

PAY88  
Form 10-Q  
May 14, 2008

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

**FORM 10-Q**

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

For the quarter ended March 31, 2008

**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)

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

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

Indicate by check mark whether the registrant is a 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      o                      Accelerated filer                      o  
Non-accelerated filer      o                      Smaller reporting company      x  
(Do not check if a smaller reporting company)

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



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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

	March 31, 2008 (Unaudited)	December 31, 2007
<b><u>ASSETS</u></b>		
Current Assets:		
Cash and cash equivalents	\$ 228,056	\$ 124,108
Accounts receivable, net of allowance of \$15,162 and \$13,453 as of March 31, 2008 and December 31, 2007, respectively	924,681	556,623
Inventories	517,571	476,308
Prepaid expense	604,651	656,674
Total Current Assets	2,274,959	1,813,713
Property and Equipment, Net	499,402	490,453
Other Assets		
Deferred financing cost - net	76,871	112,019
<b>TOTAL ASSETS</b>	<b>\$ 2,851,232</b>	<b>\$ 2,416,185</b>
<b><u>LIABILITIES AND STOCKHOLDERS' EQUITY</u></b>		
Current Liabilities:		
Accounts payable	\$ 502,455	\$ 406,043
Convertible notes payable, net of unamortized discount of \$1,418,527 and \$1,667,902 as of March 31, 2008 and December 31, 2007, respectively	826,473	64,607
Loan payable - related parties	639,363	947,506
Investor deposits	84,264	-
Customer advance	2,447	-
Total Current Liabilities	2,055,002	1,418,156
Long Term Liabilities:		
Convertible notes payable, net of unamortized discount of \$0 and \$231,624 as of March 31, 2008 and December 31, 2007, respectively	-	345,867
<b>TOTAL LIABILITIES</b>	<b>2,055,002</b>	<b>1,764,023</b>
Stockholders' Equity:		
Preferred Stock, \$0.001 par value; 5,000,000 shares authorized, Nil share issued and outstanding as of March 31, 2008 and December 31, 2007	-	-
Common stock, \$0.001 par value; 100,000,000 shares authorized, 31,499,273 shares and 30,766,667 shares as of March 31, 2008 and December 31, 2007, respectively, issued and outstanding	31,500	30,767
Additional paid-in capital	12,904,367	12,153,261
Accumulated deficit	(12,288,222)	(11,603,243)
Accumulated other comprehensive income	148,585	71,377
Total Stockholders' Equity	796,230	652,162
	<b>\$ 2,851,232</b>	<b>\$ 2,416,185</b>

TOTAL LIABILITIES AND STOCKHOLDERS'  
EQUITY

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  
FOR THE THREE MONTHS ENDED MARCH 31,  
(Unaudited)

	2008	2007
Net Sales	\$ 5,504,080	\$ 1,102,781
Cost of Sales	5,371,984	1,087,374
Gross Profit	132,096	15,407
Operating Expenses:		
Payroll and related expenses	93,809	59,525
Professional fees	69,329	28,358
Selling expenses	1,941	3,812
Website development cost	-	13,598
Other general and administrative expenses	54,139	40,527
Total Operating Expenses	219,218	145,820
Loss From Operations	(87,122)	(130,413)
Other Income (Expenses):		
Interest income	479	78
Interest expense	(584,197)	-
Interest expense - related parties	(10,631)	(3,594)
Total Other Income (Expense)	(594,349)	(3,516)
Net Loss Before Income Tax	(681,471)	(133,929)
Provision for income tax	3,508	900
Net Loss	\$ (684,979)	\$ (134,829)
Net loss per share - basic and diluted	\$ (0.02)	\$ (0.01)
Weighted average shares outstanding - basic and diluted	30,782,768	10,100,000
Comprehensive Loss		
Net loss	\$ (684,979)	\$ (134,829)
Other comprehensive income	77,208	4,550
Comprehensive Loss	\$ (607,771)	\$ (130,279)

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

PAY88, INC AND SUBSIDIARY  
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY  
YEAR ENDED DECEMBER 31, 2007 AND THE THREE MONTHS ENDED MARCH 31, 2008 (UNAUDITED)

	Preferred Stock		Common Stock		Paid - in	Accumulated	Accumulated Other Comprehensive	Total
	Shares	Amount	Shares	Amount	Capital	Deficit	Income	
Balance - December 31, 2006	5,000,000	\$ 5,000	10,100,000	\$ 10,100	\$ 535,596	\$ (297,764)	\$ 13,665	\$ 266,597
Relative fair value of warrants and beneficial conversion feature					1,500,000			1,500,000
Common stock issued for consulting services			6,666,667	6,667	10,126,665			10,133,332
Conversion of Series A preferred stocks to common stock	(5,000,000)	(5,000)	14,000,000	14,000	(9,000)			-
Net loss for the year						(11,305,479)		(11,305,479)
Foreign currency translation adjustment							57,712	57,712
Balance - December 31, 2007	-	-	30,766,667	30,767	12,153,261	(11,603,243)	71,377	652,162
Regulation S offering			732,606	733	988,285			989,018
Regulation S offering cost					(237,179)			(237,179)
Net loss - three months ended March 31, 2008						(684,979)		(684,979)
Foreign currency translation adjustment							77,208	77,208
Balance - March 31, 2008	- \$	-	31,499,273	\$ 31,500	\$ 12,904,367	\$ (12,288,222)	\$ 148,585	\$ 796,230



(Unaudited)

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

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PAY88, INC AND SUBSIDIARY  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE THREE MONTHS ENDED MARCH 31,  
(Unaudited)

	2008	2007
<b>Cash Flows from Operating Activities:</b>		
Net loss	\$ (684,979)	\$ (134,829)
<b>Adjustments to Reconcile Net Loss to</b>		
<b>Net Cash Used in Operating Activities:</b>		
Bad debt expense	1,143	758
Depreciation expense	14,669	10,815
Amortization of deferred financing cost	35,148	-
Amortization of debt discount and cash discount	480,999	-
<b>Changes in operating assets and liabilities</b>		
Increase in accounts receivable	(369,767)	(17,584)
(Increase) decrease in inventories	(41,263)	16,865
Decrease (increase) in prepaid expense	52,023	(18,073)
Increase in accounts payable	98,859	31,994
Increase in deferred income	-	2,150
<b>Net Cash Used in Operating Activities</b>	<b>(413,168)</b>	<b>(107,904)</b>
<b>Cash Flows from Investing Activities:</b>		
Capital expenditures	(9,647)	(11,684)
<b>Net Cash Used in Investing Activities</b>	<b>(9,647)</b>	<b>(11,684)</b>
<b>Cash Flows from Financing Activities</b>		
Proceeds from Regulation S offering	989,018	-
Proceeds from investor deposits	84,264	-
Cost of Regulation S offering	(237,179)	-
Repayment of convertible notes payable	(65,000)	-
(Repayment) proceeds of loans payable - related parties	(308,143)	131,375
<b>Net Cash Provided by Financing Activities</b>	<b>462,960</b>	<b>131,375</b>
Effect of Exchange Rate Changes on Cash	63,803	(951)
<b>Net Increase in Cash and Cash Equivalents</b>	<b>103,948</b>	<b>10,836</b>
<b>Cash and Cash Equivalents - Beginning of Period</b>	<b>124,108</b>	<b>17,084</b>
<b>Cash and Cash Equivalents - End of Period</b>	<b>\$ 228,056</b>	<b>\$ 27,920</b>
<b>Supplemental Cash Flow Information:</b>		
Interest Paid	\$ -	\$ -
Income taxes	\$ -	\$ 414
<b>Supplemental Disclosures of Cash Flow Information:</b>		
Non Cash Financing and Investing Activities	\$ -	\$ -

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



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 Note8). 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 wholly owned subsidiary (“Qianbao”). All significant intercompany accounts and transactions have been eliminated in consolidation.

NOTE 1 – Basis of Presentation (Continued)

Going Concern

The Company has incurred a net loss of \$684,979, which included the amortization of deferred financing cost and amortization of debt discount and cash discount of \$516,147 for the three months ended March 31, 2008. In addition, the Company has incurred significant losses and had negative cash flow from operations since April 24, 2006 (date of inception) and has an accumulated deficit of \$12,288,222 at March 31, 2008. Substantial portions of the losses are attributable to consulting and professional fees. Furthermore, the Company's gross margin rate from its current operations was very low. It was approximately 2.4% and 1.4% in three months ended March 31, 2008 and 2007, respectively. These factors raised substantial doubt about the Company's ability to continue as going concern.

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.

During the three months ended March 31, 2008, the Company received net proceeds totaling \$836,103 from its regulation S offering after the payment of the offering cost of \$237,179.

The Company has undertaken further steps as part of a plan to improve operations with the goal of sustaining our operations for the next twelve months and beyond to address our 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 items in these unaudited condensed consolidated financial statements have been reclassified to confirm to the current period's presentation.

### Recent Accounting Pronouncements

Effective January 1, 2008, we adopted Statement of Financial Accounting Standards ("SFAS") No. 157, "Fair Value Measurements" ("SFAS No. 157") and SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities - Including an Amendment of FASB Statement No. 115" ("SFAS No. 159"). In February 2008, the Financial Accounting Standards Board (the "FASB") issued FASB Staff Position ("FSP") 157-2, "*Effective Date of FASB Statement No. 157*" ("FSP 157-2"), which delayed the effective date of SFAS No. 157 for all non-financial assets and liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis, until January 1, 2009. We have not yet determined the impact that the implementation of FSP 157-2 will have on our non-financial assets and liabilities which are not recognized on a recurring basis; however, we do not anticipate the adoption of this standard will have a material impact on our consolidated financial position, results of operations or cash flows. The partial adoption of SFAS No. 157 and the adoption of SFAS No. 159 did not have a material impact on the Company's condensed consolidated financial statements.

In June 2007, the Accounting Standards Executive Committee issued Statement of Position 07-1, "Clarification of the Scope of the Audit and Accounting Guide Investment Companies and Accounting by Parent Companies and Equity Method Investors for Investments in Investment Companies" ("SOP 07-1"). SOP 07-1 provides guidance for determining whether an entity is within the scope of the AICPA Audit and Accounting Guide Investment Companies (the "Audit Guide"). SOP 07-1 was originally determined to be effective for fiscal years beginning on or after December 15, 2007, however, on February 6, 2008, FASB issued a final Staff Position indefinitely deferring the effective date and prohibiting early adoption of SOP 07-1 while addressing implementation issues.

In December 2007, the FASB issued SFAS No. 141(R), "Business Combinations" ("SFAS No. 141(R)"), which establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in an acquiree, including the recognition and measurement of goodwill acquired in a business combination. SFAS No. 141(R) is effective as of the beginning of the first fiscal year beginning on or after December 15, 2008. Earlier adoption is prohibited and the Company is currently evaluating the effect, if any, that the adoption will have on its financial position, results of operations or cash flows.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interest in Consolidated Financial Statements, an amendment of ARB No. 51" ("SFAS No. 160"), which will change the accounting and reporting for minority interests, which will be recharacterized as noncontrolling interests and classified as a component of equity within the consolidated balance sheets. SFAS No. 160 is effective as of the beginning of the first fiscal year beginning on or after December 15, 2008. Earlier adoption is prohibited and the Company is currently evaluating the effect, if any, that the adoption will have on its financial position, results of operations or cash flows.

In December 2007, the FASB ratified the consensus in EITF Issue No. 07-1, "Accounting for Collaborative Arrangements" (EITF 07-1). EITF 07-1 defines collaborative arrangements and requires collaborators to present the result of activities for which they act as the principal on a gross basis and report any payments received from (made to) the other collaborators based on other applicable authoritative accounting literature, and in the absence of other applicable authoritative literature, on a reasonable, rational and consistent accounting policy is to be elected. EITF 07-1 also provides for disclosures regarding the nature and purpose of the arrangement, the entity's rights and obligations, the accounting policy for the arrangement and the income statement classification and amounts arising from the agreement. EITF 07-1 will be effective for fiscal years beginning after December 15, 2008, and will be applied as a change in accounting principle retrospectively for all collaborative arrangements existing as of the effective date. The Company has not yet evaluated the potential impact of adopting EITF 07-1 on its financial position, results of operations or cash flows.



Recent Accounting Pronouncements (Continued)

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities - an amendment to FASB Statement No. 133" ("SFAS No. 161"). SFAS No. 161 is intended to improve financial standards for derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity's financial position, financial performance, and cash flows. Entities are required to provide enhanced disclosures about: (a) how and why an entity uses derivative instruments; (b) how derivative instruments and related hedged items are accounted for under SFAS No. 133 and its related interpretations; and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. It is effective for financial statements issued for fiscal years beginning after November 15, 2008, with early adoption encouraged. The Company has not yet evaluated the potential impact of adopting SFAS No. 161 on its financial position, results of operations or cash flows.

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 financial statements as of March 31, 2008 and for the three months ended March 31, 2008 and 2007 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 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 March 31, 2008 and the results of operations and cash flows for the periods ended March, 2008 and 2007. The financial data and other information disclosed in these notes to the interim financial statements related to these periods are unaudited. The results for the three month period ended March 31, 2008 is not necessarily indicative of the results to be expected for any subsequent quarter of the entire year ending December 31, 2008.

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, 2007, included in the Company's Annual Report on Form 10K filed on March 31, 2008 with SEC.

The condensed consolidated financial statements as December 31, 2007 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 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.



NOTE 3 - Net Loss Per Common Share (Continued)

Basic loss per share is computed by dividing net loss by the weighted average number of common shares outstanding during the period. Diluted loss per share is computed similarly to basic loss per share except that it includes the potential dilution that could occur if dilutive securities were converted. Diluted loss per common share is the same as basic loss per share, as the effect of potentially dilutive securities (convertible debt - 2,310,000 and warrants - 4,620,000, at March 31, 2008 and 5,000,000 Series A convertible preferred stock at March 31, 2007), are anti-dilutive.

The weighted average fully diluted shares outstanding for the three months ended March 31, 2007 has been restated from 24,100,000 shares to 10,100,000 shares, which has no material impact to the fully diluted loss per share.

NOTE 4 - Inventories

Inventories consist of the following:

	March 31, 2008 (Unaudited)	December 31, 2007
Purchased game card	\$ 517,571	\$ 476,308

All inventories are consisted of finished products. There was no valuation allowance for inventory loss at March 31, 2008 and December 31, 2007 as most of the purchased inventories are sold within one month.

NOTE 5 - Property and Equipment

Property and equipment is summarized as follows:

	Estimated Useful Lives	March 31, 2008 (Unaudited)	December 31, 2007
Office Units and Improvement	31	\$ 437,775	\$ 420,830
Furnitures and Fixtures	5	9,236	8,878
Office Equipment	3	95,555	89,987
Software	3	34,233	30,785
Automobile	5	7,056	6,783
		583,855	557,263
Less: Accumulated Depreciation		84,453	66,810
		\$ 499,402	\$ 490,453

Depreciation expense was \$14,669 and \$10,815 for the three months ended March 31, 2008 and 2007, 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 - Convertible Debt

Convertible debt consists of the following:

	March 31, 2008	December 31, 2007
	(Unaudited)	
Convertible notes payable net of unamortized discount of \$1,418,527 and \$1,899,526, respectively	\$ 826,473	\$ 410,474
Less: current portion	826,473	64,607
Long term portion due after one year	\$ -	\$ 345,867

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 (10.00% per annum at March 31, 2008), 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.

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.



NOTE 6 - Convertible Debt (Continued)

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 than 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 8), 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 \$965,261 at March 31, 2008.

The Company is amortizing the discounts over the term of the debt. Amortization of the debt and cash discount for the three months ended March 31, 2008 was \$480,999, and this amortization is reported as a component of interest expense. Amortization of deferred finance costs amounted to \$35,148 and is reported as a component of interest expense.

The Company commenced the repayment of notes and interests on March 19, 2008 and paid \$65,000 to the note holders, such payments representing the loan principal only. The unpaid notes balance is \$2,245,000 at March 31, 2008. The Company is in negotiations with the investors for the total redemption of notes and warrants.

NOTE 7 - Loans Payable – Related Parties

Loans payable to related parties consist of the following:

	March 31, 2008 (Unaudited)	December 31, 2007
Chief Executive Officer of the Company bearing interest at 5% per annum, payable on demand	\$ 444,725	\$ 444,725
Chief Operating Officer of the Company bearing interest at 6% per annum payable on demand	114,253	422,396
Chief Executive Officer of the Company bearing interest at 5% per annum, payable on August 31, 2008	80,385	80,385
Total loan payable - related parties	639,363	947,506
Less: current portion	639,363	947,506
Long-term portion	\$ -	\$ -

NOTE 8 - Commitments and ContingenciesCountry 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 8), 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.

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.

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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 9 - 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 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. As of March 31, 2008, the Company has issued 732,606 shares to nine subscribers and received gross proceeds of \$989,018. In addition, the Company received deposits of \$84,264 from subscribers as of March 31, 2008, representing 62,418 shares signed on April 16, 2008. The cost in connection with this private placement totaled \$237,179, representing the finder fee, commissions and legal fees incurred and paid as of March 31, 2008.

NOTE 9 - Stockholders' Equity (Continued)

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 10 - Option and WarrantsWarrants

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

	Date of Issuance	Number of Warrants	Weighted Average Exercise Price
Outstanding, January 1, 2007		-	\$ -
Issued, Class A warrants	9/12/2007	1,155,000	0.81
Issued, Class B warrants	9/12/2007	1,155,000	1.13
Issued, Class A warrants	10/31/2007	1,155,000	0.81
Issued, Class B warrants	10/31/2007	1,155,000	1.13
Outstanding, March 31, 2008 and December 31, 2007		4,620,000	\$ 0.97

Warrants outstanding and exercisable by price range as of March 31, 2008:

Range of	Class	Number	Average Weighted Remaining Contractual Life in Yrs	Exercise Price	Number	Weighted Average Exercise Price
\$ 0.81	A	2,310,000	4.46	\$ 0.81	2,310,000	\$ 0.81
\$ 1.13	B	2,310,000	4.46	1.13	2,310,000	\$ 1.13
		4,620,000		\$ 0.97	4,620,000	\$ 0.97

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 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:	
	4.11% and
Risk-free interest rate at grant date	4.16%
Expected stock price volatility	192.04%
Expected dividend payout	-
Expected option life-years	5

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NOTE 11 - Related Party Transactions

Accounts Payable

Accrued interest payable related to the loans due to the officers (see Note 7) have been included in accounts payable, which amounted to \$57,592 and \$29,599 at March 31, 2008 and December 31, 2007, respectively.

Accrued salary payable to the CEO of the Company was \$116,667 and \$91,667 at March 31, 2008 and December 31, 2007, 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 12 - Concentration of Credit Risk

The Company maintains cash balances in various banks in China. Currently, no deposit insurance system has been set up in China. Therefore, the Company will bear a risk if any of these banks become insolvent. As of March 31, 2008, the Company's uninsured cash balance was \$228,056.

NOTE 13 - Income Taxes

The provision for income tax in the amount of \$3,508 and \$900 for the three months ended March 31, 2008 and 2007 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.

NOTE 14 - Subsequent Event

During April 2008, the Company paid \$64,255 to the three note holders, such payments representing the balance of principal repayment due as of March 12, 2008 (with respect to the September 12, 2007 Note only), accrued interest on the promissory notes as part of the first installment and one time fees of \$20,000.

On April 14, 2008, the Company entered into a Letter Agreement with the three note holders, pursuant to which the parties agreed to change the repayment date on the September 12, 2007 Notes and the October 31, 2007 Notes to the 20<sup>th</sup> day of each month, commencing April 20, 2008, until the principal amount of each note has been paid in full, whether in cash or by the conversion of such principal amount into common stock, pursuant to the terms thereof.

During April 2008, the Company issued additional 287,418 shares in the private placement under the Regulation S (See Note 9) and received gross proceeds of \$388,014, which included the investor deposits of \$84,264 received in March. The Company issued 1,020,024 shares and received gross proceeds of \$1,377,032 in total as of April 30, 2008. There can be no assurance that the Company can successfully complete its goal of selling up to 9,000,000 shares in the private placement and it is uncertain that the required funds will be available to the Company on satisfactory terms and conditions, if at all.

On May 2008, the Company paid \$28,000 to one note holder, such payment representing the principal repayment and accrued interest owed to that note holder as of April 20, 2008, as the second installment on the September 12, 2007 Notes and the first installment on the October 31, 2007 Notes.

The Company owes \$182,000 to two note holders, such amount represents the principal repayment amount and accrued interest owed to such note holders as of April 20, 2008, as the second installment on the September 12, 2007 Notes and the first installment on the October 31, 2007 Notes.

We are currently in negotiations with the three accredited investors for the total redemption of the notes and warrants.

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## **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 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 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.

For a description of such risks and uncertainties refer to our Registration Statement on Form SB-2, and Annual Report on Form 10-K, filed with the Securities and Exchange Commission on October 16, 2007 and March 31, 2008, respectively. While these forward-looking statements, and any assumptions upon which they are based, are made in good faith and reflect our current judgment regarding the direction of our business, actual results will almost always vary, sometimes materially, from any estimates, predictions, projections, assumptions or other future performance suggested herein. Except as required by applicable law, including the securities laws of the United States, we do not intend to update any of the forward-looking statements to conform these statements to actual results.

### ***Business Overview***

#### ***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.

### ***Our Business***

Through our subsidiary, Qianbao, we are primarily engaged in the sale of multi player online game cards through Qianbao's websites, [www.iamseller.com](http://www.iamseller.com), and [www.17logo.com](http://www.17logo.com). While we also engage in the sale of prepaid telephone cards and over 800 software products, including cooking and language software, the sale of such products represents an insignificant percentage of our gross revenues during the quarter ended March 31, 2008. We have decided to focus all of our resources on the development of the multi player online game cards business, in addition to the development of our web distribution platform during the next 12 months. 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, as discussed below.

### ***Qianbao's Business***

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.

Qianbao sells prepaid multi player online video games on its websites, [www.iamseller.com](http://www.iamseller.com) and [www.17logo.com](http://www.17logo.com) to consumers or retailers visiting such websites. At present, the main products offered for sale on our websites are online multi player prepaid game cards, which allow the holder thereof to play, for an allotted time, online video games. We also offer for sale on such websites prepaid telephone cards and over 800 software products, including cooking and language software.

While Qianbao is planning to manufacture its own multiplayer online games in the future, Qianbao does not currently manufacture any of the products offered for sale on its website. Qianbao purchases such products from third-party suppliers and resells them on its websites. Qianbao also arranges with some third-party suppliers to make their products available for sale on Qianbao's website, and Qianbao earns a commission on such sales. Such commission is a percentage of the revenues generated from such sales. The specific amount of such percentage is negotiated between Qianbao and each such supplier, but generally ranges from 1% to 5%. We have arranged for the following companies to supply products to be sold on Qianbao's website: Shandong Tianfu Online Platform (supplier of game cards); Sifang Online Distribution Platform (supplier of game cards); Chongqing Digital World (supplier of phone cards); Chongqing E Net Chongqing Sifang (supplier of phone cards); Chongqing Taoxing (supplier of study cards); and Chongqing Dezheng Technology Development. No individual supplier alone is material to our current business. Since the inception of our operations, including during the three months ended March 31, 2008, the commission generated from the sale of prepaid telephone cards and study cards represented an insignificant percentage of our gross revenues.

Qianbao has many competing companies which have financial, technical and marketing resources significantly greater than those of Qianbao. Qianbao's major competitors include Taoxing, Hongde, Hoyodo, Yun Web, Cobuy, Jun Web, and China card Net. All of these competitors have been in operation for over two years, while we began our business during 2006.

**Chongqing Taoxing** - is a reseller of online games in China. Taoxing is now the major reseller of SNDA, 9you, World of Warcraft, Kingsoft and Century on line games. Additionally, Taoxing is a distributor of Net easy, and Q currency.

**Hoyodo**- Chongqing Hoyodo Technical and information Co., Ltd is the E-commerce platform of Chongqing Tianji Net company and is a distributor of multiplayer on line games.

**Hongde online game time card sales platform** - An online sales platform of prepaid game cards. Customers on this platform can watch movies online or download movies for free. This platform only sells to internet cafes, not to personal users.

**Fanxu**- Focuses on the sales of legal software and consulting service; and also sales computer materials and prepaid game time cards.

**Tongji online <http://www.10288.com/>**-Involved in the distribution and retailing of legal software, games and game timecards, and now is generally developing its sales ways in net cafes, bookstores and booths.

**Jun Web**- An Internet platform of digital products, engaging in B2B and B2C of E-commerce, owns many general charging cards, and many websites.

**Cobuy**- Conducts sales of on line digital products, including but not limited to digital cards, group buying, telecommunication, digital, flowers, underwear, auction, health care, adornment, etc.

**Yun web**- Including the sales platform of digital products, trade platform of products, Yun web online payment system. Searching for the localization of E-commerce, revolutionary created an all digital E-commerce mode.

Qianbao currently has fifty-one employees, all of whom are employed on a full-time basis. Thirteen employees are involved in technical operations of the company, twenty three are involved in sales and marketing, and the remainder is involved in human resources and finances.

All employees are employed pursuant to our standard employment contract, which sets forth the term of the employment, duties, compensation, and other such matters. In addition, all of our employees are required to sign our

standard confidentiality agreement, pursuant to which they agree to maintain the confidentiality of all proprietary information of our company. We do not believe that any of these contracts are material to our business or operations.

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## 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 visiting such websites. 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 Three Months Period Ended March 31, 2008 and 2007.*

For the quarter ended March 31, 2008, net sales was \$5,504,080, the cost of sales was \$5,371,984, and the gross profit was \$132,096. In comparison, for the quarter ended March 31, 2007, net sales was \$1,102,781, the cost of sales was \$1,087,374, and the gross profit was \$15,407. The revenues were derived from online product sales, primarily, prepaid multi player online game cards, with very low gross margin. One of the reasons we believed that net sales increased approximately 400% was as a result of the expanded games we offered and increased market share. The cost of sales increased approximately 400% as a result of us purchasing additional cards.

However, if we continue to realize gross margins similar to our historical amounts, we will continue to have cash flow problems.

For the quarter ended March 31, 2008, operating expenses were \$219,218. We had a loss from operations in the amount of \$87,122. The net loss during such period was \$684,979. For the quarter ended March 31, 2007, operating expenses were \$145,820. We had a loss from operations in the amount of \$130,413. The net loss during such period was \$134,829. Interest expense for the quarter ended March 31, 2008 increased as a result of the convertible debentures which became due on a monthly basis commencing March 12, 2008. The net other expense increased by \$590,833 for the quarter ended March 31, 2008 from the period ended March 31, 2007 as a result of the amortization of such debt.

## Liquidity and Capital Resources

Our balance sheet as of March 31, 2008, reflects assets of \$2,851,232 including deferred offering costs of \$76,871.

As of March 31, 2008, Pay88 had \$228,056 in cash. 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. As of March 31, 2008, the Company has issued 732,606 shares to nine subscribers and received gross proceeds of \$989,018. In addition, the Company received deposits of \$84,264 from subscribers as of March 31, 2008, representing 62,418 shares signed on April 16, 2008. The cost in connection with this private



placement totaled \$237,179, representing the finder fee and commissions paid as of March 31, 2008.

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During March, 2008, the note holders were paid \$65,000 pursuant to the Letter Agreement dated March 11, 2008. During April 2008, the Company paid \$64,255 to the three note holders, such payments representing the balance of principal repayment due as of March 12, 2008 (with respect to the September 12, 2007 Note), accrued interest on the promissory notes as part of the first installment and one time fees of \$20,000.

On April 14, 2008, the Company entered into a Letter Agreement with the three note holders, pursuant to which the parties agreed to change the repayment date on the September 12, 2007 Notes and the October 31, 2007 Notes to the 20<sup>th</sup> day of each month, commencing April 20, 2008, until the principal amount of each note has been paid in full, whether in cash or by the conversion of such principal amount into common stock, pursuant to the terms thereof.

On May 2008, the Company paid \$28,000 to one note holder, such payment representing the principal repayment and accrued interest owed to that note holder as of April 20, 2008, as the second installment on the September 12, 2007 Notes and the first installment on the October 31, 2007 Notes.

The Company owes \$182,000 to two note holders, such amount represents the principal repayment amount and accrued interest owned to such note holders as of April 20, 2008, as the second installment on the September 12, 2007 Notes and the first installment on the October 31, 2007 Notes.

We are currently in negotiations with the three accredited investors for the total redemption of the notes and warrants.

Notwithstanding, we anticipate generating losses and therefore we may be unable to continue our operations in the future. If we require additional capital, we would have to issue debt or equity or enter into a strategic arrangement with a third party. There can be no assurance that additional capital will be available to us. We currently have no agreements, arrangements or understandings with any person to obtain funds through bank loans, lines of credit or any other sources.

#### **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 Consideration**

The Company has incurred a net loss of \$684,979, which included the amortization of deferred financing cost and amortization of debt discount and cash discount of \$516,147, for the three months ended March 31, 2008. In addition, the Company has incurred significant losses and had negative cash flow from operations since April 24, 2006 (date of inception) and has an accumulated deficit of \$12,288,222 at March 31, 2008. Substantial portions of the losses are attributable to consulting and professional fees. Furthermore, the Company's gross margin rate from its current operations was very low. It was approximately 2.4% and 1.4% for the three months ended March 31, 2008 and 2007, respectively. These factors raised substantial doubt about the Company's ability to continue as going concern.

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

During the three months ended March 31, 2008, the Company received net proceeds totaling \$836,103 from its regulation S offering after the payment of the offering cost of \$237,179.

The Company has undertaken further steps as part of a plan to improve operations with the goal of sustaining our operations for the next twelve months and beyond to address our 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 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.

## **Critical Accounting Policies and Estimates**

### *Recent Accounting Pronouncements*

For a summary of our critical accounting policies, please refer to our Annual Report on Form 10-K for the year ended December 31, 2007 filed with SEC on March 31, 2008 and Note 1 of Notes to Condensed Consolidated Financial Statements under the caption "Recent Accounting Pronouncements" included in Part I, Item 1. Financial Statements of this Form 10-Q.

**Off-Balance Sheet Arrangements**

We have no off-balance sheet arrangements.

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

Smaller reporting companies are not required to provide the information required by Item 305.

**Item 4. Controls and Procedures.**

**Evaluation of Disclosure Controls and Procedures**

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

**Changes in Internal Controls over Financial Reporting**

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

**PART II  
OTHER INFORMATION**

**Item 1. Legal Proceedings.**

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

**Item 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, 2007 filed with the SEC on March 31, 2008.

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

*Unregistered Sales of Equity Securities*

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. As of March 31, 2008, the Company has issued 732,606 shares to nine subscribers and received gross proceeds of \$989,018. In addition, the Company received deposits of \$84,264 from subscribers as of March 31, 2008, representing 62,418 shares signed on April 16, 2008.

During April 2008, the Company issued additional 287,418 shares in the private placement under the Regulation S and received gross proceeds of \$388,014, which included the investor deposits of \$84,264 received in March 2008. The Company issued 1,020,024 shares and received gross proceeds of approximately \$1,377,000 in total as of April 30, 2008. There can be no assurance that the Company can successfully complete its goal of selling up to 9,000,000 shares in the private placement and it is uncertain that the required funds will be available to the Company on satisfactory terms and conditions, if at all.

***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 fiscal quarter ended March 31, 2008.

**Item 5. Other Information.**

None

**Item 6. Exhibits**

Exhibit

No.	Description
31.1	Rule 13a-14(a)/15d14(a) Certifications of Guo Fan, the President, Chief Executive Officer, Treasurer and Director (Attached Hereto)
32.1	Section 1350 Certifications 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: May 14, 2008

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