

PAY88  
Form 10-Q  
August 19, 2009

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

FORM 10-Q

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

For the quarter ended June 30, 2009

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 0-51793

PAY88, INC.

(Exact name of small business issuer as specified in its charter)

Nevada  
(State of incorporation)

20-3136572  
(IRS Employer ID Number)

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

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

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(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 ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

|                         |                          |                           |                                     |
|-------------------------|--------------------------|---------------------------|-------------------------------------|
| Large accelerated filer | <input type="checkbox"/> | Accelerated filer         | <input type="checkbox"/>            |
| Non-accelerated filer   | <input type="checkbox"/> | Smaller reporting company | <input checked="" type="checkbox"/> |

(Do not check if a smaller reporting company)

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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

As of August 19, 2009, 33,280,279 shares of common stock, par value \$0.0001 per share, were issued and outstanding.

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PART I  
FINANCIAL INFORMATION

Item 1. Financial Statements.

PAY88, INC. AND SUBSIDIARY  
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PAY88, INC. AND SUBSIDIARY  
CONDENSED CONSOLIDATED BALANCE SHEETS

|  | June 30,<br>2009<br>(Unaudited) | December<br>31,<br>2008 |
|--|---------------------------------|-------------------------|
| <b>ASSETS</b>  |                                 |                         |
| Current Assets:  |                                 |                         |
| Cash and cash equivalents  | \$ 77,092                       | \$ 159,071              |
| Accounts receivable, net of allowance of \$43,071 and \$16,693,<br>as of June 30, 2009 and December 31, 2008, respectively   | 930,268                         | 969,850                 |
| Inventories  | 268,900                         | 372,058                 |
| Prepaid expense  | 92,123                          | 189,575                 |
| Total Current Assets   | 1,368,383                       | 1,690,554               |
| Property and Equipment, Net  | 441,538                         | 471,289                 |
| Other Assets:  |                                 |                         |
| Website platform development   | -                               | 146,570                 |
| Total Other Assets   | -                               | 146,570                 |
| <b>TOTAL ASSETS</b>  | <b>\$ 1,809,921</b>             | <b>\$ 2,308,413</b>     |
| <b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>   |                                 |                         |
| Current Liabilities:   |                                 |                         |
| Accounts payable and accrued expenses  | \$ 1,341,091                    | \$ 1,248,780            |
| Convertible notes payable  | 1,770,750                       | 1,770,750               |
| Derivative liabilities - current   | 927,255                         | 815,284                 |
| Loan payable - related parties   | 431,407                         | 425,067                 |
| Total Current Liabilities  | 4,470,503                       | 4,259,881               |
| Long Term Liabilities:   |                                 |                         |
| Derivative liabilities   | 374,088                         | 1,095,112               |
| <b>TOTAL LIABILITIES</b>   | <b>4,844,591</b>                | <b>5,354,993</b>        |
| Commitments and Contingencies  | -                               | -                       |
| Stockholders' Deficit:   |                                 |                         |
| Preferred Stock, \$0.001 par value; 5,000,000 shares authorized, no shares<br>issued and outstanding as of June 30, 2009 and December 31, 2008                           | -                               | -                       |
| Common stock, \$0.001 par value; 100,000,000 shares authorized,<br>33,280,279 and 32,201,691 shares, issued and outstanding<br>as of June 30, 2009 and December 31, 2008 | 33,280                          | 32,202                  |
| Additional paid-in capital   | 13,732,065                      | 13,675,643              |
| Accumulated deficit  | (17,023,100)                    | (16,980,078)            |
| Accumulated other comprehensive income   | 223,085                         | 225,653                 |
| Total Stockholders' Deficit  | (3,034,670 )                    | (3,046,580 )            |
| <b>TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT</b>   | <b>\$ 1,809,921</b>             | <b>\$ 2,308,413</b>     |

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

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PAY88, INC AND SUBSIDIARY  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
(UNAUDITED)

|   | For Three Months Ended |                  | For Six Months Ended |                  |
|---|------------------------|------------------|----------------------|------------------|
|   | June 30,<br>2009       | June 30,<br>2008 | June 30,<br>2009     | June 30,<br>2008 |
| Net Sales   | \$3,373,537            | \$4,682,489      | \$7,478,527          | \$10,186,569     |
| Cost of Sales   | 3,358,592              | 4,585,734        | 7,413,606            | 9,957,718        |
| Gross Profit  | 14,945                 | 96,755           | 64,921               | 228,851          |
| Operating Expenses:                                     |                        |                  |                      |                  |
| Payroll and related expenses                            | 103,448                | 94,976           | 206,840              | 188,785          |
| Professional fees                                       | 62,782                 | 80,818           | 99,400               | 150,147          |
| Selling expenses  | 972                    | 4,285            | 1,789                | 6,226            |
| Other general and administrative expenses               | 66,464                 | 71,643           | 136,251              | 125,782          |
| Total Operating Expenses                                | 233,666                | 251,722          | 444,280              | 470,940          |
| Loss From Operations                                    | (218,721 )             | (154,967 )       | (379,359 )           | (242,089 )       |
| Other Income (Expenses):                                |                        |                  |                      |                  |
| Interest income   | 15                     | 586              | 41                   | 1,065            |
| Interest expense  | (56,761 )              | (569,162 )       | (113,522 )           | (1,153,359 )     |
| Interest expense - related parties                      | (4,520 )               | (7,881 )         | (10,284 )            | (18,512 )        |
| Impairment loss on website platform development         | (146,400 )             | -                | (146,400 )           | -                |
| Gain on derivatives, net                                | 11,437                 | -                | 609,053              | -                |
| Total Other Income (Expense)                            | (196,229 )             | (576,457 )       | 338,888              | (1,170,806 )     |
| Net Loss Before Income Tax                              | (414,950 )             | (731,424 )       | (40,471 )            | (1,412,895 )     |
| Provision for income tax                                | -                      | 2,519            | 2,551                | 6,027            |
| Net Loss  | \$(414,950 )           | \$(733,943 )     | \$(43,022 )          | \$(1,418,922 )   |
| Net loss per share - basic and diluted                  | \$(0.01 )              | \$(0.02 )        | \$(0.00 )            | \$(0.05 )        |
| Weighted average shares outstanding - basic and diluted | 32,889,143             | 31,730,523       | 32,547,316           | 31,259,234       |
| Comprehensive Income (Loss):                            |                        |                  |                      |                  |
| Net income (loss)                                       | \$(414,950 )           | \$(733,943 )     | \$(43,022 )          | \$(1,418,922 )   |
| Other comprehensive income (loss)                       | (1 )                   | 56,404           | (2,568 )             | 133,612          |
| Comprehensive Income (Loss)                             | \$(414,951 )           | \$(677,539 )     | \$(45,590 )          | \$(1,285,310 )   |

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

PAY88, INC AND SUBSIDIARY  
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT  
FOR THE YEAR ENDED DECEMBER 31, 2008 AND THE SIX MONTHS ENDED JUNE 30, 2009  
(UNAUDITED)

|  | Preferred Stock |        | Common Stock |          | Paid - in    | Accumulated    | Accumulated Other Comprehensive Income |               |
|--|-----------------|--------|--------------|----------|--------------|----------------|--|---------------|
|  | Shares          | Amount | Shares       | Amount   | Capital      | Deficit        | (Loss)                                 | Total         |
| Balance - December 31, 2007                                    | -               | \$-    | 30,766,667   | \$30,767 | \$12,153,261 | \$(11,603,243) | \$ 71,377                              | \$652,162     |
| Regulation S offering  | -               | -      | 1,300,024    | 1,300    | 1,753,732    | -              | -                                      | 1,755,032     |
| Regulation S offering cost                                     | -               | -      | -            | -        | (408,040 )   | -              | -                                      | (408,040 )    |
| Common stock issued for consulting services                    | -               | -      | 135,000      | 135      | 158,490      | -              | -                                      | 158,625       |
| Relative fair value of warrants issued for consulting services | -               | -      | -            | -        | 18,200       | -              | -                                      | 18,200        |
| Net loss for the year  | -               | -      | -            | -        | -            | (5,376,835 )   | -                                      | (5,376,835)   |
| Foreign currency translation adjustment                        | -               | -      | -            | -        | -            | -              | 154,276                                | 154,276       |
| Balance - December 31, 2008                                    | -               | -      | 32,201,691   | 32,202   | 13,675,643   | (16,980,078)   | 225,653                                | (3,046,580)   |
| Common stock issued for loan interest payment                  | -               | -      | 1,078,588    | 1,078    | 56,422       | -              | -                                      | 57,500        |
| Foreign currency translation adjustment                        | -               | -      | -            | -        | -            | -              | (2,568 )                               | (2,568 )      |
| Net loss - six months ended June 30, 2009                      | -               | -      | -            | -        | -            | (43,022 )      | -                                      | (43,022 )     |
| Balance - June 30, 2009 (Unaudited)                            | -               | \$-    | 33,280,279   | \$33,280 | \$13,732,065 | \$(17,023,100) | \$ 223,085                             | \$(3,034,670) |



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

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PAY88, INC AND SUBSIDIARY  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE THE SIX MONTHS ENDED JUNE 30, 2009 AND 2008  
(UNAUDITED)

|   | 2009        | 2008          |
|---|-------------|---------------|
| Cash Flows from Operating Activities:   |             |               |
| Net income (loss)   | \$(43,022 ) | \$(1,418,922) |
| Adjustments to Reconcile Net Income (Loss) to   |             |               |
| Net Cash Used in Operating Activities:  |             |               |
| Bad debt expense  | 26,979      | 8,090         |
| Depreciation and amortization   | 32,199      | 29,996        |
| Common stock issued for repayment of accrued interest<br>on convertible notes payable | 57,500      | -             |
| Gain on derivatives, net  | (609,053 )  | -             |
| Impairment loss on website platform development                                       | 146,400     | -             |
| Amortization of debt discount and cash discount                                       | -           | 1,003,316     |
| Changes in operating assets and liabilities:  |             |               |
| Decrease (Increase) in accounts receivable  | 13,204      | (379,660 )    |
| Decrease in inventories   | 103,158     | 89,968        |
| Decrease in prepaid expense   | 97,452      | 171,000       |
| Increase in accounts payable and accrued expenses                                     | 92,311      | 202,031       |
| Net Cash Used in Operating Activities   | (82,872 )   | (294,181 )    |
| Cash Flows from Investing Activities:   |             |               |
| Capital expenditures  | (3,003 )    | (15,792 )     |
| Net Cash Used in Investing Activities   | (3,003 )    | (15,792 )     |
| Cash Flows from Financing Activities  |             |               |
| Proceeds from Regulation S offering   | -           | 1,377,032     |
| Cost of Regulation S offering   | -           | (332,440 )    |
| Repayment of convertible notes  | -           | (194,250 )    |
| Proceeds from (repayment to) short term loan - related parties                        | 6,340       | (363,327 )    |
| Net Cash Provided by Financing Activities   | 6,340       | 487,015       |
| Effect of Exchange Rate Changes on Cash   | (2,444 )    | 112,902       |
| Net (Decrease) Increase in Cash and Cash Equivalents                                  | (81,979 )   | 289,944       |
| Cash and Cash Equivalents - Beginning of Period                                       | 159,071     | 124,108       |
| Cash and Cash Equivalents - End of Period   | \$ 77,092   | \$ 414,052    |
| Supplemental Disclosures of Cash Flow Information:                                    |             |               |
| Interest Paid   | \$-         | \$ 33,005     |
| Income taxes paid   | \$ 5,104    | \$ 3,230      |
| Supplemental Schedule of Non-Cash Investing and Financing Activities:                 |             |               |

|   |          |     |
|---|----------|-----|
| Common stock issued for repayment of accrued interest<br>on convertible notes payable | \$57,500 | \$- |
|---|----------|-----|

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

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

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 was convertible into 14,000,000 shares of Pay88 common stock (see Note 11). The holders of shares of Series A Preferred Stock were 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. Accordingly, the Company’s historical financial statements are those of Qianbao.

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. Qianbao also has undertaken steps/plans 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. However, there can be no assurance that the Company will successfully accomplish these steps/plans and it is uncertain the Company will achieve a profitable level of operations from this new line of business due to limited resources of the Company and possible change of other economic factors in China.

Pay88, Inc. and Chongqing Qianbao Technology Ltd. are hereafter collectively referred to as (the “Company”).

Consolidation

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



NOTE 1 – Basis of Presentation (Continued)

Going Concern

The loss from operations was \$379,359 and \$242,089 for the six months ended June 30, 2009 and 2008, respectively. The Company has had negative cash flow from operations since April 24, 2006 (date of inception) and had an accumulated deficit of \$17,023,100 at June 30, 2009. Substantial portions of the losses are attributable to amortization of debt discounts, consulting and professional fees and loss on derivatives. In addition, as of June 30, 2009, the Company had a working capital deficiency of \$3,102,120 and delinquency in scheduled repayments of the Convertible Notes payable, accrued interests and penalties of \$2,526,581. Furthermore, the Company's gross margin rate from its current operations was very low. It was approximately 0.9% and 2.3% for the six months ended June 30, 2009 and 2008, respectively. These factors raised substantial doubt about the Company's ability to continue as going concern.

The Company is currently in default on the Convertible Notes and accrued interest, which became due in full amount effective March 12, 2009. The Company is currently negotiating with the Convertible Noteholders and or investors to restructure its current indebtedness and extend and or modify the existing terms. In addition, the Company's continued existence is dependent upon management's ability to develop profitable operations and resolve its liquidity problems.

There can be no assurance that sufficient funds will be generated during the next twelve months or thereafter from the Company's current 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.

The Company has undertaken further steps as part of a plan to improve operations with the goal of sustaining its operations for the next twelve months and beyond 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 planning to expand its current operations to increase its sales volume. The Company is also seeking for the opportunities to diversify its operations, which including other more profitable product lines and to improve its current gross margin. However, there can be no assurance that the Company can successfully accomplish these steps and or business plans, and it is uncertain that the Company will achieve a profitable level of operations and be able to obtain additional financing.

There can be no assurance that any additional financings will be available to the Company on satisfactory terms and conditions, if at all. In the event we are unable to continue as a going concern, we may elect or be required to seek protection from our creditors by filing a voluntary petition in bankruptcy or may be subject to an involuntary petition in bankruptcy. To date, management has not considered this alternative, nor does management view it as a likely occurrence.

The accompanying unaudited 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 reclassifications have been made to prior year's consolidated financial statements and notes thereto for comparative purposes to confirm with current year's presentation. These reclassifications have no effect on previously reported results of operations.



New Accounting Pronouncements Effective January 1, 2009

SFAS No. 160

In December 2007, the FASB issued SFAS No. 160, "Non-controlling Interests in Consolidated Financial Statements—an amendment of ARB No. 51" ("SFAS No. 160"). In SFAS No. 160, the FASB established accounting and reporting standards that require non-controlling interests to be reported as a component of equity, changes in a parent's ownership interest while the parent retains its controlling interest to be accounted for as equity transactions, and any retained non-controlling equity investment upon the deconsolidation of a subsidiary to be initially measured at fair value. SFAS No. 160 is effective for annual periods beginning on or after December 15, 2008. Retroactive application of SFAS No. 160 is prohibited. We adopted SFAS No. 160 effective on January 1, 2009 which had no material effect on our unaudited condensed consolidated financial position, results of operations or cash flows.

EITF No. 07-1

In December 2007, the FASB issued EITF No. 07-1, "Accounting for Collaborative Arrangements" ("EITF No. 07-1"). EITF No. 07-1 prescribes the accounting for parties of a collaborative arrangement to present the results of activities for the party acting as the principal on a gross basis and report any payments received from (made to) other collaborators based on other applicable GAAP or, in the absence of other applicable GAAP, based on analogy to authoritative accounting literature or a reasonable, rational, and consistently applied accounting policy election. Further, EITF No. 07-1 clarified the determination of whether transactions within a collaborative arrangement are part of a vendor-customer (or analogous) relationship subject to Issue No. 01-9, "Accounting for Consideration Given by a Vendor to a Customer." EITF No. 07-1 is effective for collaborative arrangements that exist on January 1, 2009 and application is retrospective. We adopted EITF No. 07-1 effective on January 1, 2009 and the adoption had no material effect on our unaudited condensed consolidated financial position, results of operations or cash flows.

SFAS No. 161

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities—an amendment of FASB Statement No. 133" ("SFAS No. 161"). The new standard is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity's financial position, results of operations and cash flows. The new standard also improves transparency about how and why a company uses derivative instruments and how derivative instruments and related hedged items are accounted for under Statement No. 133. It is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. We adopted SFAS No. 161 effective on January 1, 2009 and the adoption had no material effect on our unaudited condensed consolidated financial position, results of operations or cash flows.



## EITF No. 07-5

In June 2008, the FASB ratified EITF No. 07-5, “Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity’s Own Stock” (“EITF No. 07-5”). EITF No. 07-5 provides that an entity should use a two-step approach to evaluate whether an equity-linked financial instrument (or embedded feature) is indexed to its own stock, including evaluating the instrument’s contingent exercise and settlement provisions. It also clarifies the impact of foreign currency denominated strike prices and market-based employee stock option valuation instruments on the evaluation. EITF No. 07-5 is effective for fiscal years beginning after December 15, 2008. We adopted EITF No. 07-5 effective on January 1, 2009 and the adoption had no material effect on our unaudited condensed consolidated financial position, results of operations or cash flows.

## Recently Issued Accounting Standards

In January 2009, the FASB issued Financial Statement of Position (“FSP”) Issue No. EITF No. 99-20-1, “Amendments to the Impairment Guidance of EITF Issue No. 99-20” (“FSP EITF No. 99-20-1”). FSP EITF No. 99-20-1 amends the impairment guidance in EITF Issue No. 99-20, “Recognition of Interest Income and Impairment on Purchased Beneficial Interests and Beneficial Interests that Continue to be Held by a Transferor in Securitized Financial Assets” to achieve more consistent determination of whether an other-than-temporary impairment has occurred. The Company adopted FSP EITF No. 99-20-1 and it did not have a material impact on the unaudited condensed consolidated financial statements.

In April 2009, the Financial Accounting Standards Board (“FASB”) issued the following new accounting standards:

- FSP FAS 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly , provides guidelines for making fair value measurements more consistent with the principles presented in FASB Statement No. 157 (“SFAS 157”), Fair Value Measurements . FSP FAS 157-4 reaffirms what SFAS 157 states is the objective of fair value measurement, to reflect how much an asset would be sold for in an orderly transaction at the date of the financial statements under current market conditions. Specifically, it reaffirms the need to use judgment to ascertain if a formerly active market has become inactive and in determining fair values when markets have become inactive.
- FSP FAS 107-1 and APB 28-1, Interim Disclosures about Fair Value of Financial Instruments, enhances consistency in financial reporting by increasing the frequency of fair value disclosures. This relates to fair value disclosures for any financial instruments that are not currently reflected on the consolidated balance sheet at fair value. FSP FAS 107-1 and APB 28-1 now require that fair value disclosures be made on a quarterly basis, providing qualitative and quantitative information about fair value estimates for all those financial instruments not measured on the balance sheet at fair value.
- FSP FAS 115-2 and FAS 124-2, Recognition and Presentation of Other-Than-Temporary Impairments, provides additional guidance designed to create greater clarity and consistency in accounting for and presenting impairment losses on securities. This FSP is intended to bring greater consistency to the timing of impairment recognition and to provide greater clarity to investors about the credit and noncredit components of impaired debt securities that are not expected to be sold. This FSP also requires increased and timelier disclosures sought by investors regarding expected cash flows, credit losses, and an aging of securities with unrealized losses.

These standards were effective for periods ending after June 15, 2009. The adoption of these accounting standards had no material effect on our consolidated financial statements.



#### SFAS No. 165

In May 2009, the FASB issued SFAS No. 165, "Subsequent Events". We adopted SFAS No. 165 for the Quarterly Report for the period ending June 30, 2009. SFAS No. 165 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued, which are referred to as subsequent events. The statement clarifies existing guidance on subsequent events, including a requirement that a public entity should evaluate subsequent events through the issue date of the financial statements, the determination of when the effects of subsequent events should be recognized in the financial statement and disclosures regarding all subsequent events. SFAS No. 165 also requires a public entity to disclose the date through which an entity has evaluated subsequent events. We have evaluated subsequent events through the date of filing as disclosed in Note 16.

#### SFAS No. 166

In June 2009, the FASB issued SFAS No. 166, "Accounting for Transfers of Financial Assets, an Amendment of FASB Statement No. 140," which eliminates the concept of a qualifying special purpose entity, changes the requirements for derecognizing financial assets and requires additional disclosures. SFAS No. 166 is effective for periods beginning after November 15, 2009. The Company is evaluating the impact of SFAS No. 166 on its consolidated financial statements.

#### SFAS No. 167

In June 2009, the FASB issued SFAS No. 167, "Amendments to FASB Interpretation No. 46(R)," which changes how a reporting entity determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated and requires additional disclosures. SFAS No. 167 is effective for periods beginning after November 15, 2009. The Company is evaluating the impact of SFAS No. 167 on its consolidated financial statements.

#### SFAS No. 168

In June 2009, the FASB issued SFAS No. 168, "The FASB Accounting Standards Codification™ and the Hierarchy of Generally Accepted Accounting Principles," which establishes the FASB Accounting Standards Codification™ (the "Codification") as the source of authoritative US GAAP recognized by the FASB to be applied to nongovernmental entities. Rules and interpretive releases of the SEC under authority of federal securities laws are also included in the Codification as sources of authoritative US GAAP for SEC registrants. SFAS No. 168 and the Codification are effective for financial statements issued for interim and annual periods ending after September 15, 2009. The adoption of this rule will not affect reported results of operations, financial condition or cash flows. The Company will implement SFAS No. 168 in its third quarter Form 10-Q by updating the previous FASB references to the Codification.

Other recent accounting pronouncements issued by the FASB (including its Emerging Issues Task Force), the AICPA, and the SEC did not, or are not believed by management to, have a material impact on the Company's present or future consolidated financial statements.

NOTE 2 – Interim Financial Statements

The unaudited condensed consolidated financial statements as of June 30, 2009 and for the three and six months ended June 30, 2009 and 2008 have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions for Securities and Exchange Commission (“SEC”) Form 10-Q. In the opinion of management, the unaudited condensed consolidated financial statements have been prepared on the same basis as the annual financial statements and reflect all adjustments, which include only normal recurring adjustments, necessary to present fairly the financial position as of June 30, 2009 and the results of operations and cash flows for the three and six months ended June 30, 2009 and 2008. The financial data and other information disclosed in the notes to the interim financial statements related to these periods are unaudited. The results for the three and six months ended June 30, 2009 is not necessarily indicative of the results to be expected for any subsequent quarter or the entire year ending December 31, 2009.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to the SEC’s rules and regulations. These unaudited condensed consolidated financial statements should be read in conjunction with our audited consolidated financial statements and notes thereto for the year ended December 31, 2008, included in the Company’s Annual Report on Form 10K filed on March 30, 2009 with SEC.

The consolidated financial statements as December 31, 2008 have been derived from the audited consolidated financial statements at that date but do not include all disclosures required by the accounting principles generally accepted in the United States of America.

NOTE 3 - Net Income (Loss) Per Common Share

The Company has adopted Financial Accounting Standards Board (“FASB”) Statement Number 128, “Earnings per Share,” (“EPS”) which requires presentation of basic and diluted EPS on the face of the income statement for all entities with complex capital structures and requires a reconciliation of the numerator and denominator of the basic EPS computation to the numerator and denominator of the diluted EPS

Basic income (loss) per share is computed by dividing net income or loss by the weighted average number of common shares outstanding during the period.

Diluted income (loss) per share is computed similarly to basic income (loss) per share except that it includes the potential dilution that could occur if dilutive securities were converted. The potential dilutive shares were 25,265,810 common shares as of June 30, 2009. It was calculated from \$2,526,581 of convertible notes and accrued interest and penalties. The conversion price was at \$0.10 per share, the stock’s closing price as of June 30, 2009. Diluted loss per common share for the three months ended June 30, 2009 and 2008 and for the six months ended June 30, 2009 and 2008 was the same as basic loss per share, as the effect of potentially dilutive securities were anti-dilutive.

## NOTE 4 - Inventories

Inventories consist of the following:

|                      | June 30,<br>2009 | December<br>31, 2008 |
|----------------------|------------------|----------------------|
| Purchased game cards | \$268,900        | \$372,058            |

All inventories are consisted of finished products. There was no valuation allowance for inventory loss at June 30, 2009 and December 31, 2008 as most of the purchased inventories are sold within one month.

## NOTE 5 - Property and Equipment

Property and equipment is summarized as follows:

|   | Estimated<br>Useful<br>Lives | June 30,<br>2009 | December<br>31, 2008 |
|---|------------------------------|------------------|----------------------|
| Office Units and Improvement                    | 31                           | \$449,409        | \$449,931            |
| Furnitures and Fixtures                         | 5                            | 9,921            | 9,932                |
| Office Equipment                                | 3                            | 106,232          | 103,348              |
| Software  | 3                            | 35,113           | 35,153               |
| Automobile                                      | 5                            | 7,244            | 7,252                |
|   |                              | 607,919          | 605,616              |
| Less: Accumulated Depreciation and Amortization |                              | 166,381          | 134,327              |
|   |                              | \$441,538        | \$471,289            |

Depreciation and amortization expense was \$16,190 and \$14,669 for the three months ended June 30, 2009 and 2008, respectively, and \$32,199 and \$29,996 for the six months ended June 30, 2009 and 2008, respectively.

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. Accordingly, the office units and improvement represent those costs related to the buildings and improvement.

## NOTE 6 – Website platform development

On July 16, 2008, the Company signed a website platform development contract with Ziya Company, a Chinese information technology company located in Hangzhou, China. The Company and Ziya worked jointly in the development of a online gaming transaction platform to be utilized internally by Qianbao in the marketing of online prepaid game card products throughout Chongqing and other major cities in China. On July 29, 2008, the Company paid Ziya Company 1,000,000 RMB, approximately \$146,400 (translated as of June 30, 2009) to initiate the website platform project.

The Company is applying the provisions of the American Institute of Certified Public Accountants Statement of Position (“SOP”) No. 98-1, “Accounting for Costs of Computer Software Developed or Obtained for Internal Use”, and the Emerging Issues Task Force Issue (“EITF”) No. 00-02, “Accounting for Website Development Costs”. The rules specify different stages of development and the related accounting guidance that accompanies each stage. Purchased third party software and related implementation costs and internal and external costs incurred related to the application development stage are capitalized and included in other assets under the caption of Website platform development. Such capitalized costs will be amortized using the straight-line method over three years of the estimated useful life after the new platform is in use. All costs incurred in the planning stage are expensed as incurred and those costs to be incurred in the operating stage will be expensed as incurred.

The website platform had been in testing since February 2009 and management concluded on June 30, 2009 that it was not able to meet security requirement by the Company. The management decided to abandon the application of this website platform. The carrying value of the capitalized website platform development costs totaled \$146,400 became impaired consequently during the second quarter ended June 30, 2009 and was recorded as an impairment loss on website platform development.

## NOTE 7 - Convertible Debt

Convertible debt consists of the following:

|                                      | June 30,<br>2009 | December<br>31, 2008 |
|--------------------------------------|------------------|----------------------|
| Convertible notes payable            | \$1,770,750      | \$1,770,750          |
| Less: current portion                | 1,770,750        | 1,770,750            |
| Long term portion due after one year | \$-              | \$-                  |

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.

On October 31, 2007, the Company entered into a Second Subscription Agreements (the "Subscription Agreements") with the same 3 investors ("Purchasers") dated September 12, 2007, for the purchase and sale of \$1,155,000 of Secured Convertible Promissory Notes of the Company (the second “Notes”) for the aggregate purchase price of \$750,000 (the “Note Financing”). The Company received net proceeds from the issuance of the Notes of \$707,488.



Both of the Notes bear interest at the rate of prime plus 4% per annum but not less 8% (8% per annum at June 30, 2009), 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 at the option of the Company. 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. The Company is in default on the Notes and accrued interest, which became due on March 12, 2009 (See Note 16).

All principal and accrued interest on the both Notes are 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.

Both Notes contained same 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 the Purchasers an aggregate of 2,310,000 Class A Common Stock Purchase Warrants and 2,310,000 Class B Common Stock Purchase Warrants. (1,155,000 Class A Common Stock Purchase Warrants and 1,155,000 Class B Common Stock Purchase Warrants on each notes). 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.

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 Chongqing 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 the Company's 13,860,000 shares of common stock which was converted from 4,950,000 shares of Series A Preferred Stock during 2007 (see Note 11), 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. The registration statement on Form SB-2 was declared effective as of October 30, 2007.





In connection with the first and second convertible debts, the Company recorded a cash discount of \$810,000 and deferred finance costs of \$140,275. 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 \$1,500,000 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 the amount of \$333,533 as a reduction to the carrying amount of the convertible debt and as an addition to paid-in capital. Additionally, the relative fair value of the warrants \$1,166,467 was calculated and recorded as a further reduction to the carrying amount of the convertible debt and as addition to paid-in capital. Unamortized amount of beneficial conversion feature and relative fair value of the warrants was \$194,017 at December 31, 2008, which have been written off due to the default condition at December 31, 2008.

The Company is amortizing the discounts over the term of the debt in accordance with EITF 00-27 guidance. Amortization of the debt and cash discount for the years ended December 31, 2008 and 2007 was \$1,676,446 and \$410,474, respectively, and the amortization is reported as a component of interest expense. Amortization of deferred finance costs for the year ended December 31, 2008 and 2007 amounted to \$107,089 and \$28,256, respectively, and is reported as a component of interest expense. An unamortized deferred finance cost of \$4,930 was written off due to the default condition at December 31, 2008.

The Company commenced the repayment of the Notes and interests on March 19, 2008. As of March 31, 2009, the Company paid \$572,255 in total to the note holders, such payments representing the loan principal of \$539,250, the loan interest of \$13,005 and the fee of \$20,000. On May 4, 2009, the Company issued 1,078,588 shares to two investors, which represented the interest payment of \$57,500. The conversion price was \$0.0533 per share based on mutual negotiation with the two investors / Noteholders. The Company is in default on loan repayment. As of June 30, 2009, the unpaid liabilities consist of Notes principal of \$1,770,750, accrued Notes interest of \$290,882, accrued late payment penalty of \$110,799 and a mandatory redemption penalty of \$354,150 for unpaid principal balance.

On December 30, 2008, the Company entered into an amendment (the “Amendment”) with the holders of its secured convertible promissory notes. The Amendment changed the original fixed conversion price of \$1.00 per share to the lesser of the closing bid price of the Company’s common stock on the day prior to conversion date or \$0.80 per share, subject to further reduction as described in the original Notes. All the other terms of the notes remain unchanged in full force and effect. The Amendment also changed the exercise price of the Class A warrants from the original \$0.81 per share to \$0.75 per share, and the exercise price of Class B warrants from the original \$1.13 per share to \$0.75 per share. Due to default on its Convertible Notes payment, the Company wrote off the balance of unamortized beneficial conversion feature and relative fair value of the warrants totaled \$194,017 and unamortized cash discount of \$29,062 at December 31, 2008.

## NOTE 8 – Derivative Liabilities

The Company is accounting for the amended variable conversion price in the Convertible Notes, accrued and unpaid interest and penalties and the associated warrants as derivative liabilities in accordance with SFAS 133, “Accounting for Derivative Instruments and Hedging Activities” and EITF 00-19 “Accounting for Derivative Financial Instruments Indexed to and Potentially Settled in a Company’s Own Stock” due to the fact that the conversion features have a variable conversion price as a result of the Company’s Amendment made on the Convertible Notes dated December 30, 2008 (see Note 7), measured at fair value using the Black-Scholes option pricing model. The Company also determined that the warrants did not meet the conditions for equity classification because these instruments did not meet all of the criteria necessary for equity classification, hence the conversion feature could result in a variable number of shares to be issued upon conversion. This condition, which is outside of the Company’s control, could impact the Company’s ability to maintain the appropriate level of reserved shares in place required for the warrants. This could result in the need for the Company to obtain approval from its shareholders to increase its authorized share capital to accommodate the appropriate reserves for shares issuable upon exercise of the warrants. Since shareholder approval for this increase of authorized share capital cannot be guaranteed, the warrants, in accordance with EITF 00-19, need to be classified as a liability on the Company balance sheet, measured at fair value using the Black-Scholes option pricing model.

The Company combined all embedded features resulting from the December 30, 2008 Amendment that required bifurcation into one compound instrument that is carried as a component of derivative liabilities. Derivative liabilities at June 30, 2009 and December 31, 2008 consist of the following:

|                               | June<br>30, 2009<br>Fair Value<br>(Unaudited) | December<br>31, 2008<br>Fair Value |
|-------------------------------|---|------------------------------------|
| Beneficial conversion feature | \$927,255                                     | \$815,284                          |
| Warrants                      | 374,088                                       | 1,095,112                          |
| Total derivative liabilities  | 1,301,343                                     | 1,910,396                          |
| Less: current liabilities     | 927,255                                       | 815,284                            |
| Long term liabilities         | \$374,088                                     | \$1,095,112                        |

The Company has recorded a gain on derivatives of \$11,437 and \$609,053 for the three and six months ended June 30, 2009.

The significant assumptions used in Black – Scholes Model to determine the fair values of derivative liabilities as a result of the Amendment are as follows:

|                                 | June 30,<br>2009<br>(Unaudited) |   | December<br>31, 2008    |   |
|---------------------------------|---------------------------------|---|-------------------------|---|
| Risk-free interest rate         | 2.54                            | % | 1.47                    | % |
| Expected stock price volatility | 192.04                          | % | 192.04                  | % |
| Expected dividend payout        | \$-                             |   | \$-                     |   |
| Expected life                   | 90 days to<br>3.21 years        |   | 72 days to<br>3.7 years |   |



## NOTE 9 - Loans Payable – Related Parties

Loans payable to related parties consist of the following:

|  | June 30,<br>2009<br>(Unaudited) | December<br>31, 2008 |
|--|---------------------------------|----------------------|
| Chief Executive Officer of the Company bearing interest at 5% per annum, payable on demand | \$ 293,025                      | \$ 324,725           |
| Chief Operating Officer of the Company bearing interest at 6% per annum payable on demand  | 57,997                          | 19,957               |
| Chief Executive Officer of the Company bearing interest at 5% per annum, payable on demand | 80,385                          | 80,385               |
| Total loan payable - related parties   | 431,407                         | 425,067              |
| Less: current portion  | 431,407                         | 425,067              |
| Long-term portion  | \$ -                            | \$ -                 |

The notes due to the Chief Executive Officer (the “CEO”) and the Chief Operating Officer (the “COO”) are past due. The management is currently negotiating with the CEO and COO to extend the maturity date of these notes.

## NOTE 10 - Commitments and Contingencies

## Country Risk

As the Company's principal operations are conducted in the People's Republic of China (the “PRC”), the Company is subject to special considerations and significant risks not typically associated with companies in North America and Western Europe. These risks include, among others, risks associated with the political, economic and legal environments and foreign currency exchange limitations encountered in the PRC. The Company's results of operations may be adversely affected by changes in the political and social conditions in the PRC, and by changes in governmental policies with respect to laws and regulations, among other things.

In addition, all of the Company's transactions undertaken in the PRC are denominated in Chinese Yuan Renminbi (CNY), which must be converted into other currencies before remittance out of the PRC may be considered. Both the conversion of CNY into foreign currencies and the remittance of foreign currencies abroad require the approval of the PRC government.

## 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 (see Note 1), 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 business for customers 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 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 are presently not engaged and or inactive in the money transfer business.

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#### 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 11 - 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 Notes 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 was convertible into 14,000,000 shares of Pay88 common stock. Each share of Series A Preferred Stock was converted into 2.8 shares of the Company’s common stock on October 3, 2007.

On September 11, 2007, the Company issued an aggregate of 6,666,667 shares of common stock to TVH Limited, a Netherlands Limited Company, in consideration for the past services rendered, and 1,333,333 shares to our attorney, who subsequently returned his shares to the Company for cancellation. TVH Limited subsequently transferred its shares to 5 individuals. These issuances were offered and sold in reliance upon exemptions from registration pursuant to Section 4(2) under the Securities Act and Rule 506 promulgated thereunder. The shares issued in consideration for services rendered were valued at \$10,133,332, based on the price of our stock on the date of issuance.





On March 4, 2008, the Company has determined to raise up to \$12,150,000 in capital pursuant to a private placement held under Regulation S promulgated under the Securities Act of 1933, as amended (the “Act”) by offering for sale up to 9,000,000 shares of the Company’s common stock at a purchase price of \$1.35 per share. The Company has issued 1,300,024 shares of its common stock during the year ended December 31, 2008, to eighteen subscribers and received gross proceeds of \$1,755,032. The cost in connection with this private placement totaled to \$408,040 for the year ended December 31, 2008, which representing the finder fee, commissions and legal fees incurred and paid as of December 31, 2008.

On July 1, 2008, the Company entered into a six-month period consulting agreement with Consulting For Strategic Growth 1, Ltd (the “Consultant”), pursuant to which the Consultant will provide the Company with investor relations/media relations services. In consideration for such services, the Company agreed to issue 22,500 restricted shares per month for the term of six months. In addition, the Company will issue a three years warrant to purchase 100,000 share of common stock at a purchase price of \$4.25 per share. As of December 31, 2008, the Company has issued 135,000 shares of its common stock to Strategic Growth 1, Ltd. The shares issued in consideration for services rendered were valued at \$158,625, based on the closing price of the issuance date.

On May 4, 2009, the Company issued 1,078,588 shares to two investors / Noteholders, which represented the interest payment of \$57,500. The conversion price was \$0.0533 per share based on mutual negotiation with the two investors / Noteholders.

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.

## Note 12 - Option and Warrants

### Warrants

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

|  | Date of Issuance | Number of<br>Warrants | Exercise Price |
|--|------------------|-----------------------|----------------|
| Issued, Class A warrants               | 9/12/2007        | 1,155,000             | \$ 0.75        |
| Issued, Class B warrants               | 9/12/2007        | 1,155,000             | \$ 0.75        |
| Issued, Class A warrants               | 10/31/2007       | 1,155,000             | \$ 0.75        |
| Issued, Class B warrants               | 10/31/2007       | 1,155,000             | \$ 0.75        |
| Warrants issued for consulting service | 12/31/2008       | 100,000               | \$ 4.25        |
| Outstanding, December 31, 2008         |                  | 4,720,000             |                |
| Outstanding, June 30, 2009             |                  | 4,720,000             |                |



Warrants outstanding and exercisable by price range as of June 30, 2009:

| Class | Number    | Average<br>Weighted<br>Remaining<br>Contractual<br>Life in Yrs | Exercise<br>Price | Number    | Weighted<br>Average<br>Exercise<br>Price |
|-------|-----------|--|-------------------|-----------|--|
| A     | 2,310,000 | 3.21   | \$0.75            | 2,310,000 | \$0.75                                   |
| B     | 2,310,000 | 3.21   | 0.75              | 2,310,000 | 0.75                                     |
|       | 100,000   | 2.50   | 4.25              | 100,000   | 4.25                                     |
|       | 4,720,000 | 3.19   |                   | 4,720,000 | \$0.82                                   |

The Company issued 4,620,000 warrants in connection with the sale of \$2,310,000 principal convertible promissory notes. These warrants were valued at approximately \$5,334,000, of which \$1,166,467 was recorded as reduction to the carrying amount of convertible debt as debt discount to be amortized over the life of the related debt.

The Company recorded the fair value of \$18,200 for 100,000 shares of Company's warrants issued to Strategic Growth1, Ltd. at December 31, 2008. It was recorded as a consulting expense and an addition to Additional Paid-in Capital.

The fair value of these warrants and significant assumptions used to determine the fair values, using a Black-Scholes option pricing model are as follows:

| Significant assumptions:        | Warrants<br>Issued at<br>09/12/2007 |   | Warrants<br>Issued at<br>10/31/2007 |   | Warrants<br>Issued at<br>12/31/2008 |   |
|---------------------------------|-------------------------------------|---|-------------------------------------|---|-------------------------------------|---|
| Risk-free interest rate         | 4.11                                | % | 4.11                                | % | 1.47                                | % |
| Expected stock price volatility | 192.04                              | % | 192.04                              | % | 192.04                              | % |
| Expected dividend payout        | \$ -                                |   | \$ -                                |   | \$ -                                |   |
| Expected option life-years      | 5                                   |   | 5                                   |   | 3                                   |   |

#### NOTE 13 - Related Party Transactions

##### Accounts Payable

Accrued interest payable related to the loans due to the officers (see Note 9) have been included in accounts payable, which amounted to \$89,578 and \$79,325 at June 30, 2009 and December 31, 2008, respectively.

Accrued salary payable to the CEO of the Company was \$241,667 and \$191,667 at June 30, 2009 and December 31, 2008, respectively.

##### 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 14 - 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 all risk if any of these banks become insolvent. As of June 30, 2009 and December 31, 2008, the Company's uninsured cash in bank balance was \$72,406 and \$153,536, respectively.

NOTE 15 - Income Taxes

The provision for income tax in the amount of \$2,551 and \$6,027 for the six months ended June 30, 2009 and 2008, respectively, were related to foreign income tax incurred and or paid to the Chinese tax agent. The Company's income tax was assessed on the base of 13% of gross profit, which multiplied by the applicable tax brackets before December 31, 2008. Commencing on January 1, 2009, income tax will be based on earnings before income tax.

NOTE 16 - Subsequent Events

On October 7, 2008, the Company entered into a letter of intent agreement with Chongqing Aomei Advertising Co., Ltd., a limited liability company organized under the laws of the People's Republic of China ("Aomei"), pursuant to which the Company intends to acquire from Aomei certain assets, including, intellectual property rights, advertising rights and client groups, in consideration for the issuance of a certain number of shares of the Company's common stock to be mutually agreed upon after the Company has completed its due diligence investigation of Aomei and its assets. Due to the current market conditions, the Company did not take further actions as of the filing date of this report.

The Company is currently in default on the Convertible Notes and accrued interest, which became due in full amount effective March 12, 2009. As of June 30, 2009, the unpaid liabilities consist of Notes principal of \$1,770,750, accrued Notes interest of \$290,882, accrued late payment penalty of \$110,799 and a mandatory redemption penalty of \$354,150 for unpaid principal balance. The Company is currently negotiating with the Convertible Noteholders and or investors to seek ways to resolve the default issue. However, there can be no assurance that the Company will be successful with the negotiation with the Convertible Noteholders.

The management has determined that all subsequent events through the date of filing have been disclosed.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Forward-Looking Statements

The following discussion should be read in conjunction with our unaudited condensed consolidated financial statements, which are included elsewhere in this Form 10-Q (the "Report"). This Report contains forward-looking statements which relate to future events or our future financial performance. In some cases, you can identify forward-looking statements by terminology such as "may," "should," "expects," "plans," "anticipates," "believes," "estimates," "predicts," "potential" or "continue" or the negative of these terms or other comparable terminology. These statements are only predictions and involve known and unknown risks, uncertainties, and other factors that may cause our or our industry's actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements.

The following discussion should also be read in conjunction with our audited consolidated financial statements and Form 10-K filed on March 30, 2009. Although Qianbao is a subsidiary of Pay88, the acquisition of Qianbao by Pay88 that was consummated on September 5, 2006 has been treated as a reverse merger of Qianbao. This means that Qianbao is the continuing entity for financial reporting purposes.

Corporate Background

Pay88 was incorporated on March 22, 2005 under the name "Pay88, Ltd." in the State of New Hampshire. We subsequently decided to reincorporate in the State of Nevada by merging with and into Pay88, Inc., a Nevada corporation formed for such purpose on July 7, 2005. Such merger was effectuated on August 9, 2005.

Through our wholly-owned subsidiary, Chongqing Qianbao Technology Ltd. ("Qianbao"), a Chinese limited liability company, we are primarily engaged in the sale of prepaid multi player online game cards through our internet websites, <http://www.iamseller.com>, and <http://www.17logo.com>. We also offer for sale on such websites prepaid telephone cards and over 800 software products, including cooking and language software.

Our History

Between the date of our incorporation and our acquisition of Qianbao on September 6, 2006, we were focused on becoming involved in the business of facilitating money transfers from the United States to China. During such time period, our operations were focused on organizational, start-up, and fund raising activities and entering into an agreement with Chongqing Yahu Information Development Co., Ltd. ("Yahu"), as described below. We never commenced our proposed business operations or generated revenues in connection with such proposed operations.

In furtherance of our intentions to enter into the money transfer business between customers in the U.S. and China, on August 3, 2005, we entered into a five year agreement with Yahu, pursuant to which, Yahu agreed to provide all proprietary software needed to effectuate fund transfers between the United States and China and 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. Pursuant to the agreement, such services are to be provided to us for a licensing fee that is based upon 20% of the gross fund transfer revenues. The fee is payable on a quarterly basis. Mr. Tao Fan, a director and our Chief Operating Officer of Pay88 (also a brother of Mr. Guo Fan, a director and the Chief Executive Officer of Pay88), is the Chief Executive Officer of Yahu and owns 5% of its issued shares of capital stock. We presently have no intention to engage in the money transfer business. Nonetheless, we may in the future resume our plans to develop the money transfer business.

On September 5, 2006, we acquired Qianbao pursuant to a Share Purchase Agreement, dated as of such date, among Pay88, Qianbao, and Qianbao's two shareholders, Ying Bao and Yahu. Pursuant to such Share Purchase Agreement, Pay88 agreed to acquire 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 thereof, 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 Yahu and 50,000 shares to Ying Bao.

Qianbao was incorporated on April 24, 2006, under the name "Chongqing Qianbao Technology Ltd." under the laws of the People's Republic of China. Qianbao primarily engages in the sale of prepaid multi player on line game cards on its internet websites, <http://www.iamseller.com> and <http://www.17logo.com>, as further described below. On July 3, 2006, Qianbao purchased an office located at No. 78 1st Yanghe Village, Jiangbei District, Chongqing, China for a purchase price of approximately \$393,000. Such office serves as Qianbao's executive offices. Although we own the three units of office space, the underlying land is owned by the People's Republic of the State of China. Our right to use the land expires in 2037 and may be extended at that time.

#### Plan of Operation

Through our subsidiary, Qianbao, we will continue to focus over the next twelve months on developing our internet distribution platform on Qianbao's websites and increasing the volume of our sales of multi player online game cards on such websites. Qianbao will continue to focus on developing its websites, [www.iamseller.com](http://www.iamseller.com) and [www.17logo.com](http://www.17logo.com) and to build other internet websites on which it will operate a distribution platform through which we will be able to offer products for sale to consumers or retailers located in the other provinces of China. Qianbao will continue its efforts to arrange for suppliers to offer for sale on such website the following products: prepaid multiplayer online game cards, which allow the holder thereof to play, for the allotted time, online internet games. We also offer for sale prepaid study cards, which allow the holder thereof to use, for the allotted time, online software that assists in the learning of various subjects including Chinese, English and cooking. We have formal arrangements with the following manufacturers to supply us with products to be sold on Qianbao's website: Shandong Tianfu Online Platform (supplier of game cards); Golden game (supplier of game cards); 51points (supplier of game cards); Optisp Communication (supplier of game cards); Sifang Online Distribution Platform (supplier of game cards); Chongqing Taoxing (supplier of study cards); and Chongqing Dezheng Technology Development. No individual manufacturer alone is material to our current business. We are currently engaged in agreements with the above mentioned suppliers. However, there is no assurance that we will be successful in marketing and selling these products.

## Results of Operations

## Comparison of Gross Profit for the Three Months Ended June 30, 2009 and 2008

|                     | Three Months Ended<br>June 30, |   |             |   |
|---------------------|--------------------------------|---|-------------|---|
|                     | 2009                           |   | 2008        |   |
| Net Sales           | \$3,373,537                    |   | \$4,682,489 |   |
| Cost of Sales       | 3,358,592                      |   | 4,585,734   |   |
| Gross Profit        | \$ 14,945                      |   | \$96,755    |   |
| Gross Profit Margin | 0.44                           | % | 2.07        | % |

## Sales

Our net sales decreased by \$1,308,952 or 28% from \$4,682,489 for the three months ended June 30, 2008 to \$3,373,537 for the three months ended June 30, 2009. Sales to local internet café or net bar decreased approximately by \$378,185 or 16% from \$2,294,420 for the three months ended June 30, 2008 to \$1,916,235 for the three months ended June 30, 2009. Sales to regional distribution market decreased approximately by \$930,767 or 39% from \$2,388,069 for the three months ended June 30, 2008 to \$1,457,302 for the three months ended June 30, 2009. These decreases are primarily due to slow down in economy and decrease in consumer demand.

## Cost of Sales

Our cost of sales decreased by \$1,227,142 or 27% from \$4,585,734 for the three months ended June 30, 2008 to \$3,358,592 for the three months ended June 30, 2009. The decrease was primarily attributable to the decrease in net sales. Our cost of sales consisted of the direct cost of game cards purchases made from our game developers, such decreased were in line with the decrease in our sales volume.

## Gross Margin

Our prepaid multi player on line game cards and other prepaid products business generated a very low gross profit rate, which was approximately 0.4% and 2.1% in the three month periods ended June 30, 2009 and 2008, respectively. The decrease of gross profit rate was primarily attributable to the decrease in both local internet cafe and regional sales.



## Comparison of Net Loss for the Three Months Ended June 30, 2009 and 2008

|   | Three Months Ended<br>June 30, |              |
|---|--------------------------------|--------------|
|   | 2009                           | 2008         |
| Gross Profit                              | \$ 14,945                      | \$ 96,755    |
| Payroll and related expenses              | 103,448                        | 94,976       |
| Professional fees                         | 62,782                         | 80,818       |
| Selling expense                           | 972                            | 4,285        |
| Other general and administrative expenses | 66,464                         | 71,643       |
| Total operating expenses                  | 233,666                        | 251,722      |
| Loss From Operations                      | (218,721 )                     | (154,967 )   |
| Other expenses - net                      | (196,229 )                     | (576,457 )   |
| Provision for income tax                  | -                              | (2,519 )     |
| Net Loss                                  | \$(414,950 )                   | \$(733,943 ) |

## Operating Loss

Operating expenses, which consist of payroll and related expenses, professional fees, selling expenses, and other general and administrative expenses totaled to \$233,666 for the three months ended June 30, 2009, as compared to \$251,722 for the same period of 2008, representing a decrease of \$18,056. Our operating loss for the three months ended June 30, 2009 was \$218,721 as compared to an operating loss of \$154,967 for the three months ended June 30, 2008, representing an increase in operating loss of \$63,754. The increase in our operating loss was primarily due to a decrease in sales.

## Payroll and Related Expenses

Our payroll and related expenses increased by \$8,472 or 9% from \$94,976 for the three months ended June 30, 2008 to \$103,448 for the three months ended June 30, 2009. The increase was primarily attributable to 15% increase of wages (not include senior managers) during the second quarter of 2008 in accordance with the expansion of our operations in 2008. We had 64 full-time employees and 53 full-time employees as of June 30, 2009 and 2008, respectively. As of June 30, 2009, there were twenty-nine employees who were involved in technical operations of the Company, twenty were involved in sales and marketing and fifteen staffs were involved in management, human resources and accounting/finance. At June 30, 2008, we had ten employees who were involved in technical operations, twenty three in sales and marketing and the remainder in management, human resources and accounting/finance.

## Professional Fees

Our professional fees decreased by \$18,036 or 22% from \$80,818 for the three months ended June 30, 2008 to \$62,782 for the three months ended June 30, 2009. The decrease was primarily due to significant fees incurred in 2008 in connection with legal and accounting reporting of being a relative new public company.

## Other General and Administrative Expenses

Our other general and administrative expenses decreased by \$5,179 or 7% from \$71,643 for the three months ended June 30, 2008 to \$66,464 for the three months ended June 30, 2009. The decrease was primarily attributable to decrease of travel expenses, which decreased by \$5,179.

## Other Expenses, Net

Total other expenses was \$196,229 for the three months ended June 30, 2009, a decrease of \$380,228 as compared to the other expenses of \$576,457 for the three months of ended June 30, 2008. The decrease was primarily attributable to decrease of interest expenses incurred in connection with the amortization of convertible debt issuances in September and October 2007. We have had written off unamortized deferred financing costs and debt discount at December 31, 2008 due to the default condition. Therefore, such expense is \$0 for the three months ended June 30, 2009 as compared to \$487,170 incurred for the three months ended June 30, 2008. The increase of other expenses was also attributable to a decrease in the fair value of the derivative liabilities (see Note 8 to the accompanying condensed consolidated financial statements). The Company's derivative liabilities reduced by \$11,437 from \$1,312,780 as of March 31, 2009 to \$1,301,343 at June 30, 2009 and recorded a gain of \$11,437 consequently. We had zero derivative liabilities at and for the three months ended June 30, 2008. The decrease of other expenses was offset by the impairment loss on website platform development (Note 6) in the amount of \$146,400.

## Comparison of Gross Profit for the Six Months Ended June 30, 2009 and 2008

|                     | Six Months Ended<br>June 30, |   |              |   |
|---------------------|------------------------------|---|--------------|---|
|                     | 2009                         |   | 2008         |   |
| Net Sales           | \$7,478,527                  |   | \$10,186,569 |   |
| Cost of Sales       | 7,413,606                    |   | 9,957,718    |   |
| Gross Profit        | \$64,921                     |   | \$228,851    |   |
| Gross Profit Margin | 0.87                         | % | 2.25         | % |

## Sales

Our net sales decreased by \$2,708,042 or 27% from \$10,186,569 for the six months ended June 30, 2008 to \$7,478,527 for the six months ended June 30, 2009. Sales to local internet café or net bar decreased approximately by \$497,389 or 10% from \$4,787,687 for the six months ended June 30, 2008 to \$4,290,298 for the six months ended June 30, 2009. Sales to regional distribution market decreased approximately by \$2,210,653 or 41% from \$5,398,882 for the six months ended June 30, 2008 to \$3,188,229 for the six months ended June 30, 2009. These decreases are primarily due to slow down in economy and decrease in consumer demand.

## Cost of Sales

Our cost of sales decreased by \$2,544,112 or 26% from \$9,957,718 for the six months ended June 30, 2008 to \$7,413,606 for the six months ended June 30, 2009. The decrease was primarily attributable to the decrease in net sales. Our cost of sales consisted of the direct cost of game cards purchases made from our game developers, such decreased were in line with the decrease in our sales volume.



## Gross Margin

Our prepaid multi player on line game cards and other prepaid products business generated a very low gross profit rate, which was approximately 0.9% and 2.3% in the six months period ended June 30, 2009 and 2008, respectively. The decrease of gross profit rate was primarily attributable to the decrease in both local internet cafe and regional sales.

## Comparison of Net Loss for the Six Months Ended June 30, 2009 and 2008

|   | Six Months Ended<br>June 30, |               |
|---|------------------------------|---------------|
|   | 2009                         | 2008          |
| Gross Profit                              | \$64,921                     | \$228,851     |
| Payroll and related expenses              | 206,840                      | 188,785       |
| Professional fees                         | 99,400                       | 150,147       |
| Selling expense                           | 1,789                        | 6,226         |
| Other general and administrative expenses | 136,251                      | 125,782       |
| Total operating expenses                  | 444,280                      | 470,940       |
| Loss From Operations                      | (379,359 )                   | (242,089 )    |
| Other income (expenses) - net             | 338,888                      | (1,170,806)   |
| Provision for income tax                  | (2,551 )                     | (6,027 )      |
| Net Income (Loss)                         | \$(43,022 )                  | \$(1,418,922) |

## Operating Loss

Operating expenses, which consist of payroll and related expenses, professional fees, selling expenses, and other general and administrative expenses totaled to \$444,280 for the six months ended June 30, 2009, as compared to \$470,940 for the same period of 2008, representing a decrease of \$26,660 or 6%. Our operating loss for the six months ended June 30, 2009 was \$379,359 as compared to an operating loss of \$242,089 for the six months ended June 30, 2008, representing an increase in operating loss of \$137,270. The increase in our operating loss was primarily attributable to the decrease in sales.

## Payroll and Related Expenses

Our payroll and related expenses increased by \$18,055 or 10% from \$188,785 for the six months ended June 30, 2008 to \$206,840 for the six months ended June 30, 2009. The increase was primarily attributable to 15% increase of wages (not include senior managers) during the second quarter of 2008 in accordance with the expansion of our operations in 2008. During the six months ended June 30, 2009, we have added three new employees as compared to 61 full time employees at December 31, 2008. We had 64 full time employees and 53 full-time employees as of June 30, 2009 and 2008, respectively. As of June 30, 2009, there were twenty-nine employees who were involved in technical operations of the Company, twenty were involved in sales and marketing and fifteen staffs were involved in management, human resources and accounting/finance. At June 30, 2008, we had ten employees who were involved in technical operations, twenty-three in sales and marketing and the remainder in management, human resources and accounting/finance.



### Professional Fees

Our professional fees decreased by \$50,747 or 34% from \$150,147 for the six months ended June 30, 2008 to \$99,400 for the six months ended June 30, 2009. The decrease was primarily due to significant fees incurred in 2008 in connection with legal and accounting reporting of being a relative new public company.

### Other General and Administrative Expenses

Our other general and administrative expenses increased by \$10,469 or 8% from \$125,782 for the six months ended June 30, 2008 to \$136,251 for the six months ended June 30, 2009. The increase was primarily consisted of the bad debt expense, which increased by \$18,889; depreciation and amortization expense, which increased by \$2,203; and offset by decrease in other expenses.

### Other Income (Expenses), Net

Total other income was \$338,888 for the six months ended June 30, 2009, a decrease in other net expenses of \$1,509,694 as compared to the other expenses of \$1,170,806 for the six months ended June 30, 2008. The decrease was primarily attributable to decrease of interest expenses incurred in connection with the amortization of convertible debt issuances in September and October 2007. We have had written off unamortized deferred financing costs and debt discount at December 31, 2008 due to the default condition. Therefore, such expense is \$0 for the six months end June 30, 2009 as compared to \$1,003,316 incurred for the six months ended June 30, 2008. The increase of other expenses was also attributable to a decrease in the fair value of the derivative liabilities (see Note 8 to the accompanying condensed consolidated financial statements). The Company's derivative liabilities reduced by \$609,053 from \$1,910,396 as of December 31, 2008 to \$1,301,343 at June 30, 2009 and recorded a gain of \$609,053 consequently. We had zero derivative liabilities at and for six months ended June 30, 2008. The decrease of other expenses was offset by the impairment loss on website platform development (see Note 6 to the accompanying condensed consolidated financial statements) in the amount of \$146,400.

### Liquidity and Capital Resources

As of June 30, 2009 and December 31, 2008, Pay88 had \$77,092 and \$159,071 in cash, respectively. We believe that such funds will not be sufficient to effectuate our plans with respect to the business of Qianbao over the next twelve months. We will need to seek additional capital for the purpose of financing our marketing efforts.

Cash flow used in operations for the six Months ended June 30, 2009 was \$82,872, as compared to \$294,181 for the same period ended June 30, 2008. This was mainly because the Company incurred more loss during the six months ended June 30, 2008 as compared to the six months ended June 30, 2009.

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 \$0.75 (amended on December 30, 2008) per share at any time until September 12, 2012 and the Class B Common Stock Purchase Warrants are exercisable at a price of \$0.75 (amended on December 30, 2008) 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 \$0.75 (amended on December 30, 2008) per share at any time until September 12, 2012 and the Class B Common Stock Purchase Warrants are exercisable at a price of \$0.75 (amended on December 30, 2008) 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 Company commenced the repayment of the Notes and interests on March 19, 2008. As of March 31, 2009, the Company paid \$572,255 in total to the note holders, such payments representing the loan principal of \$539,250, the loan interest of \$13,005 and the fee of \$20,000. On May 4, 2009, the Company issued 1,078,588 shares to two investors, which represented the interest payment of \$57,500. The conversion price was \$0.0533 per share based on mutual negotiation with the two investors/noteholders. The Company is in default on loan repayment. As of June 30, 2009, the unpaid liabilities consist of Notes principal of \$1,770,750, accrued Notes interest of \$290,882, accrued late payment penalty of \$110,799 and a mandatory redemption penalty of \$354,150 for unpaid principal balance.

The Company is currently negotiating with the Convertible Noteholders and or investors to seek ways to resolve the default issue. However, there can be no assurance that the Company will be successful with the negotiation with the Convertible Noteholders.

On March 4, 2008, the Board has determined that it is in the best interests of the Company to raise up to \$12,150,000 in capital pursuant to a private placement held under Regulation S promulgated under the Securities Act of 1933, as amended (the "Act") by offering for sale up to 9,000,000 shares of the Company's common stock at a purchase price of \$1.35 per share. As of December 31, 2008, the Company issued 1,300,024 shares of its common stock to eighteen subscribers and received gross proceeds of \$1,755,032. The cost in connection with this private placement totaled to \$408,040 for the year ended December 31, 2008, which representing the finder fee, commissions and legal fees incurred and paid as of December 31, 2008. If we do not raise at least \$2,500,000 and still desire to redeem the secured convertible promissory notes and warrants, we would be required to use our limited working capital and additional loans from our officers or directors to redeem said notes and warrants.

On December 30, 2008, the Company entered into an amendment with the holders of its secured convertible promissory notes. The Amendment changed the original conversion price of \$1.00 per share to \$.80 per share. All the other terms of the notes remain unchanged in full force and effect. The Amendment also changed the exercise price of the Class A warrants from the original \$0.81 per share to \$0.75 per share, and the exercise price of Class B warrants from the original \$1.13 per share to \$0.75 per share.

As of December 31, 2008, the Company owed \$425,067 to its two executive officers, Mr. Guo Fan, our president and chief executive officer and Mr. Tao Fan, our chief operating officer. During the six months ended June 30, 2009, the Company repaid net loans totaling \$6,340 to our two executive officers. As of June 30, 2009, the accrued interest payable included in the accounts payable caption was \$89,578. Also included in the accounts payable and accrued expenses at June 30, 2009, are accrued salaries in the amount of \$241,667 owed to our Chief Executive Officer. Such salaries were made payable pursuant to an Employment Agreement between the Company and Mr. Guo Fan, dated February 1, 2007, pursuant to which the Company memorialized the employment of Mr. Guo Fan as its Chairman, President and Chief Executive Officer. Pursuant to said agreement, Mr. Guo Fan will be paid the annual salary of \$100,000 during the five year term commencing February 1, 2007.

On July 16, 2008, the Company signed a website platform development contract with Ziya Company, a Chinese information technology company located in Hang Zhou, China. The Company and Ziya will work jointly in the development of a state-of-the-art, online gaming transaction platform to be utilized internally by Qianbao in the marketing of online prepaid game card products throughout Chongqing and other major cities in China. On July 29, 2008, the Company paid Ziya Company 1,000,000 RMB, approximately \$146,400 (translated as of June 30, 2009) to initiate the Ziya platform expansion project.

The website platform had been in testing since February 2009 and management concluded on June 30, 2009 that it was not able to meet security requirement by the Company. The management decided to abandon the application of this website platform. The carrying value of the capitalized website platform development costs totaled \$146,400 became impaired consequently during the second quarter ended June 30, 2009 and was recorded as an impairment loss on website platform development.

#### 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.



## Going Concern

The loss from operations was \$379,359 and \$242,089 for the six months ended June 30, 2009 and 2008, respectively. The Company has had negative cash flow from operations since April 24, 2006 (date of inception) and had an accumulated deficit of \$17,023,100 at June 30, 2009. Substantial portions of the losses are attributable to amortization of debt discounts, consulting and professional fees and loss on derivatives. In addition, as of June 30, 2009, the Company had a working capital deficiency of \$3,102,120 and delinquency in scheduled repayments of the Convertible Notes payable, accrued interests and penalties of \$2,526,581. Furthermore, the Company's gross margin rate from its current operations was very low. It was approximately 0.9% and 2.3% for the six months ended June 30, 2009 and 2008, respectively. These factors raised substantial doubt about the Company's ability to continue as going concern.

The Company is currently in default on the Convertible Notes and accrued interest, which became due in full amount effective March 12, 2009. The Company is currently negotiating with the Convertible Noteholders and or investors to restructure its current indebtedness and extend and or modify the existing terms. In addition, the Company's continued existence is dependent upon management's ability to develop profitable operations and resolve its liquidity problems.

There can be no assurance that sufficient funds will be generated during the next twelve months or thereafter from the Company's current 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.

The Company has undertaken further steps as part of a plan to improve operations with the goal of sustaining its operations for the next twelve months and beyond 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 planning to expand its current operations to increase its sales volume. The Company is also seeking for the opportunities to diversify its operations, which including other more profitable product lines and to improve its current gross margin. However, there can be no assurance that the Company can successfully accomplish these steps and or business plans, and it is uncertain that the Company will achieve a profitable level of operations and be able to obtain additional financing.

There can be no assurance that any additional financings will be available to the Company on satisfactory terms and conditions, if at all. In the event we are unable to continue as a going concern, we may elect or be required to seek protection from our creditors by filing a voluntary petition in bankruptcy or may be subject to an involuntary petition in bankruptcy. To date, management has not considered this alternative, nor does management view it as a likely occurrence.

## Critical Accounting Policies and Estimates

Financial Reporting Release No. 60, published by the SEC, recommends that all companies include a discussion of critical accounting policies used in the preparation of their financial statements. While all these significant accounting policies impact our consolidated financial condition and results of operations, we view certain of these policies as critical. Policies determined to be critical are those policies that have the most significant impact on our consolidated financial statements and require management to use a greater degree of judgment and estimates. Actual results may differ from those estimates.

We believe that given current facts and circumstances, it is unlikely that applying any other reasonable judgments or estimate methodologies would cause a material effect on our consolidated results of operations, financial position or liquidity for the periods presented in this report.

## General

The Company's Consolidated Financial Statements are prepared in accordance with U.S. generally accepted accounting principles, which require management to make estimates, judgments and assumptions that affect the reported amounts of assets, liabilities, net revenue and expenses, and the disclosure of contingent assets and liabilities. Management bases its estimates on historical experience and on various other assumptions that it believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Senior management has discussed the development, selection and disclosure of these estimates with the Board of Directors. Management believes that the accounting estimates employed and the resulting balances are reasonable; however, actual results may differ from these estimates under different assumptions or conditions.

An accounting policy is deemed to be critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time the estimate is made, if different estimates reasonably could have been used, or if changes in the estimate that are reasonably possible could materially impact the consolidated financial statements. Management believes the following critical accounting policies reflect the significant estimates and assumptions used in the preparation of the Consolidated Financial Statements.

## Basis of Presentation

The condensed consolidated financial statements have been prepared on the going concern basis, which assumes the realization of assets and liquidation of liabilities in the normal course of operations. If we were not to continue as a going concern, we would likely not be able to realize on our assets at values comparable to the carrying value or the fair value estimates reflected in the balances set out in the preparation of the consolidated financial statements. There can be no assurances that we will be successful in generating additional cash from equity or other sources to be used for operations. The condensed consolidated financial statements do not include any adjustments relating to the recoverability of assets and classification of assets and liabilities that might be necessary should the Company be unable to continue as a going concern.

## Revenue Recognition

For revenue from product sales, the Company recognizes revenue in accordance with Staff Accounting Bulletin No. 104, "Revenue Recognition" ("SAB No. 104"), which superseded Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements" ("SAB No. 101"). SAB No. 104 requires that four basic criteria must be met before revenue can be recognized: (1) persuasive evidence of an arrangement exists, (2) delivery has occurred; (3) the selling price is fixed and determinable; and (4) collectability is reasonably assured. Determination of criteria (3) and (4) are based on management's judgment regarding the fixed nature of the selling prices of the products delivered and the collectability of those amounts. Provisions for discounts and rebates to customers, estimated returns and allowances, and other adjustments are provided for in the same period the related sales are recorded. Prepaid customer deposits and game credits will be deferred until the credits are used.

## Stock-Based Compensation

The Company has adopted Statement of Financial Accounting Standards ("SFAS") No. 123 (R) (revised 2004) "Share-Based Payment" which requires the measurement and recognition of compensation expense for all share-based payment awards made and or to be made to employees and directors (if any) including employee stock options and employee stock purchases related to a Employee Stock Purchase Plan based on the estimated fair values. The Company does not have any employee stock options and employee stock purchases plans at June 30, 2009.

We use the fair value method for equity instruments granted to non-employees (if any) and will use the Black-Scholes model for measuring the fair value of options and or, warrants, if issued. The stock based fair value compensation is determined as of the date of the grant or the date at which the performance of the services is completed (measurement date) and is recognized over the vesting periods.

## Allowance for Doubtful Account

The Company's receivables primarily consist of accounts receivable from its prepaid online video game cards sales. Accounts receivable are recorded at invoiced amount and generally do not bear interest. Bad debts and allowances are provided based on historical experience, management's evaluation of the outstanding accounts receivable and the estimated amount of probable losses due to the inability to collect from customers. The management periodically evaluates past due or delinquency of accounts receivable if any in evaluating its allowance for doubtful accounts.

## Long-Lived Assets

The Company has adopted Statement of Financial Accounting Standards No. 144 ("SFAS No. 144"). SFAS No. 144 requires that long-lived assets and certain identifiable intangibles held and used by the Company be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Events relating to recoverability may include significant unfavorable changes in business conditions, recurring losses, or a forecasted inability to achieve break-even operating results over an extended period. The Company evaluates the recoverability of long-lived assets based upon forecasted discounted cash flows. Should impairment in value be indicated, the carrying value of long-lived assets will be adjusted, based on estimates of future discounted cash flows resulting from the use and ultimate disposition of the asset. SFAS No. 144 also requires assets to be disposed of be reported at the lower of the carrying amount or the fair value less costs to sell.

## Income Taxes

The Company accounts for income taxes using the asset and liability method described in SFAS No. 109, “Accounting For Income Taxes”, the objective of which is to establish deferred tax assets and liabilities for the temporary differences between the financial reporting and the tax bases of the Company’s assets and liabilities at enacted tax rates expected to be in effect when such amounts are realized or settled. A valuation allowance related to deferred tax assets is recorded when it is more likely than not that some portion or all of the deferred tax assets will not be realized.

## Foreign Currency Translation

The consolidated financial statements of the Company are translated pursuant to SFAS No. 52, “Foreign Currency Translation.” The Company’s sole wholly-owned subsidiary, Qianbao, is located and operated in China. The Chinese Yuan is the functional currency. The financial statements of Qianbao are translated to U.S. dollars using year-end exchange rates (published by the Federal Reserve Bank) for assets and liabilities, and average exchange rates (published by the Federal Reserve Bank) for revenues, costs and expenses. Translation gains and losses are deferred and recorded in accumulated other comprehensive income as a component of stockholders’ equity. Transaction gains or losses arising from exchange rate fluctuation on transactions denominated in a currency other than the functional currency are included in the consolidated results of operations.

## Recent Accounting Pronouncements

In January 2009, the FASB issued Financial Statement of Position (“FSP”) Issue No. EITF No. 99-20-1, “Amendments to the Impairment Guidance of EITF Issue No. 99-20” (“FSP EITF No. 99-20-1”). FSP EITF No. 99-20-1 amends the impairment guidance in EITF Issue No. 99-20, “Recognition of Interest Income and Impairment on Purchased Beneficial Interests and Beneficial Interests that Continue to be Held by a Transferor in Securitized Financial Assets” to achieve more consistent determination of whether an other-than-temporary impairment has occurred. The Company adopted FSP EITF No. 99-20-1 and it did not have a material impact on the unaudited condensed consolidated financial statements.

In April 2009, the Financial Accounting Standards Board (“FASB”) issued the following new accounting standards:

- FSP FAS 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly , provides guidelines for making fair value
- measurements more consistent with the principles presented in FASB Statement No. 157 (“SFAS 157”), Fair Value Measurements . FSP FAS 157-4 reaffirms what SFAS 157 states is the objective of fair value measurement, to reflect how much an asset would be sold for in an orderly transaction at the date of the financial statements under current market conditions. Specifically, it reaffirms the need to use judgment to ascertain if a formerly active market has become inactive and in determining fair values when markets have become inactive.
- FSP FAS 107-1 and APB 28-1, Interim Disclosures about Fair Value of Financial Instruments, enhances consistency in financial reporting by increasing the frequency of fair value disclosures. This relates to fair value disclosures for any financial instruments that are not currently reflected on the consolidated balance sheet at fair value. FSP FAS 107-1 and APB 28-1 now require that fair value disclosures be made on a quarterly basis, providing qualitative and quantitative information about fair value estimates for all those financial instruments not measured on the balance sheet at fair value.
- FSP FAS 115-2 and FAS 124-2, Recognition and Presentation of Other-Than-Temporary Impairments, provides additional guidance designed to create greater clarity and consistency in accounting for and presenting impairment losses on securities. This FSP is intended to bring greater consistency to the timing of impairment recognition and to provide greater clarity to investors about the credit and noncredit components of impaired debt securities that are not expected to be sold. This FSP also requires increased and timelier disclosures sought by investors regarding expected cash flows, credit losses, and an aging of securities with unrealized losses.

These standards were effective for periods ending after June 15, 2009. The adoption of these accounting standards had no material effect on our consolidated financial statements.

#### SFAS No. 165

In May 2009, the FASB issued SFAS No. 165, “Subsequent Events”. We adopted SFAS No. 165 for the Quarterly Report for the period ending June 30, 2009. SFAS No. 165 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued, which are referred to as subsequent events. The statement clarifies existing guidance on subsequent events, including a requirement that a public entity should evaluate subsequent events through the issue date of the financial statements, the determination of when the effects of subsequent events should be recognized in the financial statement and disclosures regarding all subsequent events. SFAS No. 165 also requires a public entity to disclose the date through which an entity has evaluated subsequent events. We have evaluated subsequent events through the date of filing as disclosed in Note 16.

#### SFAS No. 166

In June 2009, the FASB issued SFAS No. 166, “Accounting for Transfers of Financial Assets, an Amendment of FASB Statement No. 140,” which eliminates the concept of a qualifying special purpose entity, changes the requirements for derecognizing financial assets and requires additional disclosures. SFAS No. 166 is effective for periods beginning after November 15, 2009. The Company is evaluating the impact of SFAS No. 166 on its consolidated financial statements.



#### SFAS No. 167

In June 2009, the FASB issued SFAS No. 167, "Amendments to FASB Interpretation No. 46(R)," which changes how a reporting entity determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated and requires additional disclosures. SFAS No. 167 is effective for periods beginning after November 15, 2009. The Company is evaluating the impact of SFAS No. 167 on its consolidated financial statements.

#### SFAS No. 168

In June 2009, the FASB issued SFAS No. 168, "The FASB Accounting Standards Codification™ and the Hierarchy of Generally Accepted Accounting Principles," which establishes the FASB Accounting Standards Codification™ (the "Codification") as the source of authoritative US GAAP recognized by the FASB to be applied to nongovernmental entities. Rules and interpretive releases of the SEC under authority of federal securities laws are also included in the Codification as sources of authoritative US GAAP for SEC registrants. SFAS No. 168 and the Codification are effective for financial statements issued for interim and annual periods ending after September 15, 2009. The adoption of this rule will not affect reported results of operations, financial condition or cash flows. The Company will implement SFAS No. 168 in its third quarter Form 10-Q by updating the previous FASB references to the Codification.

Other recent accounting pronouncements issued by the FASB (including its Emerging Issues Task Force), the AICPA, and the SEC did not, or are not believed by management to, have a material impact on the Company's present or future consolidated financial statements.

#### Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements.

#### Item 3. Quantitative and Qualitative Disclosures About Market Risk.

A smaller reporting company, as defined by Item 10 of Regulation S-K, is not required to provide the information required by this item.

#### Item 4(T). Controls and Procedures.

##### Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that material information required to be disclosed in our periodic reports filed under the Securities Exchange Act of 1934, as amended, or 1934 Act, is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms and to ensure that such information is accumulated and communicated to our management, including our chief executive officer and chief financial officer as appropriate, to allow timely decisions regarding required disclosure. During the quarter ended June 30, 2009 we carried out an evaluation, under the supervision and with the participation of our management, including the principal executive officer and the principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rule 13(a)-15(e) under the 1934 Act. Based on this evaluation, because of our limited resources and limited number of employees, management concluded that our disclosure controls and procedures were not effective as of June 30, 2009.

To mitigate the current limited resources and limited employees, we rely heavily on direct management oversight of transactions, along with the use of legal and accounting professionals. As we grow, we expect to increase our number of employees, which will enable us to implement adequate segregation of duties within the internal control framework.

In light of this material weakness, we performed additional analyses and procedures in order to conclude that our consolidated financial statements for the quarter ended June 30, 2009 included in this Quarterly Report on Form 10-Q were fairly stated in accordance with US GAAP. Accordingly, management believes that despite our material weaknesses, our financial statements for the quarter ended June 30, 2009 are fairly stated, in all material respects, in accordance with US GAAP.

#### Limitations on Effectiveness of Controls and Procedures

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

#### Changes in Internal Controls

During the fiscal quarter ended June 30, 2009, there have been no changes in our internal control over financial reporting that have materially affected or are reasonably likely to materially affect our internal controls 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 1A. Risk Factors

There have been no material changes to the risks to our business described in our Annual Report on Form 10-K for the year ended December 31, 2008 filed with the SEC on March 30, 2009.

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

Unregistered Sales of Equity Securities

None

Purchases of equity securities by the issuer and affiliated purchasers

None.

Use of Proceeds

The Company is currently negotiating with purchasers of its convertible notes and warrants for the total redemption of the notes and warrants.

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 three months ended June 30, 2009.

Item 5. Other Information.

None

Item 6. Exhibits

Exhibit Description

No.

|      |  |
|------|--|
| 31.1 | Rule 13a-14(a)/15d14(a) Certification of Guo Fan, the President, Chief Executive Officer, Treasurer and Director (attached hereto) |
|------|--|

32.1 Section 1350 Certification of Guo Fan, the President, Chief Executive Officer, Treasurer and Director(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.

PAY88, INC.

Dated: August 19, 2009

|        |   |
|--------|---|
| By:    | /s/ Guo Fan   |
| Name:  | Guo Fan   |
| Title: | President, Chief Executive Officer, Treasurer<br>and Director<br>(Principal Executive, Financial and Accounting<br>Officer) |