

NUVEEN PREMIUM INCOME MUNICIPAL FUND INC  
Form DEF 14A  
July 01, 2015

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**SCHEDULE 14A**

**Proxy Statement Pursuant to Section 14(a) of the**

**Securities Exchange Act of 1934**

**(Amendment No. )**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement.
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2)).**
- Definitive Proxy Statement.
- Definitive Additional Materials.
- Soliciting Material Pursuant to §240.14a-11(c) or §240.14a-12

**Nuveen Premium Income Municipal Fund, Inc. (NPI)**  
(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

1) Title of each class of securities to which transaction applies:

- 2) Aggregate number of securities to which transaction applies:
  
  
  
  
  
  
  
  
  
  
- 3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):
  
  
  
  
  
  
  
  
  
  
- 4) Proposed maximum aggregate value of transaction:
  
  
  
  
  
  
  
  
  
  
- 5) Total fee paid:

Fee paid previously with preliminary materials.

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

- 1) Amount Previously Paid:
  
  
  
  
  
  
  
  
  
  
- 2) Form, Schedule or Registration Statement No.:
  
  
  
  
  
  
  
  
  
  
- 3) Filing Party:
  
  
  
  
  
  
  
  
  
  
- 4) Date Filed:



# **Notice of Annual Meeting**

333 West Wacker Drive

## **of Shareholders**

Chicago, Illinois 60606

**June 30, 2015**

(800) 257-8787

**August 5, 2015**

**Nuveen AMT-Free Municipal Income Fund (NEA)**

**Nuveen AMT-Free Municipal Value Fund (NUW)**

**Nuveen Build America Bond Fund (NBB)**

**Nuveen Build America Bond Opportunity Fund (NBD)**

**Nuveen California Select Tax-Free Income Portfolio (NXC)**

**Nuveen Dividend Advantage Municipal Fund (NAD)**

**Nuveen Dividend Advantage Municipal Fund 2 (NXZ)**

**Nuveen Dividend Advantage Municipal Fund 3 (NZF)**

**Nuveen Dividend Advantage Municipal Income Fund (NVG)**

**Nuveen Dow 30<sup>SM</sup> Dynamic Overwrite Fund (DIAX)**

**Nuveen Enhanced Municipal Value Fund (NEV)**

**Nuveen Global High Income Fund (JGH)**

**Nuveen Investment Quality Municipal Fund, Inc. (NQM)**

**Nuveen Municipal Advantage Fund, Inc. (NMA)**

**Nuveen Municipal High Income Opportunity Fund (NMZ)**

**Nuveen Municipal Income Fund, Inc. (NMI)**

**Nuveen Municipal Market Opportunity Fund, Inc. (NMO)**

**Nuveen Municipal Opportunity Fund, Inc. (NIO)**

**Nuveen Municipal Value Fund, Inc. (NUV)**

**Nuveen NASDAQ 100 Dynamic Overwrite Fund (QQQX)**

**Nuveen New York Select Tax-Free Income Portfolio (NXN)**

**Nuveen Performance Plus Municipal Fund, Inc. (NPP)**

**Nuveen Premier Municipal Income Fund, Inc. (NPF)**

**Nuveen Premium Income Municipal Fund, Inc. (NPI)**

**Nuveen Premium Income Municipal Fund 2, Inc. (NPM)**

**Nuveen Premium Income Municipal Fund 4, Inc. (NPT)**

**Nuveen Quality Income Municipal Fund, Inc. (NQU)**

**Nuveen Quality Municipal Fund, Inc. (NQI)**

**Nuveen Select Maturities Municipal Fund (NIM)**

**Nuveen Select Quality Municipal Fund, Inc. (NQS)**

**Nuveen Select Tax-Free Income Portfolio (NXP)**

**Nuveen Select Tax-Free Income Portfolio 2 (NXQ)**

**Nuveen Select Tax-Free Income Portfolio 3 (NXR)**

**To the Shareholders of the Above Funds:**

Notice is hereby given that the Annual Meeting of Shareholders of each of Nuveen AMT-Free Municipal Income Fund ( AMT-Free Income ), Nuveen AMT-Free Municipal Value Fund ( AMT-Free Value ), Nuveen Build America Bond Fund ( Build America ), Nuveen Build America Bond Opportunity Fund ( Build America Opportunity ), Nuveen California Select Tax-Free Income Portfolio ( California Select ), Nuveen Dividend Advantage Municipal Fund ( Dividend Advantage ), Nuveen Dividend Advantage Municipal Fund 2 ( Dividend Advantage 2 ), Nuveen Dividend Advantage Municipal Fund 3 ( Dividend Advantage 3 ), Nuveen Dividend Advantage Municipal Income Fund ( Dividend Advantage Municipal ), Nuveen Dow 30<sup>M</sup> Dynamic Overwrite Fund ( Dow Dynamic Overwrite ), Nuveen Enhanced Municipal Value Fund ( Enhanced Value ), Nuveen Global High Income Fund ( Global High Income ), Nuveen Municipal High Income Opportunity Fund ( Municipal High Income ), Nuveen NASDAQ 100 Dynamic Overwrite Fund ( NASDAQ Dynamic Overwrite ), Nuveen New York Select Tax-Free Income Portfolio ( New York Select ), Nuveen Select Maturities Municipal Fund ( Select Maturities ), Nuveen Select Tax-Free Income Portfolio ( Select Tax-Free ), Nuveen Select Tax-Free Income Portfolio 2 ( Select Tax-Free 2 ) and Nuveen Select Tax-Free Income Portfolio 3 ( Select Tax-Free 3 ), each a **Massachusetts business trust** (each, a Massachusetts Fund and collectively, the Massachusetts Funds ), and Nuveen Investment Quality Municipal Fund, Inc. ( Investment Quality ), Nuveen Municipal Advantage Fund, Inc. ( Municipal Advantage ), Nuveen Municipal Income Fund, Inc. ( Municipal Income ), Nuveen Municipal Market Opportunity Fund, Inc. ( Municipal Market Opportunity ), Nuveen Municipal Opportunity Fund, Inc. ( Municipal Opportunity ), Nuveen Municipal Value Fund, Inc. ( Municipal Value ), Nuveen Performance Plus Municipal Fund, Inc. ( Performance Plus ), Nuveen Premier Municipal Income Fund, Inc. ( Premier Income ), Nuveen Premium Income Municipal Fund, Inc. ( Premium Income ), Nuveen Premium Income Municipal Fund 2, Inc. ( Premium Income 2 ), Nuveen Premium Income Municipal Fund 4, Inc. ( Premium Income 4 ), Nuveen Quality Income Municipal Fund, Inc. ( Quality Income ), Nuveen Quality Municipal Fund, Inc. ( Quality Municipal ) and Nuveen Select Quality Municipal Fund, Inc. ( Select Quality ), each a **Minnesota corporation** (each, a Minnesota Fund and collectively, the Minnesota Funds ) (the Massachusetts Funds and Minnesota Funds are each a Fund and collectively, the Funds ), will be held in the offices of Nuveen Investments, Inc., 333 West Wacker Drive, Chicago, Illinois, on Wednesday, August 5, 2015, at 11:00 a.m., Central time (for each Fund, an Annual Meeting and collectively, the Annual Meetings ), for the following purposes and to transact such other business, if any, as may properly come before the Annual Meeting.

**Matters to Be Voted on by Shareholders:**

1. To elect Members to the Board of Directors/Trustees (each a Board and each Director or Trustee a Board Member ) of each Fund as outlined below:
  - a. For each Minnesota Fund (except Municipal Income and Municipal Value), to elect eleven (11) Board Members.
    - i) nine (9) Board Members to be elected by the holders of Common Shares and Preferred Shares, voting together as a single class; and
    - ii) two (2) Board Members to be elected by the holders of Preferred Shares only, voting separately as a single class.
  - b. For Municipal Income, to elect three (3) Class II Board Members.

- c. For Municipal Value and each Massachusetts Fund (except AMT-Free Income, Dividend Advantage, Dividend Advantage 2, Dividend Advantage 3, Dividend Advantage Municipal and Municipal High Income), to elect three (3) Class III Board Members.
  
- d. For AMT-Free Income, Dividend Advantage, Dividend Advantage 2, Dividend Advantage 3, Dividend Advantage Municipal and Municipal High Income, to elect four (4) Board Members.
  - i) two (2) Class III Board Members to be elected by the holders of Common Shares and Preferred Shares, voting together as a single class; and
  
  - ii) two (2) Board Members to be elected by the holders of Preferred Shares only, voting separately as a single class.

2. To transact such other business as may properly come before the Annual Meeting.

Shareholders of record at the close of business on June 8, 2015 are entitled to notice of and to vote at the Annual Meeting.

**All shareholders are cordially invited to attend the Annual Meeting. In order to avoid delay and additional expense and to assure that your shares are represented, please vote as promptly as possible, regardless of whether or not you plan to attend the Annual Meeting. You may vote by mail, telephone or over the Internet. To vote by mail, please mark, sign, date and mail the enclosed proxy card. No postage is required if mailed in the United States. To vote by telephone, please call the toll-free number located on your proxy card and follow the recorded instructions, using your proxy card as a guide. To vote over the Internet, go to the Internet address provided on your proxy card and follow the instructions, using your proxy card as a guide.**

If you intend to attend the Annual Meeting in person and you are a record holder of a Fund's shares, in order to gain admission you must show photographic identification, such as your driver's license. If you intend to attend the Annual Meeting in person and you hold your shares through a bank, broker or other custodian, in order to gain admission you must show photographic identification, such as your driver's license, and satisfactory proof of ownership of shares of a Fund, such as your voting instruction form (or a copy thereof) or broker's statement indicating ownership as of a recent date. If you hold your shares in a brokerage account or through a bank or other nominee, you will not be able to vote in person at the Annual Meeting unless you have previously requested and obtained a legal proxy from your broker, bank or other nominee and present it at the Annual Meeting.

Kevin J. McCarthy

*Vice President and Secretary*

333 West Wacker Drive

## Joint Proxy Statement

Chicago, Illinois 60606

(800) 257-8787

August 5, 2015

This Joint Proxy Statement is first being mailed to shareholders on or about July 2, 2015.

**Nuveen AMT-Free Municipal Income Fund (NEA)**

**Nuveen AMT-Free Municipal Value Fund (NUW)**

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**Nuveen Select Quality Municipal Fund, Inc. (NQS)**

**Nuveen Select Tax-Free Income Portfolio (NXP)**

**Nuveen Select Tax-Free Income Portfolio 2 (NXQ)**

**Nuveen Select Tax-Free Income Portfolio 3 (NXR)**

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**General Information**

This Joint Proxy Statement is furnished in connection with the solicitation by the Board of Trustees or Directors (each a **Board** and collectively, the **Boards**, and each Trustee or Director, a **Board Member** and collectively, the **Board Members**) of each of Nuveen AMT-Free Municipal Income Fund ( **AMT-Free Income** ), Nuveen AMT-Free Municipal Value Fund ( **AMT-Free Value** ), Nuveen Build America Bond Fund ( **Build America** ), Nuveen Build America Bond Opportunity Fund ( **Build America Opportunity** ), Nuveen California Select Tax-Free Income Portfolio ( **California Select** ), Nuveen Dividend Advantage Municipal Fund ( **Dividend Advantage** ), Nuveen Dividend Advantage Municipal Fund 2 ( **Dividend Advantage 2** ), Nuveen Dividend Advantage Municipal Fund 3 ( **Dividend Advantage 3** ), Nuveen Dividend Advantage Municipal Income Fund ( **Dividend Advantage Municipal** ), Nuveen Dow<sup>30</sup>Dynamic Overwrite Fund ( **Dow Dynamic Overwrite** ), Nuveen Enhanced Municipal Value Fund ( **Enhanced Value** ), Nuveen Global High Income Fund ( **Global High Income** ), Nuveen Municipal High Income Opportunity Fund ( **Municipal High Income** ), Nuveen NASDAQ 100 Dynamic Overwrite Fund ( **NASDAQ Dynamic Overwrite** ), Nuveen New York Select Tax-Free Income Portfolio ( **New York Select** ), Nuveen Select Maturities Municipal Fund ( **Select Maturities** ), Nuveen Select Tax-Free Income Portfolio ( **Select Tax-Free** ), Nuveen Select Tax-Free Income Portfolio 2 ( **Select Tax-Free 2** ) and Nuveen Select Tax-Free Income Portfolio 3 ( **Select Tax-Free 3** ), each a **Massachusetts business trust** (each, a **Massachusetts Fund** and collectively, the **Massachusetts Funds** ), and Nuveen Investment Quality Municipal Fund, Inc. ( **Investment Quality** ), Nuveen Municipal Advantage Fund, Inc. ( **Municipal Advantage** ), Nuveen Municipal Income Fund, Inc. ( **Municipal Income** ), Nuveen Municipal Market Opportunity Fund, Inc. ( **Municipal Market Opportunity** ), Nuveen Municipal Opportunity Fund, Inc. ( **Municipal Opportunity** ), Nuveen Municipal Value Fund, Inc. ( **Municipal Value** ), Nuveen Performance Plus Municipal Fund, Inc. ( **Performance Plus** ), Nuveen Premier Municipal Income Fund, Inc. ( **Premier Income** ), Nuveen Premium Income Municipal Fund, Inc. ( **Premium Income** ), Nuveen Premium Income Municipal Fund 2, Inc. ( **Premium Income 2** ), Nuveen Premium Income Municipal Fund 4, Inc. ( **Premium Income 4** ), Nuveen Quality Income Municipal Fund, Inc. ( **Quality Income** ), Nuveen Quality Municipal Fund, Inc. ( **Quality Municipal** ) and Nuveen Select Quality Municipal Fund, Inc. ( **Select Quality** ), each a **Minnesota corporation** (each, a **Minnesota Fund** and collectively, the **Minnesota Funds** ) (the **Massachusetts Funds** and **Minnesota Funds** are each a **Fund** and collectively, the **Funds** ), of proxies to be voted at the Annual Meeting of Shareholders to be held in the offices of Nuveen Investments, Inc. ( **Nuveen** or **Nuveen Investments** ), 333 West Wacker Drive, Chicago, Illinois, on Wednesday, August 5, 2015 at 11:00 a.m., Central time (for each Fund, an **Annual Meeting** and collectively, the **Annual Meetings** ), and at any and all adjournments thereof.

On the matters coming before each Annual Meeting as to which a choice has been specified by shareholders on the proxy, the shares will be voted accordingly. If a properly executed proxy is returned and no choice is specified, the shares will be voted **FOR** the election of the nominees as listed in this Joint Proxy Statement. Shareholders of a Fund who execute proxies may revoke them at any time before they are voted by filing with that Fund a written notice of revocation, by delivering a duly executed proxy bearing a later date, or by attending the Annual Meeting and voting in person. A prior proxy can also be revoked by voting again through the toll-free number or the Internet address listed in the proxy card. Merely attending the Annual Meeting, however, will not revoke any previously submitted proxy.

The Board of each Fund has determined that the use of this Joint Proxy Statement for each Annual Meeting is in the best interest of each Fund and its shareholders in light of the similar matters being considered and voted on by the shareholders.

The following table indicates which shareholders are solicited with respect to each matter:

Matter	Common Shares	Preferred Shares <sup>(1)</sup>
1(a)(i) For each Minnesota Fund (except Municipal Income and Municipal Value), election of nine (9) Board Members by all shareholders.	X	X
1(a)(ii) For each Minnesota Fund (except Municipal Income and Municipal Value), election of two (2) Board Members by holders of Preferred Shares only.		X
1(b) For Municipal Income, election of three (3) Class II Board Members by all shareholders.	X	N/A
1(c) For Municipal Value and each Massachusetts Fund (except AMT-Free Income, Dividend Advantage, Dividend Advantage 2, Dividend Advantage 3, Dividend Advantage Municipal and Municipal High Income), election of three (3) Class III Board Members by all shareholders.	X	N/A
1(d)(i) For AMT-Free Income, Dividend Advantage, Dividend Advantage 2, Dividend Advantage 3, Dividend Advantage Municipal and Municipal High Income, election of two (2) Class III Board Members by all shareholders.	X	X
1(d)(ii) For AMT-Free Income, Dividend Advantage, Dividend Advantage 2, Dividend Advantage 3, Dividend Advantage Municipal and Municipal High Income, election of two (2) Board Members by holders of Preferred Shares only.		X

(1) Variable Rate MuniFund Term Preferred Shares ( VMTP Shares ) for AMT-Free Income, Dividend Advantage, Dividend Advantage 3, Investment Quality, Municipal High Income, Performance Plus, Premium Income and Quality Municipal; Institutional MuniFund Term Preferred Shares ( iMTP Shares ) for Dividend Advantage 3; and Variable Rate Demand Preferred Shares ( VRDP Shares ) for AMT-Free Income, Dividend Advantage 2, Dividend Advantage Municipal, Investment Quality, Municipal Advantage, Municipal Market Opportunity, Municipal Opportunity, Premier Income, Premium Income 2, Premium Income 4, Quality Income and Select Quality are collectively referred to herein as Preferred Shares.

A quorum of shareholders is required to take action at each Annual Meeting. A majority of the shares entitled to vote at each Annual Meeting, represented in person or by proxy, will constitute a quorum of shareholders at that Annual Meeting, except that for the election of the two Board Member nominees by holders of Preferred Shares (for AMT-Free Income, Dividend Advantage, Dividend Advantage 2, Dividend Advantage 3, Dividend Advantage Municipal, Investment Quality, Municipal Advantage, Municipal High Income, Municipal Market Opportunity, Municipal Opportunity, Performance Plus, Premier Income, Premium Income, Premium Income 2, Premium Income 4, Quality Income, Quality Municipal and Select Quality), 33 1/3% of

the Preferred Shares entitled to vote and represented in person or by proxy will constitute a quorum. Votes cast by proxy or in person at each Annual Meeting will be tabulated by the inspectors of election appointed for that Annual Meeting. The inspectors of election will determine whether or not a quorum is present at the Annual Meeting. The inspectors of election will treat abstentions and broker non-votes (i.e., shares held by brokers or nominees, typically in street name, as to which (i) instructions have not been received from the beneficial owners or persons entitled to vote and (ii) the broker or nominee does not have discretionary voting power on a particular matter) as present for purposes of determining a quorum.

VRDP Shares held in street name as to which voting instructions have not been received from the beneficial owners or persons entitled to vote as of one business day before the Annual Meeting, or, if adjourned, one business day before the day to which the Annual Meeting is adjourned, and that would otherwise be treated as broker non-votes may, pursuant to Rule 452 of the New York Stock Exchange ( NYSE ), be voted by the broker on the proposal in the same proportion as the votes cast by all holders of VRDP Shares as a class who have voted on the proposal or in the same proportion as the votes cast by all holders of VRDP Shares of the Fund who have voted on that item. Rule 452 permits proportionate voting of VRDP Shares with respect to a particular item if, among other things, (i) a minimum of 30% of the VRDP Shares or shares of a series of VRDP Shares outstanding has been voted by the holders of such shares with respect to such item, (ii) less than 10% of the VRDP Shares or shares of a series of VRDP Shares outstanding has been voted by the holders of such shares against such item and (iii) for any proposal as to which holders of Common Shares and Preferred Shares vote as a single class, holders of Common Shares approve the proposal. For the purpose of meeting the 30% test, abstentions will be treated as shares voted and, for the purpose of meeting the 10% test, abstentions will not be treated as shares voted against the item.

Broker-dealers who are not members of the NYSE may be subject to other rules, which may or may not permit them to vote your shares without instruction. We urge you to provide instructions to your broker or nominee so that your votes may be counted.

For each Fund, the affirmative vote of a plurality of the shares present and entitled to vote at the Annual Meeting will be required to elect the Board Members of that Fund. For purposes of determining the approval of the proposal to elect Board Members for each Fund, abstentions and broker non-votes will have no effect.

Those persons who were shareholders of record at the close of business on Monday, June 8, 2015 will be entitled to one vote for each share held and a proportionate fractional vote for each fractional vote held. As of June 8, 2015, the shares of the Funds were issued and outstanding as follows:

Fund	Ticker Symbol <sup>(1)</sup>	Common Shares	Preferred Shares	
AMT-Free Income	NEA	78,883,061	VMTP Series 2016	1,510
			VRDP Series 1	2,190
			VRDP Series 2	1,309
AMT-Free Value	NUW	13,333,215	N/A	
Build America	NBB	26,461,985	N/A	
Build America Opportunity	NBD	7,205,250	N/A	
California Select	NXC	6,278,907	N/A	

Fund	Ticker Symbol <sup>(1)</sup>	Common Shares	Preferred Shares	
Dividend Advantage	NAD	39,296,352	VMTP Series 2016	2,650
Dividend Advantage 2	NXZ	29,478,411	VRDP Series 2	1,960
Dividend Advantage 3	NZF	36,330,025	iMTP Series 2017	30,000
			VMTP Series 2017	810
Dividend Advantage Municipal	NVG	26,664,130	VRDP Series 1	1,790
Dow Dynamic Overwrite	DIAX	36,085,350	N/A	
Enhanced Value	NEV	21,097,018	N/A	
Global High Income	JGH	24,045,093	N/A	
Investment Quality	NQM	41,579,383	VMTP Series 2017	435
			VRDP Series 1	2,368
Municipal Advantage	NMA	39,327,667	VRDP Series 1	2,688
Municipal High Income	NMZ	50,084,682	VMTP Series 2016	510
			VMTP Series 2016-1	360
Municipal Income	NMI	8,297,071	N/A	
Municipal Market Opportunity	NMO	45,874,035	VRDP Series 1	3,509
Municipal Opportunity	NIO	95,610,971	VRDP Series 1	6,672
Municipal Value	NUV	205,627,646	N/A	
NASDAQ Dynamic Overwrite	QQQX	36,564,414	N/A	
New York Select	NXN	3,923,975	N/A	
Performance Plus	NPP	60,025,455	VMTP Series 2018	5,350
Premier Income	NPF	19,888,518	VRDP Series 1	1,277
Premium Income	NPI	64,060,043	VMTP Series 2018	4,070
Premium Income 2	NPM	70,692,851	VRDP Series 1	4,895
Premium Income 4	NPT	43,338,451	VRDP Series 1	2,622
Quality Income	NQU	48,941,182	VRDP Series 1	3,854
Quality Municipal	NQI	38,436,871	VMTP Series 2018	2,404
Select Maturities	NIM	12,442,881	N/A	
Select Quality	NQS	35,222,129	VRDP Series 1	2,675
Select Tax-Free	NXP	16,570,310	N/A	
Select Tax-Free 2	NXQ	17,713,727	N/A	
Select Tax-Free 3	NXR	13,045,560	N/A	

(1) The Common Shares of all of the Funds are listed on the NYSE, except Dividend Advantage 2, Dividend Advantage 3, Dividend Advantage Municipal and Municipal High Income, which are listed on the NYSE MKT, and NASDAQ Dynamic Overwrite, which are listed on the NASDAQ Global Select Market ( NASDAQ ).

### 1. Election of Board Members

Pursuant to the organizational documents of each Minnesota Fund, except Municipal Income and Municipal Value, under normal circumstances, holders of Preferred Shares are entitled to elect two (2) Board Members, and the remaining Board Members are to be elected by holders of Common Shares and Preferred Shares, voting together as a single class. The Board Members elected will be elected to serve until the next annual meeting or until their successors

have been duly elected and qualified. Pursuant to the organizational documents of each Massachusetts Fund and Municipal Income and Municipal Value, each Board is divided into three classes, Class I, Class II and Class III, to be elected by the holders of the outstanding Common Shares and any outstanding Preferred Shares, voting together as a single class to serve until the third succeeding annual meeting subsequent to their election or thereafter, in each case until their successors have been duly elected and qualified. For AMT-Free Income, Dividend Advantage, Dividend Advantage 2, Dividend Advantage 3, Dividend Advantage Municipal and Municipal High Income, each Massachusetts Fund with Preferred Shares outstanding, under normal circumstances, holders of Preferred Shares are entitled to elect two (2) Board Members. The Board Members elected by holders of Preferred Shares will be elected to serve until the next annual meeting or until their successors have been duly elected and qualified.

**(a) For each Minnesota Fund, except Municipal Income and Municipal Value:**

(i) nine (9) Board Members are to be elected by holders of Common Shares and Preferred Shares, voting together as a single class. Board Members Adams, Evans, Kundert, Nelson, Schreier, Stockdale, Stone, Stringer and Toth are nominees for election by all shareholders for a term expiring at the next annual meeting of shareholders or until their successors have been duly elected and qualified.

(ii) two (2) Board Members are to be elected by holders of Preferred Shares, voting separately as a single class. Board Members Hunter and Schneider are nominees for election by holders of Preferred Shares for a term expiring at the next annual meeting or until their successors have been duly elected and qualified.

**(b) For Municipal Income:** three (3) Board Members are to be elected by all shareholders. Board Members Evans, Schneider and Schreier have been designated as Class II Board Members and as nominees for Board Members for a term expiring at the annual meeting of shareholders in 2018 or until their successors have been duly elected and qualified. Board Members Adams, Hunter, Kundert, Nelson, Stockdale, Stone, Stringer and Toth are current and continuing Board Members. Board Members Hunter, Stockdale, Stone and Stringer have been designated as Class III Board Members for a term expiring at the annual meeting of shareholders in 2016 or until their successors have been duly elected and qualified. Board Members Adams, Kundert, Nelson and Toth have been designated as Class I Board Members for a term expiring at the annual meeting of shareholders in 2017 or until their successors have been duly elected and qualified.

**(c) For Municipal Value and each Massachusetts Fund, except AMT-Free Income, Dividend Advantage, Dividend Advantage 2, Dividend Advantage 3, Dividend Advantage Municipal and Municipal High Income:** three (3) Board Members are to be elected by all shareholders. Board Members Evans, Schneider and Schreier have been designated as Class III Board Members and as nominees for Board Members for a term expiring at the annual meeting of shareholders in 2018 or until their successors have been duly elected and qualified. Board Members Adams, Hunter, Kundert, Nelson, Stockdale, Stone, Stringer and Toth are current and continuing Board Members. Board Members Hunter, Stockdale, Stone and Stringer have been designated as Class I Board Members for a term expiring at the annual meeting of shareholders in 2016 or until their successors have been duly elected and qualified.

Board Members Adams, Kundert, Nelson and Toth have been designated as Class II Board Members for a term expiring at the annual meeting of shareholders in 2017 or until their successors have been duly elected and qualified.

**(d) For AMT-Free Income, Dividend Advantage, Dividend Advantage 2, Dividend Advantage 3, Dividend Advantage Municipal and Municipal High Income:**

	(i) two (2) Board Members are to be elected by holders of Common Shares and Preferred Shares, voting together				
	adth="1%" style="border-bottom: #ccffcc;">	( 581)			
Interest Income		58	348	317	599
Total Other Income (Expense)		( 73,468)	( 233)	( 89,052)	18
Loss before Provision for Income Taxes		(10,341,481)	( 110,668)	(10,612,597)	( 161,965)
Provision for Income Taxes		4,095	-	5,516	-
Net Loss	\$	(10,345,576)	\$ ( 110,668)	\$ (10,618,113)	\$ ( 161,965)

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

PAY88, INC. AND SUBSIDIARY  
CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS

(Unaudited)

(Continued)

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

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



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

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

Supplemental Disclosures of Cash Flow Information:

Non Cash Financing Activities:

Discount on Convertible Debt	\$	1,058,616	\$	-
Preferred Stock Issued in Connection with Recapitalization	\$	-	\$	5,000

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

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

NOTE 1 - Description of Business and Basis of Presentation

Organization

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

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

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

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

Condensed Financial Statements

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

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

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

NOTE 1 - Basis of Presentation (Continued)

Consolidation

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

Going Concern

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

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

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

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

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

Reclassifications

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

NOTE 2 - Advertising Costs

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

NOTE 3 - Net Loss Per Common Share

Loss per share is computed by dividing net loss by the weighted average number of common shares outstanding during the period. The common stock issued and outstanding with respect to the pre-merger Pay88 stockholders has

been included since April 24, 2006. Diluted loss per common share is the same as basic loss share, as the effect of potentially dilutive securities (convertible debt-1,155,000 shares, and warrants-2,310,000) at September 30, 2007 are anti-dilutive.

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

NOTE 3 - Net Loss Per Common Share (Continued)

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

NOTE 4 - Property and Equipment

Property and equipment is summarized as follows:

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

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

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

NOTE 5 - Loans Payable - Related Parties

Loans payable to related parties consist of the following:

Loans payable to related parties consist of the following:

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

NOTE 6 - Loans Payable - Other

Loans payable to others consist of the following:

Loans payable to others consist of the following:

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

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

NOTE 7 - Note Payable - Related Party

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

NOTE 8 - Convertible Debt

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

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

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

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

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

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



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

NOTE 8 - Convertible Debt (Continued)

Payment of the Notes along with the Company's other obligations to the Purchasers is secured by all the assets of the Company and of its wholly-owned subsidiary 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 4,950,000 shares of Series A Preferred Stock (convertible into 13,860,000 shares of common stock) (see Note 13) as well as personal guaranties of Guo Fan, the Chief Executive Officer and a director of the Company, and by Tao Fan, the Chief Executive Officer of Qianbao and Chief Operating Officer and a director of the Company.

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

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

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

NOTE 9 - Commitments and Contingencies

Yahu Agreement

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

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

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

NOTE 9 - Commitments and Contingencies

Lack of Insurance

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

Employment Agreements

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

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

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

NOTE 10 - Stockholders’ Equity

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

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

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

stock.

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

NOTE 10 - Stockholders' Equity (Continued)

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

Warrants

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

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

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

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

NOTE 11 - Related Party TransactionsRent

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

Accounts Payable

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

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

NOTE 11 - Related Party Transactions (Continued)

Relationships

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

NOTE 12 - Concentration of Credit Risk

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

NOTE 13 - Subsequent Events

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

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

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

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

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

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

NOTE 13 - Subsequent Events (Continued)

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

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

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

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

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

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

### **Forward-Looking Statements**

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

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

### **History**

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

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



## Overview

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

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

## Plan of Operation

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

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

## Results of Operations

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

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

### **Liquidity and Capital Resources**

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

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

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

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

### **Going Concern**

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

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

### **Off-Balance Sheet Arrangements**

None.

### **Item 3. Controls and Procedures.**

#### **Evaluation of Disclosure Controls and Procedures**

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

#### **Changes in Internal Controls over Financial Reporting**

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

## **PART II. OTHER INFORMATION**

### **Item 1. Legal Proceedings.**

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

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

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

### **Item 3. Defaults Upon Senior Securities.**

None.

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

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

**Item 5. Other Information.**

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

**Item 6. Exhibits.**

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

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

Dated: November 14, 2007

PAY88, INC.

By: /s/ Guo Fan

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Name: Guo Fan

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