3PEA INTERNATIONAL, INC.
Form 10-Q
November 13, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2012

or

£ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ___________ to __________

Commission file number 000-54123

3PEA INTERNATIONAL, INC.

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

Nevada	95-4550154
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

1700 W Horizon Ridge Parkway, Suite 102,

Henderson, Nevada 89012

(Address of principal executive offices)

(702) 453-2221

(Issuer's telephone number, including area code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. x Yes £ No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). x

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 the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer £ Accelerated filer £ Non-accelerated filer £ Smaller reporting company x

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

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: 38,860,891 shares as of October 15, 2012.

3PEA INTERNATIONAL, INC.

FORM 10-Q REPORT INDEX

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

3PEA INTERNATIONAL, INC.

CONSOLIDATED BALANCE SHEETS

SEPTEMBER 30, 2012 AND DECEMBER 31, 2011

(UNAUDITED)

	September 30, 2012	December 31, 2011
ASSETS		
Current assets		
Cash	$202,856	$63,826
Cash Restricted	4,739,491	5,514,661
Accounts Receivable	388,027	1,250,320
Prepaid Expenses	13,750	3,970
Other receivables	8,490	–
Total current assets	5,352,614	6,832,777
Fixed assets, net	118,657	88,720
Intangible and other assets		
Deposits	3,551	3,551
Intangible assets, net	287,871	171,775
Total assets	$5,762,693	$7,096,823
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities		
Accounts payable and accrued liabilities	$904,952	$2,001,047
Customer card funding	4,739,491	5,514,661
Notes payable-related parties	538,000	538,000
Convertible note payable	10,000	10,000
Notes payable	244,400	1,943,900
Total current liabilities	6,436,843	10,007,608
Total liabilities	6,436,843	10,007,608
Stockholders' deficit		

Common stock; $0.001 par value; 150,000,000 shares authorized, 38,860,891 and 35,250,391 issued and outstanding at September 30, 2012 and December 31, 2011, respectively	38,861	35,250
Additional paid-in capital	5,536,769	4,975,686
Treasury stock at cost, 303,450 shares	(150,000)	(150,000)
Accumulated deficit	(6,159,952)	(7,829,104)
Total 3Pea International, Inc.'s stockholders' deficit	(734,322)	(2,968,168)
Noncontrolling interest	60,172	57,383
Total stockholders' deficit	(674,150)	(2,910,785)
Total liabilities and stockholders' deficit	$5,762,693	$7,096,823

See accompanying notes to financial statements.

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3PEA INTERNATIONAL, INC.

CONSOLIDATED STATEMENTS OF INCOME

FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2012 AND 2011

(UNAUDITED)

	For the three months ended Sept 30,	
	2012	2011
Revenues	$622,368	$278,009
Cost of revenues	307,307	90,050
Gross profit	315,061	187,959
Operating expenses		
Depreciation and amortization	15,654	10,603
Selling, general and administrative	191,549	129,606
Total operating expenses	207,203	140,209
Income from operations	107,858	47,750
Other income (expense)		
Interest expense	(16,248)	(15,986)
Gain on debt extinguishment	23,377	–
Total other income (expense)	7,129	(15,986)
Income before provision for income taxes and noncontrolling interest	114,987	31,764
Provision for income taxes	–	–
Net income before noncontrolling interest	114,987	31,764
Net (income) loss attributable to the noncontrolling interest	(2,796)	3
Net income attributable to 3Pea International, Inc.	$112,191	$31,767
Net income per common share - basic	0.00	0.00
Net income per common share - fully diluted	0.00	0.00
Weighted average common shares outstanding - basic	38,817,208	35,249,122
Weighted average common shares outstanding - fully diluted	38,817,208	35,249,122

See accompanying notes to financial statements.

3PEA INTERNATIONAL, INC.

CONSOLIDATED STATEMENTS OF INCOME

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2012 AND 2011

(UNAUDITED)

	For the nine months ended Sept 30,	
	2012	2011
Revenues	$4,655,964	$1,880,610
Cost of revenues	3,562,376	1,273,211
Gross profit	1,093,588	607,399
Operating expenses		
Depreciation and amortization	44,529	34,126
Selling, general and administrative	488,676	421,790
Total operating expenses	533,205	455,916
Income from operations	560,383	151,483
Other income (expense)		
Interest expense	(47,874)	(47,642)
Gain on debt extinguishment	1,159,432	–
Total other income (expense)	1,111,558	(47,642)
Income before provision for income taxes and noncontrolling interest	1,671,941	103,841
Provision for income taxes	–	–
Net income before noncontrolling interest	1,671,941	103,841
Net (income) loss attributable to the noncontrolling interest	(2,789)	102
Net income attributable to 3Pea International, Inc.	$1,669,152	$103,943
Net income per common share - basic	0.05	0.00
Net income per common share - fully diluted	0.05	0.00
Weighted average common shares outstanding - basic	36,970,619	35,248,299
Weighted average common shares outstanding - fully diluted	36,970,619	35,248,299

See accompanying notes to financial statements.

3PEA INTERNATIONAL, INC.

CONSOLIDATED STATEMENT OF STOCKHOLDERS' DEFICIT

FOR THE NINE MONTHS ENDED SEPTEMBER 31, 2012

(UNAUDITED)

	Stockholders' Deficit Attributable to 3Pea International, Inc.						
	Common Stock		Additional	Treasury Stock	Accumulated	Non-controlling	Total Stockholders'
	Shares	Amount	Paid-in Capital	Amount	Deficit	Interest	Deficit
Balance, Dec 31, 2011	35,250,391	35,250	4,975,686	(150,000)	(7,829,104)	57,383	(2,910,785)
Issuance of stock on May 18, 2012 for debt conversion at .09 share	1,500,975	1,501	133,587	–	–	–	135,088
Issuance of stock on May 18, 2012 for debt conversion at .09 share	1,834,525	1,835	163,272	–	–	–	165,107
Issurance of stock warrants for 1,834,525 shares of common stock for settlement of debt	–	–	127,325	–	–	–	127,325
Issurance of stock warrants for 1,500,975 shares of common stock for settlement of debt	–	–	104,175	–	–	–	104,175
Issuance of stock on July 10, 2012 for signing bonus at .09 share	200,000	200	17,800	–	–	–	18,000
Issuance of stock on July 30th, 2012 for consulting services at $0.10 per share	75,000	75	7,425	–	–	–	7,500
	–	–	7,499	–	–	–	7,499

Issuance of warrants on July 30th, 2012 for services consulting							
Net income (loss)	–	–	–	–	1,669,152	(2,789)	1,671,941
Balance, Sept 30, 2012	38,860,891	$38,861	$5,536,769	$(150,000)	$(6,159,952)	$ 60,172	$(674,150)

See accompanying notes to financial statements.

3PEA INTERNATIONAL, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2012 AND 2011

(UNAUDITED)

	For the nine months ended Sept 30,	
	2012	2011
Cash flows from operating activities:		
Net income	$1,669,152	$103,943
Adjustments to reconcile net income to net cash provided by operating activities:		
Change in noncontrolling interest	2,789	(102)
Depreciation and amortization	44,528	34,126
Merger expense-stock based		935
Stock based compensation	19,250	–
Gain on extinguishment of debt	(1,142,306)	–
Changes in operating assets and liabilities:		
Change in restricted cash	775,170	42,420
Change in other receivables	(8,490)	–
Change in prepaid expenses	(9,780)	–
Change in accounts receivable	862,293	1,584,227
Change in accounts payable and accrued liabilities	(1,096,095)	(1,554,071)
Change in customer card funding	(775,170)	(42,420)
Net cash provided by operating activities	341,341	169,058
Cash flows from investing activities:		
Purchase of fixed assets	(72,144)	(36,130)
Purchase of intangible assets	(118,417)	(122,880)
Net cash used by investing activities	(190,561)	(159,010)
Cash flows from financing activities:		
Proceeds from borrowings on notes payable	–	–
Payments on notes payable	(11,750)	(5,000)
Net cash used by financing activities	(11,750)	(5,000)
Net change in cash	139,030	5,048
Cash, beginning of period	63,826	42,214
Cash, end of period	$202,856	$47,262
Supplemental disclosure of cash flow information:		
Non Cash financing transactions:		
Issuance of 3,335,500 shares of common stock and warrants in satisfaction of notes payable	$1,728,016	$–

See accompanying notes to financial statements.

3PEA INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

THREE AND NINE MONTHS ENDED SEPTEMBER 30,2012

(UNAUDITED)

1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT POLICIES

The foregoing unaudited interim financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions for Form 10-Q and Regulation S-X as promulgated by the Securities and Exchange Commission ("SEC"). Accordingly, these financial statements do not include all of the disclosures required by generally accepted accounting principles in the United States of America for complete financial statements. These unaudited interim financial statements should be read in conjunction with the audited financial statements and the notes thereto included on Form 10-K for the year ended December 31, 2011. In the opinion of management, the unaudited interim financial statements furnished herein include all adjustments, all of which are of a normal recurring nature, necessary for a fair statement of the results for the interim period presented.

The preparation of financial statements in accordance with generally accepted accounting principles in the United States of America requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities known to exist as of the date the financial statements are published, and the reported amounts of revenues and expenses during the reporting period. Uncertainties with respect to such estimates and assumption are inherent in the preparation of the Company's financial statements; accordingly, it is possible that the actual results could differ from these estimates and assumptions that could have a material effect on the reported amounts of the Company's financial position and results of operations.

Operating results for the nine months period ended September 30, 2012 are not necessarily indicative of the results that may be expected for the year ending December 31, 2012.

About 3PEA International, Inc.

3PEA International, Inc. is a payment solutions company which currently focuses on providing prepaid debit program management and processing services. 3PEA provides a card processing platform consisting of proprietary systems and innovative software applications. 3PEA develops prepaid card programs for healthcare reimbursement payments, pharmaceutical assistance, corporate and incentive rewards, and are expanding into payroll cards, general purpose re-loadable cards, travel cards, and expense reimbursement cards. 3PEA cards are offered to end users through our relationships with bank issuers.

Principles of consolidation – The consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intercompany balances and transactions have been eliminated.

Use of estimates - The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

1. DESCRIPTION OF BUSINESS, HISTORY AND SUMMARY OF SIGNIFICANT POLICIES (continued)

Restricted cash – restricted cash is a cash account controlled by the Company which funds are received related to the card programs from our customers. The Company has recorded a corresponding customer card funding liability.

Revenue and expense recognition – We recognize revenue when (1) there is persuasive evidence of an arrangement existing, (2) delivery has occurred, (3) our price to the buyer is fixed or determinable and (4) collectability of the receivables is reasonably assured. We recognize the costs of these revenues at the time revenue is recognized. Any fees paid up front are deferred until such time such services have been considered rendered. As of September 30, 2012 and December 31, 2011, there are no deferred revenues recorded.

We generate the following types of revenues:

- Administration and usage fees, charged to our prepaid card clients when our programs are created, distributed or reloaded. Such revenues are recognized when such services are performed.
- Transaction fees, paid by the applicable networks and passed through by our card issuing banks when our SVCs are used in a purchase or ATM transaction. Such revenues are recognized when such services are performed.
- Maintenance, administration, transaction fees, charged to an SVC and not under any multiple element arrangements. Such revenues are recognized when such services are performed.
- Program maintenance management fees charged to our clients. Such revenues are not under any multiple element arrangements and are recognized when such services are performed.
- Software development and consulting services to our clients. Such revenues are recognized in accordance with ASC 985-605.

The Company records all revenues on gross basis in accordance with ASC 605-45 since it is the primary obligor and establishes the price in the revenue arrangement. The Company is currently under no obligation for refunding any fees or has any obligations for disputed claim settlements.

Earnings (loss) per share - Basic earnings (loss) per share exclude any dilutive effects of options, warrants and convertible securities. Basic earnings (loss) per share is computed using the weighted-average number of outstanding common stocks during the applicable period. Diluted earnings per share is computed using the weighted-average number of common and common stock equivalent shares outstanding during the period. Common stock equivalent shares are excluded from the computation if their effect is antidilutive.

2. FIXED ASSETS

Fixed assets consist of the following:

	As of September 30, 2012	As of December 31, 2011
Equipment	$ 185,740	$ 477,796
Software	296,034	257,092
Furniture and fixtures	61,821	60,921
Leasehold equipment	17,721	14,780
	561,316	810,589
Less: accumulated depreciation	(442,659)	(721,869)
Fixed assets, net	$ 118,657	$ 88,720

3. INTANGIBLE ASSETS

Intangible assets consist of the following:

	As of September 30, 2012	As of December 31, 2011
Patents and trademarks	$ 33,465	$ 33,465
Platform development	278,796	160,379
	312,261	193,844
Less: accumulated amortization	(24,390)	(22,069)
Intangible assets, net	$ 287,871	$ 171,775

Intangible assets are amortized over their useful lives ranging from periods of 5 to 15 years.

4. COMMON STOCK

At September 30, 2012, the Company's authorized capital stock was 150,000,000 shares of common stock, par value $0.001 per share, and 10,000,000 shares of preferred stock, par value $0.001 per share. On that date, the Company had outstanding 38,860,891 shares of common stock, and no shares of preferred stock. During the nine months ended September 30, 2012, the Company issued shares of common stock and warrants in the following transactions:

- On May 18, 2012, the Company issued 3,335,500 shares of common stock and warrants for 3,335,500 shares of common stock for extinguishment of debts totaling $1,667,750 (see Note 5 for further discussions). The shares were valued at the market price of our common stock on the date of issuance and the warrants were valued using the Black-Scholes options pricing model (see Note 5). The shares and warrants were collectively valued at $531,695.
- On July 10, 2012, the Company issued 200,000 shares of common stock for an employee signing bonus valued at $0.09 per share, which was the market price on the date of issuance.
- On July 30, 2012, the Company issued 75,000 shares of common stock and a warrant to purchase 75,000 shares of common stock for consulting services to be rendered over a three year period. The shares were valued at the market price of our common stock on the date of issuance and that warrants were valued using the Black-Scholes options pricing model (see Note 5). The common stock and warrant were collectively valued at $15,000 for services.

Warrants

During the nine months ended September 30, 2012, the Company issued the following warrants at corresponding exercise price as of September 30, 2012.

Date of Issuance	Number of Warrants	Exercise Price	Contractual Life	Number of Shares Exercisable
05/31/2012	1,834,525	$ 0.50	3 years	1,834,525
05/31/2012	1,500,975	$ 0.50	3 years	1,500,975
07/30/2012	75,000	$ 0.50	3 years	75,000
	3,410,500			3,410,500

The warrants issued on May 31, 2012 were valued at approximately $231,500 using the Black-Scholes options pricing model under the following assumptions: stock price at issuance of $0.09 per share; 3 year life; discount rate of 4.29%; and volatility rate of 228%.

The warrants issued on July 30, 2012 were valued at approximately $7,500 using the Black-Scholes options pricing model under the following assumptions: stock price at issuance of $0.10 per share; 3 year life; discount rate of 4.29%; and volatility rate of 228%.

5. GAIN ON DEBT EXTIGUISHMENT

On May 18, 2012, the Company negotiated the conversion of two debt holders' promissory notes totaling $1,667,750 in exchange for 3,335,500 shares of the Company's common stock and warrants for 3,335,500 shares of common stock with an exercise price of $0.50 expiring May 31, 2015. As a result of the conversion of the two debt holders' notes, the Company recognized a gain on debt extinguishment of $1,136,055 during the nine months ended September 30, 2012 based on the fair value of both the common stock and warrants issued. (See Note 4).

In September 30, 2012, the Company wrote-off a debenture and its related accrued interest totaling $23,377 and recognized a gain on debt extinguishment in the same amount.

Item 2. Management's discussion and analysis of financial condition and results of operations.

Disclosure Regarding Forward Looking Statements

This Quarterly Report on Form 10-Q includes forward looking statements ("Forward Looking Statements"). All statements other than statements of historical fact included in this report are Forward Looking Statements. In the normal course of its business, the Company, in an effort to help keep its shareholders and the public informed about the Company's operations, may from time-to-time issue certain statements, either in writing or orally, that contains or may contain Forward-Looking Statements. Although the Company believes that the expectations reflected in such Forward Looking Statements are reasonable, it can give no assurance that such expectations will prove to have been correct. Generally, these statements relate to business plans or strategies, projected or anticipated benefits or other consequences of such plans or strategies, past and possible future, of acquisitions and projected or anticipated benefits from acquisitions made by or to be made by the Company, or projections involving anticipated revenues, earnings, levels of capital expenditures or other aspects of operating results. All phases of the Company operations are subject to a number of uncertainties, risks and other influences, many of which are outside the control of the Company and any one of which, or a combination of which, could materially affect the results of the Company's proposed operations and whether Forward Looking Statements made by the Company ultimately prove to be accurate. Such important factors ("Important Factors") and other factors could cause actual results to differ materially from the Company's expectations are disclosed in this report. All prior and subsequent written and oral Forward Looking Statements attributable to the Company or persons acting on its behalf are expressly qualified in their entirety by the Important Factors described below that could cause actual results to differ materially from the Company's expectations as set forth in any Forward Looking Statement made by or on behalf of the Company.

Overview

We are a payment solutions company which currently focuses on providing prepaid debit program management and processing services. We provide a card processing platform consisting of proprietary systems and innovative software applications based on the unique needs of our programs. We have extended our processing business capabilities through recent platform expansion. We design and process prepaid programs that run on a customized processing platform through which our customers can define the services they wish to offer cardholders. Through this platform, we provide a variety of services including transaction processing, card creation and fulfillment, cardholder enrollment, value loading, cardholder account management, reporting, integrated voice response, and customer service.

We have developed prepaid card programs for healthcare reimbursement payments, pharmaceutical assistance, corporate and incentive rewards, and are expanding into payroll cards, general purpose re-loadable cards, travel cards, and expense reimbursement cards. Our cards are offered to end users through our relationships with bank issuers.

Our products and services are aimed at capitalizing on the growing demand for stored value and reloadable ATM/prepaid card financial products in a variety of market niches. Our proprietary platform is scalable and customizable, delivering cost benefits and revenue building opportunities to partners. We manage all aspects of the debit card lifecycle, from managing the card design and approval processes with banking partners and card associations, to production, packaging, distribution, and personalization. We also oversee inventory and security controls, renewals, lost and stolen card management and replacement.

The Company divides prepaid cards into two general categories: corporate and consumer reloadable and non-reloadable cards.

Reloadable Cards: These types of cards are generally incentive, payroll or considered general purpose reloadable (“GPR”) cards. Payroll cards are issued to an employee by an employer to receive the direct deposit of their payroll. GPR cards can also be issued to a consumer at a retail location or mailed to a consumer after completing an on-line application. GPR cards can be reloaded multiple times with a consumer’s payroll, government benefit, a federal or state tax refund or through cash reload networks located at retail locations. Reloadable cards are generally open loop cards as described below.

Non-Reloadable Cards: These are generally one-time use cards that are only active until the funds initially loaded to the card are spent. These types of cards are gift or incentive cards. These cards may be open loop or closed loop. Normally these types of cards are used for purchase of goods or services at retail locations and cannot be used to receive cash.

These prepaid cards may be open loop, closed loop or semi-closed loop. Open loop cards can be used to receive cash at ATM locations or purchase goods or services by PIN or signature at retail locations. These cards can be used virtually anywhere that Visa® or MasterCard® is accepted. Closed loop cards can only be used at a specific merchant. Semi-closed loop cards can be used at several merchants such as a shopping mall.

The prepaid card market is one of the fastest growing segments of the payments industry in the U.S. This market has experienced significant growth in recent years due to consumers and merchants embracing improved technology, greater convenience, more product choices and greater flexibility. Prepaid cards have also proven to be an attractive alternative to traditional bank accounts for certain segments of the population, particularly those without, or who could not qualify for, a checking or savings account.

Currently, the primary market for our cards is the healthcare reimbursement market, pharmaceutical marketing or drug sampling market, and corporate incentive card market, although we are expanding into other markets for stored value cards, including, pharmacy benefits cards, payment distribution and reimbursement cards and payroll cards. In the fourth quarter of 2011, we completed integration and launch of an incentive reward program targeting plasma donation centers. We anticipate steady growth of these programs over the next twenty-four months, having launched eighteen donation centers to date.

During the fourth quarter of 2011, we certified our newest card processing platform. Our platform expansion related primarily to the design and development of our processing systems and related software applications and card management platform. We expect to continue our practice of investing an appropriate level of resources to maintain, enhance and extend the functionality of our proprietary systems and existing software applications, to develop new and innovative software applications and systems in response to the needs of our customers, and to enhance the capabilities surrounding our infrastructure. In addition, we intend to offer products and services that are compatible with new and emerging delivery channels.

As part of our platform expansion development process, we evaluate current and emerging technology for applicability to our existing and future software platform. To this end, we engage with various hardware and software vendors in evaluation of various infrastructure components. Where appropriate, we use third-party technology components in the development of our software applications and service offerings. Third-party software may be used for highly specialized business functions, which we may not be able to develop internally within time and budget constraints. Our principal target markets for processing services include prepaid card issuers, retail and private-label issuers, small third-party processors, and small and mid-size financial institutions in the United States and in emerging international markets.

To date, we have focused on extensive development and limited sales activities in each of our target markets, as well as putting in place the infrastructure and processes to be able to scale the business successfully. The company plans to devote more extensive resources to sales and marketing activities in the future. We sell our products directly to customers in the U.S. but may work with a small number of resellers and third parties in international markets to identify, sell and support targeted opportunities.

In order to expand into new markets, we will need to invest additional funds in technology improvements, sales and marketing expenses, and regulatory compliance costs. We are considering raising capital in a private placement to enable us to diversify into new market verticals. If we do not raise new capital, we believe that we will still be able to expand into new markets using internally generated funds, but our expansion will not be as rapid. While we have made substantial progress converting some of our debts into equity, we still have a substantial amount of notes payable which we hope to convert into equity at some point. If we are unable to convert these notes into equity, we may be forced to use any capital we raise to reduce our indebtedness instead of costs associated with expanding our business, which will slow our rate of expansion.

The Company is in the process of adding an additional bank partner to our newest processing platform and is anticipating roll out of new products with this bank in late 2012. We will work with various banks to distribute prepaid cards to consumers throughout the U.S. The Company will work with these banks to develop additional financial services for consumers, and to increase the functionality of both the programs and prepaid card usage.

Results of Operations

Three Months ended September 30, 2012 and 2011

Revenues for the three months ended September 30, 2012 were $622,368, an increase of $344,359 compared to the same period in the prior year, when revenues were $278,009. The increase in revenue is due to increased processing and the launch of several new plasma donation centers utilizing new incentive reward programs during the second quarter which we believe will contribute to an increase in overall revenues for 2012. Our pharmaceutical marketing cards continue to make up a majority of our revenues and will continue to do so for the next 24 months. Over the longer term, we expect our revenues to trend upward as the economy improves and as we roll out additional debit card products utilizing our processing platform.

Cost of revenues for the three months ended September 30, 2012 were $307,307, an increase of $217,257 compared to the same period in the prior year, when cost of revenues were $90,050. Cost of revenues constituted approximately 49% and 32% of total revenues in 2012 and 2011, respectively. Cost of revenues is comprised of transaction processing fees, data connectivity and data center expenses, network fees, card production costs, customer service and program management expenses, application integration setup and sales expense.

Our revenues and cost of revenues from our pharmaceutical marketing cards, which is our primary line of business, fluctuate widely due to a variety of factors beyond our control. The pharmaceutical companies often do not distribute the debit cards via their pharmaceutical sales representatives to various end points for distribution until days, weeks or months after program implementation, often with little advance warning to us. We also experience dramatic usage swings based on collateral marketing efforts by the pharmaceutical companies, such as print, web, radio and television advertising campaigns that run in association with one of our card programs. Constant variations in program start and stop dates, variations in program timelines which range anywhere between six and thirty six months, and variations in program characteristics such as the monetary value of the load, all contribute to provide dramatic swings in the revenue generated from the programs. As a result, our revenues and cost of revenues do not correlate neatly to the number of cards in circulation or even the number of programs that are active at any given time.

Gross profit for the three months ended September 30, 2012 was $315,061, an increase of $127,102 compared to the same period in the prior year, when gross profit was $187,959. Our overall gross profit percentage approximated 51%

and 68% during the fiscal years 2012 and 2011 which is consistent with our overall expectations.

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Selling, general and administrative expenses for the three months ended September 30, 2012 were $191,549, an increase of $61,943 compared to the same period in the prior year, when selling, general and administrative expenses were $129,606. The increase is consistent with our overall expectations.

In the three months ended September 30, 2012, we recorded operating income of $107,858, as compared to operating income of $47,750 in the same period in the prior year, an improvement of $60,108.

Other income (expense) for the three months ended September 30, 2012 was $7,129, an increase in net other income (expense) of $23,115 compared to the same period in the prior year when other income (expense) was ($15,986). The overall increase in net other income (expense) in 2012 is primarily due to a gain on debt extinguishment totaling $23,377.

Our net income for the three months ended September 30, 2012 was $112,191, an increase of $80,424 compared to the same period in the prior year, when we recorded net income of $31,767. The increase in our net income is attributable to the aforementioned factors.

Nine Months ended September 30, 2012 and 2011

Revenues for the nine months ended September 30, 2012 were $4,655,964, an increase of $2,775,354 compared to the same period in the prior year, when revenues were $1,880,610. The increase in revenue is due to increased processing and the launch of several new plasma donation centers utilizing a new incentive rewards programs during the first nine months of 2012 which we believe will contribute to an increase in overall revenues for 2012. Our pharmaceutical marketing cards continue to make up a majority of our revenues and will continue to do so for the next 24 months. Over the longer term, we expect our revenues to trend upward as the economy improves and as we roll out additional debit card products utilizing our processing platform.

Cost of revenues for the nine months ended September 30, 2012 were $3,562,376, an increase of $2,289,165 compared to the same period in the prior year, when cost of revenues were $1,273,211. Cost of revenues constituted approximately 77% and 68% of total revenues in 2012 and 2011, respectively. Cost of revenues is comprised of transaction processing fees, data connectivity and data center expenses, network fees, card production costs, customer service and program management expenses, application integration setup and sales expense.

Our revenues and cost of revenues from our pharmaceutical marketing cards, which is our primary line of business, fluctuate widely due to a variety of factors beyond our control. The pharmaceutical companies often do not distribute the debit cards via their pharmaceutical sales representatives to various end points for distribution until days, weeks or months after program implementation, often with little advance warning to us. We also experience dramatic usage swings based on collateral marketing efforts by the pharmaceutical companies, such as print, web, radio and television advertising campaigns that run in association with our card programs. Constant variations in program start and stop dates, variations in program timelines which range anywhere between six and thirty six months, and variations in program characteristics such as the monetary value of the load, all contribute to provide dramatic swings in the revenue generated from the programs. As a result, our revenues and cost of revenues do not correlate neatly to the number of cards in circulation or even the number of programs that are active at any given time.

Gross profit for the nine months ended September 30, 2012 was $1,093,588, an increase of $486,189 compared to the same period in the prior year, when gross profit was $607,399. Our overall gross profit percentage approximated 23% and 32% during the fiscal years 2012 and 2011 which is consistent with our overall expectations.

Selling, general and administrative expenses for the nine months ended September 30, 2012 were $488,676, a decrease of $66,886 compared to the same period in the prior year, when selling, general and administrative expenses were $421,790. The increase is consistent with our overall expectations.

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In the nine months ended September 30, 2012, we recorded operating income of $560,383, as compared to operating income of $151,483in the same period in the prior year, an improvement of $408,900.

Other income (expense) for the nine months ended September 30, 2012 was $1,111,558, an increase in net other income (expense) of $1,159,200 compared to the same period in the prior year when other income (expense) was ($47,642). The overall increase in net other income (expense) in 2012 is primarily due to a gain on debt extinguishment totaling $1,136,055 arising from the conversion of two outstanding promissory notes totaling $1,667,750 in exchange for a total of 3,335,500 shares of common stock and warrants for 3,335,500 shares of common stock with an exercise price of $0.50.

Our net income for the nine months ended September 30, 2012 was $1,669,152, an increase of $1,565,209 compared to the same period in the prior year, when we recorded net income of $103,943. The increase in our net income is attributable to the aforementioned factors.

Liquidity and Sources of Capital

The following table sets forth the major sources and uses of cash for the nine months ended September 30, 2012 and 2011:

	Nine months ended September 30,	
	2012	2011
Net cash provided by (used) in operating activities	$341,341	$169,058
Net cash provided by (used) in investing activities	(190,561)	(159,010)
Net cash provided by (used) in financing activities	(11,750)	(5,000)
Net (decrease) increase in unrestricted cash and cash equivalents	139,030	5,048

Comparison of Nine months ended September 30, 2012 and 2011

During the nine months ended September 30, 2012 and 2011, we financed our operations primarily through internally generated funds.

Operating activities provided $341,341 of cash in 2012, as compared to $169,058 of cash in the same period in the prior year. Major non-cash items that affected our cash flow from operations in 2012 were non-cash charges of $44,528 for depreciation and amortization and gain on debt extinguishment of $1,142,306. Our operating assets and liabilities used $252,072 of cash, most of which resulted from reductions in our accounts payable and accrued liabilities of $1,096,095, and offset by collections from our accounts receivable of $862,293. Major non-cash items that affected our cash flow from operations in 2011 were non-cash charges of $34,126 for depreciation and amortization. Our operating assets and liabilities provided $30,156 of cash, which resulted from collections of our accounts receivable of $1,584,227 offset by payments on our accounts payable of $1,554,071.

Investing activities used $190,561 of cash in 2012, as compared to $159,010 of cash used in 2011, all of which primarily related to the enhancement of the processing platform used in our business.

Financing activities used $11,750 of cash in 2012 as compared to $5,000 of cash in 2011. In 2012, our use of cash from financing activities consisted of the repayment of certain loans.

Sources of Financing

In both 2012 and 2011, our operations were focused on developing our pharmaceutical debit card, which were financed largely from notes issued in 2008. In 2009, revenues from our pharmaceutical debit card reached the point that we were able to operate at a breakeven level from operations.

We believe that our available cash on hand at September 30, 2012 of $202,856 and revenues anticipated for the remainder of 2012 will be sufficient to sustain our operations for the next twelve months. We were successful at convincing some of our larger debt holders to convert their loans into a combination of common stock and warrants during the nine months ended September 30, 2012, and we plan to request that some of our remaining creditors convert their debt into equity to improve our financial position. We are also seeking to raise additional capital during the next twelve months through an equity offering to high net worth and institutional investors. We plan to use the proceeds to finance our entry into other markets for our debit cards, and to ramp up business development, sales and product expansion. However, at this time we do not have an agreement with a broker-dealer to raise money for us and we do not have commitments from any investors. There is no assurance we will be able to obtain additional capital, or obtain the capital on acceptable terms and conditions. Our failure to obtain new capital may delay our entry into new markets, but will not jeopardize our ability to remain in business nor hinder our operations.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements that are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to investors.

Critical Accounting Estimates

Our significant accounting policies are described in Note 1 of Notes to Financial Statements. At this time, we are not required to make any material estimates and assumptions that affect the reported amounts and related disclosures of assets, liabilities, revenue, and expenses.

Any estimates we make will be based on our experience and our interpretation of economic, political, regulatory, and other factors that affect our business prospects. Actual results may differ significantly from our estimates.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

Because the Company is a smaller reporting company, it is not required to provide the information called for by this Item.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

Our chief executive officer and chief financial officer are responsible for establishing and maintaining our disclosure controls and procedures. Disclosure controls and procedures means controls and other procedures that are designed to ensure that information we are required to disclose in the 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 Securities and Exchange Commission's rules and forms, and to ensure that information required to be disclosed by us in those reports is accumulated and communicated to the our management, including our principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. Our chief executive officer and chief financial officer evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of September 30, 2012 . Based on that evaluation, our chief executive officer and chief financial officer have concluded that, as of the evaluation date, such controls and procedures were effective.

Changes in internal controls

There were no changes in our internal controls over financial reporting that occurred during the quarter ended September 30, 2012 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION.

Item 1. Legal Proceedings.

None.

Item 1A. Risk Factors.

Not applicable.

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

During the three months ended September 30, 2012, securities were issued as follows:

On July 10, 2012, the Company issued 200,000 shares of common stock as a signing bonus. On July 30, 2012 the Company issued 75,000 shares of common stock and 75,000 Class A Warrants for consulting services. The shares and warrants were issued pursuant to the exemption from registration provided by Section 4(2) of the Securities Act of 1933, and Rule 506 promulgated thereunder.

Item 3. Defaults upon Senior Securities.

None.

Item 4. MINE SAFETY DISCLOSURES

None

Item 5. Other Information.

None.

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Item 6. Exhibits.

31.1	Certification Pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934
31.2	Certification Pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934
32.1	Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Schema Document
101.CAL	XBRL Calculation Linkbase Document
101.DEF	XBRL Definition Linkbase Document
101.LAB	XBRL Label Linkbase Document
101.PRE	XBRL Presentation Linkbase Document

SIGNATURES

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

3PEA INTERNATIONAL, INC.

Date: November 13, 2012

/s/ Mark Newcomer
By: Mark Newcomer, Chief Executive Officer

(principal executive officer)

Date: November 13, 2012

/s/ Arthur De Joya
By: Arthur De Joya, Chief Financial Officer

(principal financial and accounting officer)

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