PAY88
Form 10QSB
November 14, 2007

U.S. SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-QSB

o QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarter ended September 30, 2007

o TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number: 000-51793

PAY88, INC.
(Exact name of small business issuer as specified in its charter)

Nevada	20-3136572
(State of incorporation)	(IRS Employer ID Number)

1053 North Barnstead Road
Barnstead, NH 03225
(Address of principal executive offices)

(603) 776-6044
(Issuer's telephone number)

____
(Former name, former address and former fiscal year, if changed since last report)

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

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

Number of shares of common stock outstanding as of November 13, 2007 is 30,766,666 shares of common stock, $0.001 par value.

Transitional Small Business Format Yes o No x

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PART I.
FINANCIAL INFORMATION

Item 1. Financial Statements.

PAY88, INC. AND SUBSIDIARY
CONDENSED CONSOLIDATED BALANCE SHEET
SEPTEMBER 30, 2007
(Unaudited)

ASSETS

Current Assets:		
Cash and Cash Equivalents	$	523,063
Accounts Receivable, Net of Allowances of $1,813		71,646
Inventories		502,250
Deposits on Inventories		237,861
Prepaid Expenses		14,854
Total Current Assets		1,349,674
Property and Equipment, Net		491,354
Other Assets:		
Deferred Finance Costs, Net		94,333
Total Assets	$	1,935,361

LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities:		
Accounts Payable	$	210,863
Convertible Notes Payable, Net of Unamortized Discount of $505,005		72,495
Note Payable - Related Party		80,385
Loans Payable - Related Parties		873,910
Loans Payable - Other		176,887
Total Current Liabilities		1,414,540
Long-Term Debt:		
Convertible Notes Payable, Net of Unamortized Discount of $505,005		72,495
Total Liabilities		1,487,035
Commitments and Contingencies		
Stockholders' Equity:		
Preferred Stock, $.001 par value; 5,000,000 shares authorized, 5,000,000		5,000

shares issued and outstanding; liquidation preference, $.01 per share		
Common Stock, $.001 par value; 100,000,000 shares authorized, 16,766,666 shares issued and outstanding		16,767
Additional Paid-In Capital		11,315,877
Accumulated Deficit		(10,915,878)
Accumulated Other Comprehensive Income (Loss)		26,560
Total Stockholders' Equity		448,326
Total Liabilities and Stockholders' Equity	$	1,935,361

The accompanying notes are an integral part of these financial statements.

PAY88, INC. AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
(Unaudited)

	For the Three Months Ended September 30, 2007	September 30, 2006	For the Nine Months Ended September 30, 2007	For the Period April 24, 2006 (Inception) To September 30, 2006
Sales - Net	$ 1,345,477	$ 329,006	$ 3,690,713	$ 329,006
Cost of Sales	1,315,545	321,584	3,615,319	321,584
Gross Profit	29,932	7,422	75,394	7,422
Operating Expenses:				
Equity Based Consulting Fees	10,133,332	-	10,133,332	-
Selling Expenses	4,101	23,273	16,710	23,273
Salaries and Related Costs	70,196	26,058	186,824	36,455
Website Development Costs	13,598	-	40,794	-
Professional Fees	19,979	41,035	63,565	81,136
Other General and Administrative Expenses	56,739	27,491	157,714	28,541
Total Operating Expenses	10,297,945	117,857	10,598,939	169,405
Loss from Operations	(10,268,013)	(110,435)	(10,523,545)	(161,983)
Other Income (Expense):				
Interest Expense	(69,030)	-	(77,168)	-
Interest Expense - Related Party	(4,496)	(581)	(12,203)	(581)
Interest Income	58	348	317	599
Total Other Income (Expense)	(73,468)	(233)	(89,052)	18
Loss before Provision for Income Taxes	(10,341,481)	(110,668)	(10,612,597)	(161,965)
Provision for Income Taxes	4,095	-	5,516	-
Net Loss	$ (10,345,576)	$ (110,668)	$ (10,618,113)	$ (161,965)

The accompanying notes are an integral part of these financial statements.

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PAY88, INC. AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
(Unaudited)
(Continued)

	For the Three Months Ended September 30, 2007	For the Three Months Ended September 30, 2006	For the Nine Months Ended September 30, 2007	For the Period April 24, 2006 (Inception) To September 30, 2006
Basic and Diluted Loss Per Share	$ (0.89)	$ (0.01)	$ (1.00)	$ (0.02)
Weighted Average Basic and Diluted Shares Outstanding	11,621,739	10,000,000	10,612,821	10,000,000
Proforma Loss Per Share	$ (0.40)	$ (0.00)	$ (0.43)	$ (0.01)
Proforma Weighted Average Shares Outstanding	25,621,739	24,000,000	24,612,821	24,000,000

The accompanying notes are an integral part of these financial statements.

PAY88, INC.AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(Unaudited)

	For the Nine Months Ended September 30, 2007	For the Period April 24, 2006 (Inception) To September 30, 2006
Cash Flows from Operating Activities:		
Net Loss	$ (10,618,113)	$ (161,965)
Adjustments to Reconcile Net Loss to		
Net Cash (Used) by Operating Activities		
Allowance for Bad Debts	599	-
Depreciation and Amortization	35,195	5,640
Amortization of Deferred Finance Costs	3,430	-
Amortization of Debt Discounts	48,605	-
Common Stock Issued for Services	10,133,332	-
Changes in Assets and Liabilities:		
(Increase) in Accounts Receivable	(19,771)	(40,878)
(Increase) in Inventories	(376,445)	(261,524)
(Increase) in Prepaid Expenses	(206,959)	-
Increase in Accounts Payable	117,547	144,145
Increase in Accrued Liabilities	-	24,676
Net Cash (Used) by Operating Activities	(882,580)	(289,906)
Cash Flows from Investing Activities:		
Capital Expenditures	(39,550)	(443,318)
Trademark Registration	-	(455)
Net Cash (Used) by Investing Activities	(39,550)	(443,773)
Cash Flows from Financing Activities:		
Proceeds from Issuance of Convertible Debt	750,000	-
Proceeds from Issuance of Registered Capital Stock	-	721,495
Deferred Finance Costs	(97,763)	-
Cash of Business Acquired	-	1,209
Proceeds of Loans Payable - Related Parties	586,090	27,157
Proceeds of Loans Payable - Others	176,887	-
Net Cash Provided by Financing Activities	1,415,214	749,861
Effect of Exchange Rate Changes on Cash	12,895	7,030
Net Increase in Cash and Cash Equivalents	505,979	23,212
Cash and Cash Equivalents - Beginning of Period	17,084	-
Cash and Cash Equivalents - End of Period	$ 523,063	$ 23,212
Supplemental Cash Flow Information:		
Interest Paid	$ -	$ -
Income Taxes Paid	$ 2,936	$ -

<u>Supplemental Disclosures of Cash Flow Information:</u>				
Non Cash Financing Activities:				
Discount on Convertible Debt	$	1,058,616	$	-
Preferred Stock Issued in Connection with Recapitalization	$	-	$	5,000

The accompanying notes are an integral part of these financial statements.

PAY88, INC. AND SUBSIDIARY
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - Description of Business and Basis of Presentation

Organization

The Company was originally incorporated on March 22, 2005 under the laws of the State of New Hampshire as Pay88, Ltd. On July 7, 2005, Pay88, Inc., a Nevada corporation, was formed. Subsequently, the New Hampshire Corporation was merged with and into the Nevada Corporation. On September 5, 2006, Pay88, Inc. ("Pay88") entered into a Share Purchase Agreement (the "Share Purchase Agreement") with Chongqing Qianbao Technology Ltd., a limited Liability company organized under the laws of the People's Republic of China ("Qianbao"), Ying Bao ("Bao"), and Chongqing Yahu Information Development Co., Ltd., a limited liability company organized under the laws of the People's Republic of China ("Yahu"; and together with Bao, the "Qianbao Shareholders"). Pursuant to the Share Purchase Agreement, Pay88 agreed to acquire Qianbao at a closing held simultaneously therewith by purchasing from the Qianbao Shareholders all of their respective shares of Qianbao's registered capital stock, which represent 100% of the issued and outstanding registered capital of Qianbao. In consideration therefore, Pay88 agreed to issue to the Qianbao Shareholders an aggregate of 5,000,000 shares of Pay88 Series A Convertible Preferred Stock, to be allocated between the Qianbao Shareholders as follows: 4,950,000 shares to Yahu and 50,000 shares to Bao. Mr. Tao Fan, a brother of Mr. Guo Fan, a director and officer of Pay88, is the Chief Executive Officer of Yahu and owns 5% of its issued shares of capital stock.

The 5,000,000 shares of Pay88 Series A Preferred Stock is convertible into 14,000,000 shares of Pay88 common stock. The holders of shares of Series A Preferred Stock are entitled to the number of votes equal to the number of shares of common stock into which such shares of Series A Preferred Stock could be converted. With the issuance of the 5,000,000 shares of Pay88 Series A Preferred Stock, Qianbao's stockholders have voting control of Pay88 (approximately 58%) and therefore the acquisition was accounted for as a reverse acquisition. The combination of the two companies is recorded as a recapitalization of Qianbao pursuant to which Qianbao is treated as the continuing entity although Pay88 is the legal acquirer.

Qianbao was incorporated on April 24, 2006 in Chongqing, China. Qianbao is currently primarily engaged in the sale of prepaid online video game cards that allow the user to play online video games for designated allotted times and prepaid telephone cards. Qianbao also intends to build a web distribution platform to provide effective services for connecting diversified service providers and consumer product suppliers to retailers and consumers in the Chinese market.

Pay88, Inc. and Chongqing Qianbao Technology Ltd. are hereafter collectively referred to as "the Company".

Condensed Financial Statements

In the opinion of the Company's management, the accompanying unaudited condensed consolidated financial statements contain all adjustments (consisting of only normal recurring adjustments) necessary to present fairly the information set forth therein. These financial statements are condensed and therefore do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements.

Results of operations for interim periods are not necessarily indicative of the results of operations for a full year.

PAY88, INC. AND SUBSIDIARY
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - Basis of Presentation (Continued)

Consolidation

The accompanying unaudited condensed consolidated financial statements included the accounts of Pay88 (Parent) and its wholly owned subsidiary (“Qianbao”). All significant intercompany accounts and transactions have been eliminated in consolidation.

Going Concern

The Company incurred a net loss of $10,618,113 for the nine months ended September 30, 2007. In addition, the Company had a working capital deficiency of $64,866 at September 30, 2007. These factors raise substantial doubt about the Company's ability to continue as a going concern.

There can be no assurance that sufficient funds will be generated during the next year or thereafter from operations, or that funds will be available from external sources such as debt or equity financings or other potential sources. The lack of additional capital could force the Company to curtail or cease operations and would, therefore, have a material adverse effect on its business. Furthermore, there can be no assurance that any such required funds, if available, will be available on attractive terms or that they will not have a significant dilutive effect on the Company's existing stockholders.

During the nine months ended September 30, 2007, the Company received net loans totaling $762,977 from its officers and other shareholders, and net proceeds from convertible debt issuances of $652,237.

The Company is continuing to address its lack of liquidity by raising additional funds, either in the form of debt or equity or some combination thereof. The Company is attempting to expand its game card and phone card sales and provide additional internet services. There can be no assurances that the Company will be able to raise the additional funds it requires and/or achieve its business goals.

The accompanying condensed consolidated financial statements do not include any adjustments related to the recoverability or classification of asset-carrying amounts or the amounts and classifications of liabilities that may result should the Company be unable to continue as a going concern.

Reclassifications

Certain items in these consolidated financial statements have been reclassified to conform to the current period presentation.

NOTE 2 - Advertising Costs

Advertising costs are expensed as incurred. Advertising costs amounted to $4,101 and $16,710 for the nine months ended September 30, 2007 and 2006, respectively.

NOTE 3 - Net Loss Per Common Share

Loss per share is computed by dividing net loss by the weighted average number of common shares outstanding during the period. The common stock issued and outstanding with respect to the pre-merger Pay88 stockholders has been included since April 24, 2006. Diluted loss per common share is the same as basic loss share, as the effect of potentially dilutive securities (convertible debt-1,155,000 shares, and warrants-2,310,000) at September 30, 2007 are anti-dilutive.

PAY88, INC. AND SUBSIDIARY
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3 - Net Loss Per Common Share (Continued)

Proforma loss per share is computed similarly to basic loss per share except that it includes the potential dilution that could occur if the 5,000,000 shares of Series A Convertible Preferred stock issued and outstanding at September 30, 2007 were converted into 14,000,000 shares of Pay88 common stock.

NOTE 4 - Property and Equipment

Property and equipment is summarized as follows:

			Estimated Useful Lives
Office Units and Improvements	$	409,809	31 Years
Furniture and Fixtures		7,944	5 Years
Office Equipment		91,332	3 Years
Software		27,128	3 Years
Automobile		6,502	5 Years
		542,715	
Less: Accumulated Depreciation		51,361	
	$	491,354	

Depreciation expense was $35,195 for the nine months ended September 30, 2007 and $5,640 for the period April 24, 2006 (inception) to September 30, 2006.

The Company purchased three units of office space in July 2006 in Chongqing China. In the People's Republic of China, land is owned by the State. The right for the Company to use the land expires in 2037 and may be extended at that time.

NOTE 5 - Loans Payable - Related Parties

Loans payable to related parties consist of the following:

Loans payable to related parties consist of the following:

Loans payable to the Company's Chief Executive Officer, bearing interest at 5% per annum and payable on demand	$	454,566
Loans payable to the Company's Chief Operating Officer, bearing interest at 2% per annum and payable on demand		419,344
	$	873,910

NOTE 6 - Loans Payable - Other

Loans payable to others consist of the following:

Loans payable to others consist of the following:

Loan payable, bearing interest at 2.5% per month, due on December 31, 2007.	$	133,500
Loan payable on demand, non-interest bearing.		43,387
	$	176,887

PAY88, INC. AND SUBSIDIARY
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7 - Note Payable - Related Party

Note payable to the Company's Chief Executive Officer in the amount of $80,385 bears interest at 5% per annum and is payable on August 31, 2008.

NOTE 8 - Convertible Debt

On September 12, 2007 the Company entered into Subscription Agreements (the "Subscription Agreements") with 3 investors ("Purchasers"), for the purchase and sale of $1,155,000 of Secured Convertible Promissory Notes of the Company (the "Notes") for the aggregate purchase price of $750,000 (the "Note Financing"). The Company received net proceeds from the issuance of the Notes of $652,237. Pursuant to the terms of the Subscription Agreement, the Company also issued to the Purchasers warrants to purchase up to 2,310,000 shares of common stock of the Company, subject to adjustments for certain issuances and transactions.

The Notes bear interest at the rate of prime plus 4% per annum, payable in either (a) cash equal to 110% of 8.33% of the initial principal amount or (b) absent any event of default, in shares of the Company's common stock at the lesser of (i) $1.00 per share or (ii) 80% of the average of the closing bid prices of the Company's common stock for the 20 trading days preceding the payment date. Said payments commence on March 12, 2008 and all accrued but unpaid interest and any other amounts due thereon is due and payable on March 12, 2009, or earlier upon acceleration following an event of default, as defined in the Notes.

All principal and accrued interest on the Notes is convertible into shares of the Company's common stock at the election of the Purchasers at any time at the conversion price of $1.00 per share, subject to adjustment for certain issuances, transactions or events that would result in "full ratchet" dilution to the holders.

The Notes contain default events which, if triggered and not timely cured (if curable), will result in a default interest rate of an additional 5% per annum. The Notes also contain antidilution provisions with respect to certain securities issuances, including the issuances of stock for less than $1.00 per share. In addition, the Company has to pay the Purchasers 120% plus accrued interest of the outstanding principal amount if the Company is no longer listed on the Bulletin Board, sells substantially all of its assets or Guo Fan is no longer the Chief Executive Officer.

As part of the financing, the Company also issued to each Purchaser an aggregate of 1,155,000 Class A Common Stock Purchase Warrants and 1,155,000 Class B Common Stock Purchase Warrants. The Class A Warrants are exercisable at a price of $0.81 per share at any time until September 12, 2012 and the Class B Warrants are exercisable at a price of $1.13 per share at any time until September 12, 2012. The warrants include a cashless exercise provision which is triggered after March 12, 2008 as well as "full ratchet" antidilution provisions with respect to certain securities issuances.

The option of each Purchaser, conversion of the Notes, or exercise of the Warrants, is subject to the restriction that such conversion or exercise, does not result in the Purchaser beneficially owning at any one time more that 4.99% of the Company's outstanding shares of common stock.

PAY88, INC. AND SUBSIDIARY
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8 - Convertible Debt (Continued)

Payment of the Notes along with the Company's other obligations to the Purchasers is secured by all the assets of the Company and of its wholly-owned subsidiary Chongqinq Qianbao Technology Ltd., a limited liability company organized under the laws of the People's Republic of China ("Qianbao"). Such obligations are also secured by a pledge of all the shares the Company holds in Qianbao and 4,950,000 shares of Series A Preferred Stock (convertible into 13,860,000 shares of common stock) (see Note 13) as well as personal guaranties of Guo Fan, the Chief Executive Officer and a director of the Company, and by Tao Fan, the Chief Executive Officer of Qianbao and Chief Operating Officer and a director of the Company.

In connection with the transaction, the Company agreed to prepare and file with the Securities and Exchange Commission within 30 days following the closing a registration statement on Form SB-2 for the purpose of registering for resale all of the shares of common stock underlying the Notes, If the Company fails to file such registration statement within such time, or if the registration statement is not declared effective within 91 days from September 16, 2007, the Company must pay monthly liquidated damages in cash equal to 2% of the principal amount of the Notes and purchase price of the Warrants. The Purchasers were also granted standard piggyback registration rights along with certain demand registration rights.

In connection with the convertible debt, the Company recorded a cash discount of $405,000 and deferred finance costs of $96,385. Such deferred finance costs are being amortized over the life of the related debt. The Company also recorded a deferred debt discount in the amount of $653,615 to reflect the beneficial conversion feature of the convertible debt and the value of the warrants. The beneficial conversion feature was recorded pursuant to Emerging Issues Task Force ("EITF") 00-27: "Application of EITF No. 98-5, *Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios*, to Certain Convertible Instruments". In accordance with EITF 00-27, the Company evaluated the value of the beneficial conversion feature and recorded this amount ($51,899) as a reduction to the carrying amount of the convertible debt and as an addition to paid-in capital. Additionally, the fair value of the warrants ($601,716) was calculated and recorded as a further reduction to the carrying amount of the convertible debt and as addition to paid-in capital.

The Company is amortizing the discounts over the term of the debt. Amortization of the cash and debt discount for the quarter ended September 30, 2007 was $48,605, and this amortization is reported as a component of interest expense. Amortization of deferred finance costs amounted to $3,430 and is reported as a component of interest expense.

NOTE 9 - Commitments and Contingencies

Yahu Agreement

On August 3, 2005, the Company entered into a five year agreement with Chongqing Yahu Information Limited ("Yahu"). Yahu is a Chinese corporation formed by Mr. Tao Fan, a brother of Mr. Guo Fan, a significant stockholder, director and officer of the Company. As a result of the Share Purchase Agreement (see Note 1) Yahu owns 4,950,000 shares of Pay88 Series A Preferred Stock, representing approximately 53% voting control. The Agreement provides for two services to be provided to the Company by Yahu. The first service is the provision of all proprietary software needed to effectuate fund transfers between the U.S. and China. The second service to be provided is technical assistance in the areas of installation and future product support. This support includes assistance with all technical aspects of the software as well as problem resolution and general inquiries. Both of these services are to be provided to the Company by Yahu for a licensing fee that is based upon 20% of the gross fund transfer revenues. The fee is payable on a quarterly basis. The use of the software will enable the Company to provide wire transfers from the U.S.

to China. Although this agreement is in force, it has been dormant and we presently have no intention to engage in the money transfer business.

PAY88, INC. AND SUBSIDIARY
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9 - Commitments and Contingencies

Lack of Insurance

The Company currently has no insurance in force for its office facilities and operations and it cannot be certain that it can cover the risks associated with such lack of insurance or that it will be able to obtain and/or maintain insurance to cover these risks at economically feasible premiums.

Employment Agreements

Effective February 1, 2007, the Company entered into an Employment Agreement with Mr. Guo Fan (“Guo’s Agreement”), which memorialized the employment of Mr. Guo Fan on a full time basis as its Chairman, President and Chief Executive Officer. Pursuant to Guo’s Agreement, Mr. Guo Fan will receive an annual salary of $100,000 during the five-year term commencing on February 1, 2007. Guo’s Agreement also provides that if Mr. Guo Fan’s employment is terminated without cause at any time within the five year term, the Company shall pay Mr. Guo Fan his salary through January 31, 2012.

Effective February 1, 2007, the Company entered into an Employment Agreement with Mr. Tao Fan (“Tao’s Agreement”), pursuant to which Mr. Tao Fan was employed as the Chief Operating Officer of the Company. Pursuant to Tao’s Agreement, Mr. Tao Fan will receive an annual salary of $50,000 during the five-year term commencing on February 1, 2007. Tao’s Agreement also provides that if Mr. Tao Fan’s employment is terminated without cause at any time within the five year term, the Company shall pay Mr. Tao Fan his salary through January 31, 2012.

Both agreements provide for reimbursement of business expenses, directors’ and officers’ insurance coverage and other additional benefits including but not limited to pension or profit sharing plans and insurance. The Company also agrees to defend the Executives from and against any and all lawsuits initiated against the Company and/or the Executives.

NOTE 10 - Stockholders’ Equity

At inception, Qianbao was formed with two stockholders, Yahu (99%) and an individual (1%). The initial capitalization was $362,790 of which Yahu contributed $350,280 and the individual contributed $12,510. Subsequently, there was an additional capital contribution of $358,705 of which Yahu contributed $358,420 and the individual contributed $285.

Pursuant to the Share Purchase Agreement (see Note 1), on September 5, 2006 5,000,000 shares of Pay88 Series A Convertible Preferred Stock was issued to the stockholders of Qianbao in exchange for 100% of the registered capital of Qianbao. The 5,000,000 shares of Pay88 Series A Preferred Stock is convertible into 14,000,000 shares of Pay88 common stock. The holders of shares of Series A Preferred Stock are entitled to the number of votes equal to the number of shares of common stock into which such shares of Series A Preferred Stock could be converted.

The Company’s Board of Directors may, without further action by the Company’s stockholders, from time to time, direct the issuance of any authorized but unissued or unreserved shares of preferred stock in series and at the time of issuance, determine the rights, preferences and limitations of each series. The holders of preferred stock may be entitled to receive a preference payment in the event of any liquidation, dissolution or winding-up of the Company before any payment is made to the holders of the common stock. Furthermore, the board of directors could issue preferred stock with voting and other rights that could adversely affect the voting power of the holders of the common stock.

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PAY88, INC. AND SUBSIDIARY
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 10 - Stockholders' Equity (Continued)

In September 2007 the Company agreed to issue an aggregate of 6,666,666 shares of common stock to TVH Limited, a Netherlands limited company in consideration, amongst other things, for introducing potential investors to the Company and for consulting services rendered in connection with the September 2007 private placement.

Warrants

A summary of the status of the Company's warrants is presented below:

	Number of Warrants	Weighted Average Exercise Price
Outstanding, January 1, 2007	-	$ -
Issued, Class A	1,155,000	.81
Issued, Class B	1,155,000	1.13
Outstanding, September 30, 2007	2,310,000	$ .97

Warrants outstanding and exercisable by price range as of September 30, 2007 were as follows:

Range of	Number	Average Weighted Remaining Contractual Life in Years	Exercise Price	Number	Weighted Average Exercise Price
$0.81	1,155,000	4.96	$ 0.81	1,155,000	$ 0.81
$1.13	1,155,000	4.96	1.13	1,155,000	$ 1.13
	2,310,000		$ 0.97	2,310,000	$ 0.97

NOTE 11 - Related Party Transactions

Rent

The Company rents office space in New Hampshire owned by an officer of the Company for $200 per month on a month to month basis. Rent expense amounted to $1,800 for the nine months ended September 30, 2007.

Accounts Payable

Included in accounts payable at September 30, 2007 is accrued interest payable amounting to $46,165 on a note and loans payable (see Notes 5 and 7) to two officers and significant stockholders and rent payable to an officer amounting to $5,800.

PAY88, INC. AND SUBSIDIARY
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11 - Related Party Transactions (Continued)

Relationships

On February 1, 2007, the board of directors of the Company appointed Mr. Tao Fan as the Chief Operating Officer of the Company. Mr. Tao Fan is the Chief Executive Officer and Chairman of the Board of Directors of Qianbao, our wholly-owned subsidiary. Mr. Tao Fan is also the Chief Executive Officer of Yahu, a principal shareholder of the Company. Mr. Tao Fan is the brother of Mr. Guo Fan, the Chief Executive Officer of the Company.

NOTE 12 - Concentration of Credit Risk

The Company maintains cash balances in various banks in China. Currently, no deposit insurance system has been set up in China. Therefore, the Company will bear a risk if any of these banks become insolvent. As of September 30, 2007, the Company's uninsured cash balance was $483,150.

NOTE 13 - Subsequent Events

On October 3, 2007, the Company issued 14,000,000 shares of common stock upon conversion of 5,000,000 shares of its Series A Convertible Preferred Stock. Each share of Series A Preferred Stock was converted into 2.8 shares of the Company's common stock. The Company was required to cause the conversion of its Series A Convertible Preferred Stock pursuant to the Subscription Agreements the Company entered into with 3 investors on September 12, 2007.

The Company's registration statement on Form SB-2, as discussed in Note 8, was declared effective as of October 30, 2007.

On October 31, 2007, the Company consummated the second closing (the "Second Closing") contemplated by the Subscription Agreements dated September 12, 2007 (the "Financing") (see Note 8). The Company issued to 3 investors ("Purchasers"), secured convertible promissory notes, in the aggregate principal amount of $1,155,000 (the "Second Closing Notes"). In consideration therefore, the Purchasers agreed to pay to the Company an aggregate of $750,000. The Company received net proceeds of approximately $707,000 from the issuance of the Notes.

The Second Closing Notes bear interest at the rate of prime plus 4% per annum, payable in either (a) cash equal to 110% of 8.33% of the initial principal amount of the Second Closing Note or (b) absent any event of default, in shares of the Company's common stock at the lesser of (i) $1.00 per share or (ii) 80% of the average of the closing bid prices of the Company's common stock for the 20 trading days preceding the payment date. Said payments commence on March 12, 2008 and all accrued but unpaid interest and any other amounts due thereon are due and payable on March 12, 2009, or earlier upon acceleration following an event of default, as defined in the Second Closing Notes.

All principal and accrued interest on the Second Closing Notes is convertible into shares of the Company's common stock at the election of the Purchasers at any time at the conversion price of $1.00 per share, subject to adjustment for certain issuances, transactions or events that would result in "full ratchet" dilution to the holders.

PAY88, INC. AND SUBSIDIARY
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 13 - Subsequent Events (Continued)

The notes contain default events which, if triggered and not timely cured (if curable), will result in a default interest rate of an additional 5% per annum. The Second Closing Notes also contain antidilution provisions with respect to certain securities issuances, including the issuances of stock for less than $1.00 per share. In addition, the Company has to pay the Purchasers 120% plus accrued interest of the outstanding principal amount if the Company is no longer listed on the Bulletin Board, sells substantially all of its assets or Guo Fan is no longer the Chief Executive Officer.

As part of the Financing, the Company also issued to the Purchasers an aggregate of 1,155,000 Class A Common Stock Purchase Warrants (the “Class A Warrants”) and 1,155,000 Class B Common Stock Purchase Warrants (the “Class B Warrants”) (collectively, the Class A Warrants and the Class B Warrants are herein referred to as the “Second Closing Warrants”). The Class A Warrants are exercisable at a price of $0.81 per share at any time until September 12, 2012 and the Class B Warrants are exercisable at a price of $1.13 per share at any time until September 12, 2012. The Second Closing Warrants include a cashless exercise provision which is triggered after March 12, 2008 as well as “full ratchet” antidilution provisions with respect to certain securities issuances.

The option of each Purchaser, conversion of the Second Closing Notes, or exercise of the Second Closing Warrants, is subject to the restriction that such conversion or exercise, does not result in the Purchaser beneficially owning at any one time more that 4.99% of the Company’s outstanding shares of common stock.

In connection with the Second Closing Notes, the Company will record a cash discount of $405,000 and deferred finance costs of approximately $43,000. Such deferred finance costs will be amortized over the life of the related debt. The Company will also record combined deferred debt discounts of approximately $569,000 reflecting the beneficial conversion feature of the convertible debt and the value of the warrants.

Item 2. Management's Discussion and Analysis or Plan of Operations.

As used in this Form 10-QSB, references to "Pay88", the "Company," "we," "our" or "us" refer to Pay88, Inc., unless the conte otherwise indicates.

Forward-Looking Statements

The following discussion should be read in conjunction with our financial statements, which are included elsewhere in this Form 10-QSB. We and our representatives may, from time to time, make written or verbal forward-looking statements, including statements contained in our filings with the United States Securities and Exchange Commission and in our reports to shareholders. Generally, the inclusion of the words "believe", "expect", "intend", "estimate", "anticipate", "will", and similar expressions or the converse thereof, identify statements that constitute "forward-looking statements".

These forward-looking statements are subject to uncertainties and other factors that could cause actual results to differ materially from such statements as a result of a number of risks and uncertainties including: (a) those risks and uncertainties related to general economic conditions, (b) whether we are able to manage our planned growth efficiently and operate profitable operations, (c) whether we are able to generate sufficient revenues or obtain financing to sustain and grow our operations, and (d) whether we are able to successfully fulfill our primary requirements for cash.

History

Pay88 was incorporated on March 22, 2005 under the name "Pay88, Ltd." in the State of New Hampshire. We subsequently reincorporated in the State of Nevada by merging with and into our wholly-owned subsidiary, Pay88, Inc., a Nevada corporation formed for such purpose on July 7, 2005. Such merger was effectuated on August 9, 2005. From the date of our incorporation until September 6, 2006, we were focused on becoming involved in the business of facilitating money transfers from the United States to China. We never commenced our proposed business operations or generated revenues in connection with such proposed operations.

On September 5, 2006, we acquired Chongqing Qianbao Technology Ltd. ("Qianbao"), a limited liability company organized on April 24, 2006 under the laws of the People's Republic of China. Such acquisition was consummated pursuant to a Share Purchase Agreement, dated as of September 5, 2006, among Pay88, Qianbao, and Qianbao's two shareholders, Ying Bao and Chongqing Yahu Information Development Co., Ltd. Pursuant to such Share Purchase Agreement, Pay88 acquired Qianbao by purchasing from Qianbao's shareholders all of their respective shares of Qianbao's registered capital stock, which represented 100% of the issued and outstanding registered capital stock of Qianbao. In consideration therefor, Pay88 agreed to issue to the Qianbao shareholders an aggregate of 5,000,000 shares of the Company's Series A Convertible Preferred Stock, to be allocated between the Qianbao shareholders as follows: 4,950,000 shares to Chongqing Yahu Information Development Co., Ltd. and 50,000 shares to Ying Bao. Mr. Tao Fan, a brother of Mr. Guo Fan, a director and officer of Pay88, is the Chief Executive Officer of Chongqing Yahu Information Development Co., Ltd. and owns 5% of its issued shares of capital stock.

Overview

Through Qianbao, we are currently engaged in the sale of prepaid telephone and game cards through its internet website, http://www.iamseller.com. Prepaid game cards allow the holder thereof to play online video games for the designated allotted time. Prepaid telephone cards allow the holder thereof to make telephone calls for the designated allotted time. Such products are sold to consumers or retailers visiting such website. We also hope to add for sale on such website prepaid study cards, which allow the holder thereof to use online software that assists in the learning of various subjects including Chinese, English and cooking.

Qianbao does not manufacture any of the products offered for sale on its website. Qianbao purchases such products from third-party suppliers and thereafter resells them on Qianbao’s website. A small portion of Qianbao's revenues is derived from commissions earned by Qianbao in connection with the sales of certain products of third-party suppliers sold on Qianbao's website. Such commission is a percentage of the revenues generated from such sales. The specific amount of such percentage is negotiated between Qianbao and each such supplier, but generally ranges from 1% to 5%.

Plan of Operation

Through our subsidiary, Qianbao, we are focusing on further developing Qianbao’s website, www.iamseller.com, increasing sales on such website, and building other internet websites on which Qianbao will operate a distribution platform through which we will be able to offer products for sale to consumers or retailers visiting such websites.

During the nine months ended September 30, 2007, Qianbao continued its efforts to arrange for suppliers to offer for sale on Qianbao’s website the following products: prepaid game cards, which allow the holder thereof to play online internet games for the designated allotted time; prepaid calling cards; and study cards, which allow the holder thereof to use online software that assists in the learning of various subjects including Chinese, English and cooking. During said period, Qianbao arranged with the following companies to supply products to be sold on Qianbao's website: Shandong Tianfu Online Platform (supplier of game cards); Sifang Online Distribution Platform (supplier of game cards); Chongqing Digital World (supplier of phone cards); Chongqing E Net Chongqing Sifang (supplier of phone cards); Chongqing Taoxing (supplier of study cards); and Chongqing Dezheng Technology Development. We have not entered into any formal agreements with any of such suppliers. There is no assurance that we will be successful at marketing and selling these products, developing the distribution platform or any other of our objectives.

Results of Operations

During the quarter ended September 30, 2007, gross revenue was $1,345,477, the cost of sales was $1,315,545, and the gross profit was $29,932. If we continue to realize gross margins similar to our historical amounts, we will continue to have cash flow problems. While a small portion of Qianbao’s revenue is derived from commissions earned by Qianbao in connection with the sales of certain products of third-party suppliers sold on Qianbao's website, a substantial percentage of the revenues generated are a result of the direct purchase of discounted prepaid game cards and video cards that allow users to play online video games for designated allotted times, and telephone card, which are then sold on Qianbao’s website iamseller.com. During the quarter ended September 30, 2006, our gross revenue was $329,006.

Total operating expenses for the quarter ended September 30, 2007 were $10,297,945. We had a loss from operations in the amount of $10,268,013. The net loss during such period was $10,345,576.

Liquidity and Capital Resources

On September 12, 2007, we entered into Subscription Agreements with 3 accredited investors for the purchase and sale of $1,155,000 of secured convertible promissory notes for the aggregate purchase price of $750,000. We received net proceeds from the issuance of the secured convertible promissory notes of $652,237. As part of the financing, we also issued to the purchasers an aggregate of 1,155,000 Class A Common Stock Purchase Warrants and 1,155,000 Class B Common Stock Purchase Warrants. The Class A Common Stock Purchase Warrants are exercisable at a price of $0.81 per share at any time until September 12, 2012 and the Class B Common Stock Purchase Warrants are exercisable at a price of $1.13 per share at any time until September 12, 2012. The warrants include a cashless exercise provision which is triggered after March 12, 2008 as well as “full ratchet” antidilution provisions with respect to certain securities issuances.

In accordance with the terms of the Subscription Agreements, on October 31, 2007, we issued additional secured convertible promissory notes in the principal amount of $1,155,000 for the aggregate purchase price of $750,000. We received net proceeds from the issuance of the additional secured convertible promissory notes of 707,488. We also issued to the purchasers an aggregate of 1,155,000 Class A Common Stock Purchase Warrants and 1,155,000 Class B Common Stock Purchase Warrants. The Class A Common Stock Purchase Warrants are exercisable at a price of $0.81 per share at any time until September 12, 2012 and the Class B Common Stock Purchase Warrants are exercisable at a price of $1.13 per share at any time until September 12, 2012. The warrants include a cashless exercise provision which is triggered after March 12, 2008 as well as “full ratchet” antidilution provisions with respect to certain securities issuances.

We have no current plans for the purchase or sale of any significant amounts of plant or equipment.

We have no current plans to make any significant changes in the number of employees.

Going Concern

The Company incurred a net loss of $10,618,113 for the nine months ended September 30, 2007. In addition, the Company had a working capital deficiency of $64,866 at September 30, 2007. These factors raise substantial doubt about the Company's ability to continue as a going concern.

There can be no assurance that sufficient funds will be generated during the next year or thereafter from operations, or that funds will be available from external sources such as debt or equity financings or other potential sources. The lack of additional capital could force the Company to curtail or cease operations and would, therefore, have a material adverse effect on its business. Furthermore, there can be no assurance that any such required funds, if available, will be available on attractive terms or that they will not have a significant dilutive effect on the Company's existing stockholders.

Off-Balance Sheet Arrangements

None.

Item 3. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

Our disclosure controls and procedures are designed to ensure that information required to be disclosed in reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the United States Securities and Exchange Commission. Our principal executive officer and principal financial officer has reviewed the effectiveness of our "disclosure controls and procedures" (as defined in the Securities Exchange Act of 1934 Rules 13a-14(c) and 15d-14(c)) within the end of the period covered by this Quarterly Report on Form 10-QSB and has concluded that the disclosure controls and procedures are effective to ensure that material information relating to the Company is recorded, processed, summarized, and reported in a timely manner. There were no significant changes in our internal controls or in other factors that could significantly affect these controls subsequent to the last day they were evaluated by our principal executive officer and principal financial officer.

Changes in Internal Controls over Financial Reporting

There have been no changes in the Company's internal control over financial reporting during the last quarterly period covered by this report that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II.
OTHER INFORMATION

Item 1. Legal Proceedings.

There are no pending legal proceedings to which the Company is a party or in which any director, officer or affiliate of the Company, any owner of record or beneficially of more than 5% of any class of voting securities of the Company, or security holder is a party adverse to the Company or has a material interest adverse to the Company. The Company's property is not the subject of any pending legal proceedings.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

Other than the sales of unregistered equity securities previously disclosed in the Company's Current Report of Form 8-K filed with the SEC on September 18, 2007, there were no other such sales during the fiscal quarter ended September 30, 2007.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Submission of Matters to a Vote of Security Holders.

There was no matter submitted to a vote of security holders during the fiscal quarter ended September 30, 2007.

Item 5. Other Information.

On October 3, 2007, we issued 14,000,000 shares of common stock upon conversion of 5,000,000 shares of its Series A Convertible Preferred Stock. Each share of Series A Preferred Stock was converted into 2.8 shares of the Company's common stock. The Company was required to cause the conversion of its Series A Convertible Preferred Stock pursuant to the Subscription Agreements the Company entered into with 3 investors on September 12, 2007.

Item 6. Exhibits.

Exhibit No.	Description
31.1	Rule 13a-14(a)/15d14(a) Certifications Attached Hereto
32.1	Section 1350 Certifications Attached Hereto

SIGNATURES

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

Dated: November 14, 2007

PAY88, INC.

By: /s/ Guo Fan

Name: Guo Fan
Title: President, Chief Executive Officer, and Director
(Principal Executive, Financial, and
Accounting Officer)

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