VOLATILE.

In the past, our common stock has traded at volatile prices. We believe that the market prices will continue to be subject to significant fluctuations due to various factors and events that may or may not be related to our performance. Our common stock is no longer traded on the Nasdaq National Market but is traded on Pink Sheets. This may make it more difficult to buy or sell our common stock. In addition, our stockholders could find it difficult or impossible to sell their stock or to determine the value of their stock.

EMPLOYEES

As of November 14, 2001, we had 2 employees and one part-time contractor. We continue to review the size of our work force in light of our evolving business plan.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

We do not have any derivative financial instruments as of September 30, 2001. We invest our cash in money market funds and corporate bonds, classified as cash and cash equivalents and trading securities, which are subject to minimal credit and market risk. Our interest income arising from these investments is sensitive to changes in the general level of interest rates. In this regard, changes in interest rates can affect the interest earned on our cash equivalents and trading securities. To mitigate the impact of fluctuations in interest rates, we generally enter into fixed rate investing arrangements (corporate bonds). As of September 30, 2001, a 10 basis point change in interest rates would have a potential impact on our interest earnings of less than \$2,000 for the three months ended September 30, 2001, which is clearly immaterial to our consolidated financial statements.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

TELEMUNDO ARBITRATION - See Item 3 - Legal Proceedings in our Annual Report on Form 10-K filed on September 20, 2001, for background information concerning our arbitration with Telemundo Network Group LLC. On October 16, 2001, we concluded testimony in an arbitration hearing with Telemundo Network Group LLC. The

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hearing officially closed on October 30, 2001. The arbitrator is required to issue his decision and any corresponding award to the prevailing party no later than November 30, 2001. As of November 14, 2001, the arbitrator has not issued his decision or any award.

STOCKHOLDER MEETING LITIGATION -- On November 1, 2001 an action was filed against quepasa in the First Judicial District Court of the State of Nevada by five quepasa stockholders, Mark Kucher, Gregory Steers, Nick Tintor, Bruce Randle and Michael Silberman. The filing seeks an order compelling quepasa to hold an annual meeting of stockholders to elect directors, enjoining quepasa from closing the merger with Great Western until its annual meeting has taken place and prohibiting quepasa from selling, leasing, exchanging or dissipating its assets until its annual meeting has taken place. The action is based upon provisions of quepasa's bylaws and Nevada corporate law that provide that under certain circumstances stockholders may seek an order that a stockholder meeting be held. On November 13, 2001, quepasa removed the action to the United States District Court for the District of Nevada. As previously announced, quepasa will hold an annual meeting of stockholders following clearance by the Securities and Exchange Commission of the combined proxy statement and registration statement filed by quepasa and Great Western on October 16, 2001. At this meeting, directors will be elected and the merger with Great Western will be voted on by the stockholders. Also as previously announced, stockholder approval is required before the Great Western merger can close.

From time to time, we are involved in various other legal proceedings incidental to the conduct of our business. We believe that the outcome of all such pending legal proceedings will not in the aggregate have a material adverse effect on our business, financial condition, results of operations or liquidity.

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

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ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

a. EXHIBITS.

EXHIBIT NUMBER -----	DESCRIPTION OF DOCUMENT -----
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10.01	Termination Agreements for Arizona Center Lease, dated August 1, 2001 and October 1, 2001
10.02	Financial Advisor Agreement between quepasa.com,, inc. and Friedman, Billings, Ramsey & Co., Inc., dated

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December 28, 1999, and amendments thereto dated March 22, 2001 and September 5, 2001

10.03	Great Western - Promissory Note
10.04	Great Western - Guaranty
10.05	Great Western - Pledge Agreement

b. REPORTS ON FORM 8-K.

On August 15, 2001, the Company filed a Current Report on Form 8-K announcing that (1) it had executed a definitive merger agreement with Great Western Land and Recreation, Inc. and (2) it had resolved all issues with the Securities and Exchange 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.

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 November 14, 2001.

quepasa.com, inc.

By: /s/ Robert J. Taylor

Name: Robert J. Taylor
Title: President, Chief Financial Officer
(PRINCIPAL FINANCIAL OFFICER)

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