

PAID INC  
Form 10-Q  
November 08, 2010

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2010

COMMISSION FILE NUMBER 0-28720

PAID, INC.

(Exact Name of Registrant as Specified in its Charter)

DELAWARE  
(State or Other Jurisdiction of Incorporation or  
Organization)

73-1479833  
(I.R.S. Employer Identification No.)

4 Brussels Street, Worcester, Massachusetts 01610  
(Address of Principal Executive Offices) (Zip Code)

(508) 791-6710  
(Registrant's Telephone Number, Including Area Code)

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.

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).  Yes  No

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

Large accelerated filer

Accelerated Filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

As of November 1, 2010, the issuer had outstanding 284,033,187 shares of its Common Stock, par value \$.001 per share.

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PAID, INC.  
 Form 10-Q  
 For the Three and Nine months ended September 30, 2010

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## PART I - FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

PAID, INC.  
BALANCE SHEETS

	September 30, 2010 (Unaudited)	December 31, 2009 (Audited)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,230,355	\$ 730,433
Accounts receivable, net	524,738	182,266
Inventories, net	1,131,669	1,042,700
Prepaid expenses and other current assets	267,268	518,722
Prepaid royalties	755,414	439,879
Due from employees	87,185	19,640
<b>Total current assets</b>	<b>3,996,629</b>	<b>2,933,640</b>
Property and equipment, net	52,180	40,517
Intangible asset, net	8,242	8,948
<b>Total assets</b>	<b>\$ 4,057,051</b>	<b>\$ 2,983,105</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 363,417	\$ 159,716
Accrued expenses	742,774	592,350
Deferred revenues	172,956	190,753
<b>Total current liabilities</b>	<b>1,279,147</b>	<b>942,819</b>
Commitments and contingencies (Note 7)	-	-
Shareholders' equity:		
Common stock, \$.001 par value, 350,000,000 shares authorized; 283,777,013 and 268,174,642 shares issued and outstanding at September 30, 2010 and December 31, 2009, respectively	283,777	268,175
Additional paid-in capital	43,955,405	41,370,985
Accumulated deficit	(41,461,278 )	(39,528,874 )
Stock subscription receivable	-	(70,000 )
<b>Total shareholders' equity</b>	<b>2,777,904</b>	<b>2,040,286</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 4,057,051</b>	<b>\$ 2,983,105</b>

See accompanying notes to consolidated financial statements



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PAID, INC.  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Revenues	\$4,186,737	\$2,116,536	\$6,459,282	\$4,064,317
Cost of revenues	2,907,215	766,201	4,148,997	1,921,118
Gross profit	1,279,522	1,350,335	2,310,285	2,143,199
Operation expenses	1,623,475	1,141,206	4,242,498	3,881,901
Income (loss) from operations	(343,953 )	209,129	(1,932,213 )	(1,738,702 )
Other Income (expense)				
Interest expense	(241 )	-	(241 )	(2,500 )
Other income	-	677	50	5,376
Total other income (expense), net	(241 )	677	(191 )	2,876
Income (loss) before taxes	(344,194 )	209,806	(1,932,404 )	(1,735,826 )
Provision for income taxes	-	-	-	-
Net income (loss)	\$(344,194 )	\$209,806	\$(1,932,404 )	\$(1,735,826 )
Income (loss) per share - basic and diluted				
Basic	\$-	\$-	(0.01 )	\$(0.01 )
Diluted	N/A	\$-	N/A	N/A
Weighted average number of shares - basic and diluted				
Basic	279,750,389	257,294,430	274,484,126	255,072,645
Diluted	N/A	286,541,637	N/A	N/A

See accompanying notes to consolidated financial statements

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PAID, INC.  
STATEMENTS OF CASH FLOWS  
FOR THE NINE MONTHS ENDED SEPTEMBER 30,  
(Unaudited)

	2010	2009
Operating activities:		
Net loss	\$(1,932,404)	\$(1,735,826)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	19,240	12,936
Share based compensation	339,000	340,000
Fair value of stock options awarded to professionals and consultants in payment of fees for services provided	1,658,526	2,165,900
Fair value of stock options awarded to employees in payment of compensation	217,996	119,501
Services received in consideration of payment of stock subscription receivable	70,000	20,000
Changes in assets and liabilities:		
Accounts receivable	(342,472 )	(119,925 )
Inventories	(88,969 )	(108,056 )
Prepaid royalties	(315,535 )	(502,953 )
Prepaid expense and other current assets	183,909	(286,085 )
Accounts payable	203,701	368,154
Accrued expenses	150,424	16,991
Deferred revenue	(17,797 )	245,990
Net cash provided by operating activities	145,619	536,627
Investing activities:		
Property and equipment additions	(30,197 )	(18,348 )
Financing activities:		
Proceeds from exercise of stock options	384,500	-
Proceeds from assignment of call options	-	158,245
Proceeds from sale of warrants	-	80,000
Proceeds from issuance of common stock	-	103,124
Net cash provided by financing activities	384,500	341,369
Net increase in cash and cash equivalents	499,922	859,648
Cash and cash equivalents, beginning	730,433	106,948
Cash and cash equivalents, ending	\$1,230,355	\$966,596
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the period for:		
Income taxes	\$-	\$1,885
Interest	\$241	\$-
SUPPLEMENTAL DISCLOSURES OF NON-CASH FINANCING ACTIVITIES		
Amounts due in connection with issuance of common stock	\$-	\$896,220



See accompanying notes to financial statements

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PAID, INC.  
 STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY  
 FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010  
 (Unaudited)

	Common stock Shares	Common stock Amount	Additional Paid-in Capital	Accumulated Deficit	Stock subscription receivable	Total
Balance, December 31, 2009	268,174,642	\$268,175	\$41,370,985	\$(39,528,874)	\$ (70,000 )	\$2,040,286
Issuance of common stock pursuant to exercise of stock options granted to employees for services	583,070	583	217,413	-	-	217,996
Issuance of common stock pursuant to exercise of stock options granted to professionals and consultants	5,641,253	5,641	1,652,885	-	-	1,658,526
Share based compensation related to issuance of incentive stock options	-	-	339,000	-	-	339,000
Services received in consideration of payment of stock subscription receivable	-	-	-	-	70,000	70,000
Options exercised	9,378,048	9,378	375,122	-	-	384,500
Net loss	-	-	-	(1,932,404 )	-	(1,932,404)
Balance, September 30, 2010	283,777,013	\$283,777	\$43,955,405	\$(41,461,278)	\$ -	\$2,777,904

See accompanying notes to financial statements

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PAID, INC.  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2010 and 2009

Note 1. Organization and Significant Accounting Policies

Paid, Inc. (the "Company") provides businesses and clients with brand management, brand marketing, product merchandising, online merchandise and fulfillment services, website development, and hosting and authentication services for the entertainment, sports and collectible industries. We offer businesses, entertainers, and celebrity athletes comprehensive web-presence related services supporting and managing clients' official websites and fan-community services including VIP ticketing, live event fan experiences, e-commerce, user generated content, client content publishing and distribution, fan forums, social network management and social media marketing.

General

The Company has prepared the financial statements pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) regarding interim financial reporting. Accordingly, they 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 and should be read in conjunction with the Company's audited financial statements included in the Annual Report on Form 10-K for the year ended December 31, 2009 that was filed on March 12, 2010.

In the opinion of management, the Company has prepared the accompanying financial statements on the same basis as its audited financial statements, and these financial statements include all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the results of the interim periods presented. The operating results for the interim periods presented are not necessarily indicative of the results expected for the full year 2010.

Liquidity

The Company's independent registered public accounting firm has issued a going concern opinion on the Company's financial statements for the year ended December 31, 2009. The Company may need an infusion of additional capital to fund anticipated operating costs over the next 12 months. Management anticipates continued growth in revenues and gross profits for the remainder of 2010 and into 2011 from its online merchandise and fulfillment services, for both new and existing clients. Subject to the discussion below, management believes that the Company has sufficient cash resources to fund operations during the next 12 months. In addition, management continues to explore opportunities to monetize its patent. However, there can be no assurance that anticipated touring activity will occur, and that the Company will be successful in monetizing its patent. Management continues to seek alternative sources of capital to support operations. Finally, world economic conditions, in particular those in the United States, may impact sales of fan experiences and the availability of financing.

Use of estimates

In preparing financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the balance sheets and reported amounts of revenue and expenses during the reporting periods. Material estimates that are particularly susceptible to significant change in the near term relate to inventories, deferred tax asset valuation, revenue recognition with respect to web development and hosting services, assumptions used in the determination of fair value of stock options and warrants using the Black-Scholes option-pricing model, and forfeiture rates related to unvested stock options. Although these estimates are based on management's knowledge of current events and actions, they may ultimately differ from actual results.



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### Cash and cash equivalents

The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

### Inventories

Inventories consist of merchandise for sale and are stated at the lower of average cost or market determined on a first-in, first-out (FIFO) method. When a purchase contains multiple copies of the same item, they are stated at average cost.

On a periodic basis management reviews inventories on hand to ascertain if any is slow moving or obsolete. In connection with this review, at September 30, 2010 and December 31, 2009 the Company provided for reserves totaling \$594,000 and \$587,000, respectively.

### Prepaid royalties

The Company accounts for prepaid royalties in accordance with FASB ASC 928, Financial Reporting in the Record and Music Industry. Artist royalty advances are deferred when paid and expensed based on the completion of performance, shows or other activities.

### Revenue recognition

The Company generates revenue principally from sales of fan experiences, from fan club membership fees, from sales of its purchased inventories, and from web development and hosting services.

Fan experiences sales generally include tickets and related experiences at concerts and other events conducted by performing artists. Revenues associated with these fan experiences are generally reported gross, rather than net, following the criteria of FASB ASC 605, "Revenue," and are deferred until the related event has been concluded, at which time the revenues and related direct costs are recognized.

Fan club membership fees are recognized ratably over the term of the related membership, generally one year.

For sales of merchandise owned and warehoused by the Company, the Company is responsible for conducting the sale, billing the customer, shipping the merchandise to the customer, processing customer returns and collecting accounts receivable. The Company recognizes revenue upon verification of the credit card transaction and shipment of the merchandise, discharging all obligations of the Company with respect to the transaction.

Web hosting revenues are billed to customers and recognized on a monthly basis as the services are provided.

### Shipping and Handling fees and costs

All amounts billed to customers in sales transactions related to shipping and handling represent revenues earned and are reported as revenues. Costs incurred by the Company for shipping and handling totaling \$273,225 and \$54,700 during the nine months ended September 30, 2010 and 2009, respectively, are reported as a component of selling, general and administrative expenses.



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### Advertising costs

Advertising costs, totaling approximately \$7,500 and \$49,900 for the nine months ended September 30, 2010 and 2009, respectively, are charged to expense when incurred.

### Segment reporting

The Company has determined that it has only one discreet operating segment consisting of activities surrounding the sale of fan experiences, fan club memberships, and merchandise associated with its relationships with performing artists and publicly recognized people.

### Concentrations

The Company's financial instruments that are exposed to concentrations of credit risk consist primarily of cash and cash equivalents. The Company places its cash and cash equivalents with high credit quality institutions.

In 2010 and 2009 a limited number of clients accounted for approximately 79% and 86%, respectively, of the Company's revenues. These revenues were generated from the sales of tour merchandise, VIP services, online merchandise and fulfillment services.

### Share Based Compensation

The Company accounts for share-based compensation in accordance with the provisions of FASB ASC 505, "Equity", and FASB ASC 718, "Compensation - Stock Compensation". Under these provisions, share-based compensation cost is measured at the grant date, based on the fair value of the award, and is recognized as an expense over the employee's or non-employee's requisite service period (generally the vesting period of the equity grant).

The Company estimates the fair value of stock options using the Black-Scholes valuation model. Key input assumptions used to estimate the fair value of stock options include the exercise price of the award, the expected option term, the expected volatility of the Company's stock over the option's expected term, the risk-free interest rate over the option's expected term, and the Company's expected annual dividend yield. The Company believes that the valuation technique and the approach utilized to develop the underlying assumptions are appropriate in calculating the fair values of the Company's stock options. Estimates of fair value are not intended to predict actual future events or the value ultimately realized by persons who receive equity awards.

### Earnings Per Common Share

Basic earnings per share represents income available to common stockholders divided by the weighted-average number of common shares outstanding during the period. Diluted earnings per share reflects additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. Potential common shares that may be issued by the Company relate to outstanding stock options and warrants. The number of common shares that would be included in the calculation of outstanding options and warrants is determined using the treasury stock method. The assumed conversion of outstanding dilutive stock options and warrants would increase the shares outstanding but would not require an adjustment of income as a result of the conversion. Stock options and warrants applicable to 18,995,564 and 31,410,612 shares at September 30, 2010 and 2009, respectively, have been excluded from the computation of diluted earnings per share because they were anti-dilutive. Diluted earnings per share have not been presented for periods during which the Company reports net losses.





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## Recent Accounting Pronouncements

In October 2009 the FASB issued revised guidance for the determination of whether an arrangement involving multiple deliverables contains more than one unit of accounting and how arrangement consideration shall be measured and allocated to the separate units of accounting in the arrangement. The revised guidance is part of FASB ASC 605, "Revenue Recognition," and was effective for revenue arrangements entered into, or materially modified, after June 15, 2010. The Company has adopted these new provisions with no material impact on its financial statements.

## Reclassifications

Certain amounts in the December 31, 2009 balance sheet have been reclassified to conform with the 2010 presentation with no effect on previously reported net loss or accumulated deficit.

## Note 2. Intangible Assets

In January 2008, the United States Patent and Trademark Office issued the Company's patent #7324968 providing the Company with the rights granted to patent holders, including the ability to seek licenses for patent use and to protect the patent from infringement. The Company's patent is for the real-time calculation of shipping costs for items purchased through online auctions using a zip code as a destination location indicator. It includes shipping charge calculations across multiple carriers and accounts for additional characteristics of the item being shipped, such as weight, special packaging or handling, and insurance costs.

The patent is presented net of accumulated amortization of \$7,758 and \$7,052 at September 30, 2010 and December 31, 2009, respectively.

Amortization expense of intangible assets for each of the nine months ended September 30, 2010 and 2009 was approximately \$700.

Estimated future annual amortization expense is \$940 for each year through 2019.

## Note 3. Accrued Expenses

Accrued expenses are comprised of the following:

	September 30 2010 (Unaudited)	December 31, 2009 (Audited)
Payroll and related costs	\$ 54,521	\$ 179,605
Professional and consulting fees	300,625	186,064
Royalties	318,254	184,519
Other	69,374	42,162
	\$ 742,774	\$ 592,350

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## Note 4. Common Stock

## Warrants

During the year ended December 31, 2005, the Company entered into an Agreement and sold a warrant to purchase common stock ("Warrant") to an investor. The investor paid the Company \$110,000 in deposits ("Deposits") for the right to acquire up to 2,000,000 shares of unregistered common stock at any time prior to June 2, 2009 at \$.15 per share. On June 1, 2009 the expiration date of the Warrant was extended to June 30, 2009 in exchange for a reduction in the Deposits of \$10,000. On June 28, 2009 the Warrant was exercised with the remaining \$200,000 of consideration paid in the form of \$80,000 of cash and an agreement for \$120,000 for future consulting services valued at \$120,000. At December 31, 2009 the unused portion of consulting services included in stock subscription receivable was \$70,000. During the nine months ended September 30, 2010 the investor provided the balance of those consulting services valued at \$70,000.

During the second and third quarters of 2008, in connection with \$1,100,000 of short term notes payable, the Company granted warrants for 1,100,000 shares of common stock exercisable at \$.25 per share. If not exercised these warrants expire at various dates between April and August 2011.

## Share-based Incentive Plans

At September 30, 2010, the Company had two stock option plans that include both incentive and non-qualified options to be granted to certain eligible employees, non-employee directors, or consultants of the Company.

The 2002 Plan ("2002 Plan") provides for the award of qualified and non-qualified options for up to 30,000,000 shares. As of September 30, 2010 there were 3,000,000 shares reserved for issuance. The options granted have a ten-year contractual term and vested either immediately or four years from the date of grant. Information with respect to stock options granted under this plan during 2010 is as follows:

	Number of shares	Weighted average exercise price per share
Options outstanding at December 31, 2009	25,250,000	\$ 0.115
Options exercised	(9,378,048 )	0.041
Options outstanding at September 30, 2010	15,871,952	\$ 0.159

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On February 1, 2001 the Company adopted the 2001 Non-Qualified Stock Option Plan (the "2001 Plan") and has filed Registration Statements on Form S-8 to register 120,000,000 shares of its common stock. Under the 2001 Plan, employees and consultants may elect to receive their gross compensation in the form of options, exercisable at \$.001 per share, to acquire the number of shares of the Company's common stock equal to their gross compensation divided by the fair value of the stock on the date of grant. Information with respect to stock options granted under this plan during 2010 is as follows:

	Number of shares	Weighted average exercise price per share
Options outstanding at December 31, 2009	2,023,612	\$ 0.001
Granted	6,224,323	0.001
Exercised	(6,224,323)	0.001
Options outstanding at September 30, 2010	2,023,612	\$ 0.001

A summary of the awards under this plan during the nine months ended September 30 is as follows:

	Number of shares	Gross Compensation
		2010
Employee payroll	583,070	\$ 217,996
Consulting and professional fees	5,641,253	1,658,526
Total	6,224,323	\$ 1,876,522
		2009
Employee payroll	630,780	\$ 119,501
Consulting and professional fees	13,219,835	2,165,900
Total	13,850,615	\$ 2,285,401

The maximum number of shares currently reserved for issuance is 5,866,067 shares. The options granted have a ten-year contractual term and vest immediately.

The fair value of the Company's option grants was estimated at the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

	2010	2009
Expected term (based upon historical experience)	<1 week	<1 week
Expected volatility	105.83%	108.60%
Expected dividends	None	None
Risk free interest rate	0.15%	3.31%

The stock volatility for each grant is determined based on a review of the experience of the weighted average of historical daily price changes of the Company's common stock over the expected option term. The expected term was determined using the simplified method for estimating expected option life, which qualify as "plain-vanilla" options; and the risk-free rate is based on the U.S. Treasury yield curve in effect at the time of grant for periods corresponding with the expected life of the option. The incremental fair value calculated using the above assumptions over the gross compensation was determined to be immaterial and no related additional share based compensation has been recorded.



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All but 5,000,000 options outstanding at September 30, 2010 are fully vested and exercisable. Information pertaining to options outstanding at September 30, 2010 is as follows:

Exercise Prices	Number of shares	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value
0.001	2,023,612	8	\$ 787,185
0.041	10,871,952	2	3,794,311
0.415	5,000,000	7.25	-
	17,895,564		

The total intrinsic value of options exercised during the nine months ended September 30, 2010 under all plans was \$4,022,998 (\$2,071,475 under the 2002 Plan and \$1,951,523 under the 2001 Plan) in exchange for \$384,500 of cash.

## Note 5. Income Taxes

There was no provision for income taxes for the nine months ended September 30, 2010 and 2009 due to the Company's net operating losses and its valuation reserve against deferred income taxes.

The difference between the provision for income taxes using amounts computed by applying the statutory federal income tax rate of 34% and the Company's effective tax rate is due primarily to the net operating losses incurred by the Company and the valuation reserve against the Company's deferred tax asset.

The tax effects of significant temporary differences and carry forwards that give rise to deferred taxes are as follows:

	September 30, 2010	December 31, 2009
Federal net operating loss carry forward	\$ 11,058,000	\$ 10,568,000
State net operating loss carry forward	1,463,000	1,311,000
	12,521,000	11,879,000
Valuation allowance	(12,521,000)	(11,879,000)
Net deferred tax asset	\$ -	\$ -

The valuation reserve applicable to net deferred tax asset at September 30, 2010 and December 31, 2009 is due to the likelihood of the deferred tax not to be utilized.

The Company has not been audited by the Internal Revenue Service ("IRS") or any states in connection with income taxes. The Company files income tax returns in the U.S. federal jurisdiction and Massachusetts. The periods from 2007-2009 remain open to examination by the IRS and state jurisdictions. The Company believes it is not subject to any tax risk beyond the preceding discussion. The Company's policy is to recognize interest and penalties accrued on any unrecognized tax benefits as a component of income tax expense. As of the date of adoption of FASB ASC 740, the Company did not have any accrued interest or penalties associated with any unrecognized tax benefits, nor was any significant interest expense recognized during the nine months ended September 30, 2010 and 2009.

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At September 30, 2010, the Company has federal and state net operating loss carry forwards of approximately \$34,100,000 and \$15,500,000, respectively, available to offset future taxable income. The state carry-forwards will expire intermittently through 2015, while the federal carry forwards will expire intermittently through 2030.

Note 6. Related party transactions

Steven Rotman is the father, and Leslie Rotman is the mother, of Gregory Rotman, President of the Company, and Richard Rotman, Vice-President/Secretary, and former CFO of the Company. The Company entered into a number of transactions over the past two years with both Steven Rotman and Leslie Rotman. Management believes that these transactions are fair and reasonable to the Company and no less favorable than could have been obtained by an unaffiliated third party.

The Company pays rent, as a tenant at will, to a company in which Steven Rotman is a shareholder. Monthly payments under this arrangement are approximately \$2,000.

During the nine months ended September 30, 2009 the Company paid Steven Rotman \$60,000 in consulting fees. There were no such fees incurred during the nine months ended September 30, 2010.

Note 7. Commitments and contingencies

Lease commitment

The Company leases office facilities in Boston, Massachusetts under a five year lease expiring in April 2011. The lease requires monthly payments of approximately \$5,800, plus increases in real estate taxes and operating expenses.

Legal matters

In the normal course of business, the Company periodically becomes involved in litigation. As of September 30, 2010, in the opinion of management, the Company had no pending litigation that would have a material adverse effect on the Company's financial position, results of operations, or cash flows.

ITEM MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF  
2. OPERATIONS.

Forward Looking Statements

This Quarterly Report on Form 10-Q contains certain forward-looking statements (within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934) regarding the Company and its business, financial condition, results of operations and prospects. Words such as "expects," "anticipates," "intends," "plans," "believes," "seeks," "estimates", "could", "may", "should", "will", "would", and similar expressions or variations of such words are intended to identify forward-looking statements in this report. Additionally, statements concerning future matters such as the development of new services, technology enhancements, purchase of equipment, credit arrangements, possible changes in legislation and other statements regarding matters that are not historical are forward-looking statements.

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Although forward-looking statements in this quarterly report reflect the good faith judgment of the Company's management, such statements can only be based on facts and factors currently known by the Company. Consequently, forward-looking statements are inherently subject to risks, contingencies and uncertainties, and actual results and outcomes may differ materially from results and outcomes discussed in this report. Although the Company believes that its plans, intentions and expectations reflected in these forward-looking statements are reasonable; the Company can give no assurance that its plans, intentions or expectations will be achieved. For a more complete discussion of these risk factors, see Item 1A, "Risk Factors", in the Company's Form 10K for the fiscal year ended December 31, 2009 that was filed on March 12, 2010.

For example, the Company's ability to achieve positive cash flow and to become profitable may be adversely affected as a result of a number of factors that could thwart its efforts. These factors include the Company's inability to successfully implement the Company's business and revenue model, tour or event cancellations, higher costs than anticipated, the Company's inability to sell its products and services to a sufficient number of customers, the introduction of competing products by others, the Company's failure to attract sufficient interest in and traffic to its sites, the Company's inability to complete development of its sites, the failure of the Company's operating systems, and the Company's inability to increase its revenues as rapidly as anticipated. If the Company is not profitable in the future, it will not be able to continue its business operations.

## Overview

Our primary focus is to provide businesses and clients with brand management, brand marketing, product merchandising, online merchandise and fulfillment services, web development, and hosting and authentication services for the entertainment, sports and collectible industries. We offer businesses, entertainers, and celebrity athletes comprehensive web-presence related services supporting and managing clients' official websites and fan-community services including VIP ticketing, live event fan experiences, e-commerce, user generated content, client content publishing and distribution, fan forums, social network management and social media marketing. We also provide business management tools for online retailers, through AuctionInc, which utilizes our patented shipping calculator and automated auction checkout and order processing system. Operations are directly affected by the number and type of clients to whom we provide services. Performing artists that tour have the potential to generate larger amounts of revenue than clients that do not tour, and the revenue potential of celebrity athletes is dependent upon their performance.

## Critical Accounting Policies

Our significant accounting policies are more fully described in Note 3 to our financial statements included in our Form 10-K filed on March 12, 2010. However, certain of our accounting policies are particularly important to the portrayal of our financial position and results of operations and require the application of significant judgment by our management; as a result, they are subject to an inherent degree of uncertainty. In applying these policies, our management makes estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosures. Those estimates and judgments are based upon our historical experience, the terms of existing contracts, our observance of trends in the industry, information that we obtain from our customers and outside sources, and on various other assumptions that we believe to be reasonable and appropriate under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. Our critical accounting policies include:

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## Inventories

Inventories are stated at the lower of average cost or market on a first-in, first-out method. On a periodic basis we review inventories on hand to ascertain if any is slow moving or obsolete. In connection with this review, we establish reserves based upon management's experience and assessment of current product demand. A substantial portion of the Company's inventories is comprised of movie posters for which valuation is more subjective than with more standard inventories. The balance is comprised of merchandise and collectibles that relate to performing artists. General economic conditions, tour schedules of performing artists, and the reputation of the performing artists/athletes, might make sale or disposition of these inventories more or less difficult. Any increases in the reserves would cause a decline in profitability, since such increases are recorded as charges against operations.

## Prepaid royalties

The Company accounts for prepaid royalties in accordance with FASB ASC 928, Financial Reporting in the Record and Music Industry. Artist royalty advances are deferred when paid and expensed based on the completion of performance, shows or other activities.

## Results of Operations

Three months ended September 30, 2010 to three months ended September 30, 2009.

The following discussion compares the Company's results of operations for the three months ended September 30, 2010 with those for the three months ended September 30, 2009. The Company's financial statements and notes thereto included elsewhere in this quarterly report contain detailed information that should be referred to in conjunction with the following discussion.

## Revenues

The following table compares total revenue for the periods indicated.

	Three Months Ended September 30,		
	2010	2009	% Change
Online merchandise and fulfillment	\$ 743,900	\$ 525,300	42 %
Film and video services	90,500	47,100	92 %
Tour merchandise and VIP services	3,352,300	1,544,100	117 %
Total revenues	\$ 4,186,700	\$ 2,116,500	98 %

Celebrity services revenues for the third quarter of 2010 increased \$2,070,200 or 98% to \$4,186,700 compared to revenues of \$2,116,500 for the third quarter of 2009. The online merchandise and fulfillment revenues increased \$218,600 or 42% to \$743,900 in the third quarter of 2010, as compared to \$525,300 in the third quarter of 2009. The increase in revenue was primarily attributed to both the addition of higher volume clients in our online merchandise and fulfillment services and a nationally televised biennial fund raising event for one of our major customers. Revenues associated with film and video services increased \$43,400 or 92% to \$90,500 in the third quarter of 2010, compared to \$47,100 in the third quarter of 2009. This increase was due to the addition of several smaller unique video productions in the third quarter of 2010 as compared to the third quarter of 2009 where the revenues generated were from one larger unique project. Revenues from tour merchandise and VIP services were \$3,352,300 in the third quarter of 2010, compared to \$1,544,100 in the third quarter of 2009, an increase of 117%. This increase was attributable to an increase in the number of touring clients, all of which had a concentration



of shows in the third quarter of 2010. The performing artists represented by the Company have limited tour dates in the fourth quarter of 2010, and are not expected to begin tour schedules until the first quarter of 2011.

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## Gross Profit

Gross profit for the third quarter of 2010 decreased by \$70,800 or 4%, to \$1,279,500 compared to gross profit of \$1,350,300 for the third quarter of 2009. This decrease in the third quarter is primarily attributable to a higher cost of merchandise, and lower retail prices associated with the nationally televised biennial fund raising event from one of our major clients, from which we were the exclusive online fulfillment partner. Gross profit percentage for the third quarter of 2010 was 31%, compared to 64% for the third quarter of 2009. This 33% decrease in the third quarter of 2010 was primarily the result of an increase in the cost of merchandise and a reduction in sales prices on goods associated with the biennial fund raising event from one of our major customers

## Operating Expenses

Total operating expenses for the third quarter of 2010 were \$1,623,500 compared to \$1,141,200 for the same period in 2009, an increase of \$482,000 or 42%. The increase in operating costs in the third quarter of 2010 was attributable to an increase in business development and sales related activity, client related expenses due to an active touring cycle in the third quarter, and the increase in shipping expenses at our fulfillment center due to a nationally televised biennial fund raising event from one of our major fulfillment clients.

## Net Loss

The Company realized a net loss in the third quarter of 2010 of \$344,200 as compared to a net income of \$209,800 for the same period in 2009. The losses for the third quarters of 2010 and 2009 each represent less than \$0.01 per share.

Nine months ended September 30, 2010 to nine months ended September 30, 2009.

The following discussion compares the Company's results of operations for the nine months ended September 30, 2010 with those for the nine months ended September 30, 2009. The Company's financial statements and notes thereto included elsewhere in this quarterly report contain detailed information that should be referred to in conjunction with the following discussion.

## Revenues

The following table compares total revenue for the periods indicated.

	Nine Months Ended September 30,		
	2010	2009	% Change
Online merchandise and fulfillment	\$ 1,773,800	\$ 1,299,100	37 %
Film and video services	218,900	249,700	-12 %
Tour merchandise and VIP services	4,466,600	2,515,500	78 %
Total revenues	\$ 6,459,300	\$ 4,064,300	59 %

Celebrity services revenues for the first three quarters of 2010 increased \$2,395,000 or 59% to \$6,459,300 compared to revenues of \$4,064,300 for the first three quarters of 2009. The online merchandise and fulfillment revenues increased \$474,700 or 37% to \$1,773,800 in the first three quarters of 2010, as compared to \$1,299,100 in the first three quarters of 2009. This increase in revenue was primarily attributed to the addition of several new fulfillment clients and from a nationally televised biennial fund raising event for one of our major customers. Revenues associated with film and video services decreased \$30,800 or 12% to \$218,900 in the first three quarters of 2010, compared to \$249,700 in the first three quarters of 2009. This decrease was primarily the result of a decrease in the size and an increase in the number of unique film and video projects in the first nine months of 2010, as compared to

the nine months of 2009 where there were fewer, but larger projects that had a longer life cycle. Revenues from tour merchandise and VIP services were \$4,466,600 in the first three quarters of 2010, compared to \$2,515,500 in the first three quarters of 2009, an increase of 78%. The increase was attributable to an increase in the number of touring clients in both VIP services and tour merchandise, as compared to the nine months of 2009 where a major client cancelled a tour in the third quarter. The performing artists represented by the Company have limited tour dates in the fourth quarter of 2010, and are not expected to begin tour schedules until the first quarter of 2011.

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Gross Profit

Gross profit for the first three quarters of 2010 increased by \$167,100 or 8%, to \$2,310,300 compared to gross profit of \$2,143,200 for the first three quarters of 2009. The increase was primarily attributable to the increase in both touring activity and an increase in the volume of online merchandise and fulfillment. This increase was offset by a decrease in film and video services due to lower gross margins on smaller film and video projects. The overall gross margin percentage decreased to 36% for the first three quarters of 2010, compared to 53% for the first three quarters of 2009. This 17% decrease is primarily the result of a tour cancellation in the third quarter of 2009 when the Company generated approximately \$414,000 of non-recurring convenience fee revenue associated with the tour cancellation.

Operating Expenses

Total operating expenses for the first three quarters of 2010 were \$4,242,500 compared to \$3,881,900 for the same period in 2009, an increase of \$360,600 or 9.3%. The increase in operating costs was attributable to an increase in business development and sales related activity, client related expenses due to an active touring cycle in the third quarter of 2010, and the increase in shipping expenses at our fulfillment center due to a nationally televised biennial fund raising event from one of our major fulfillment clients.

Net Loss

The Company realized a net loss in the first three quarters of \$1,932,000, as compared to a net loss of \$1,736,000 for the same period in 2009. The losses for the first three quarters of 2010 and 2009 each represent \$0.01 per share.

Assets

At September 30, 2010, total assets of the Company were \$4,057,000 compared to \$2,983,000 at December 31, 2009.

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## Operating Cash Flows

A summarized reconciliation of the Company's net loss to cash provided by operating activities for the nine months ended September 30 is as follows:

	2010	2009
Net loss	\$(1,932,400)	\$(1,735,800)
Depreciation and amortization	19,200	12,900
Share based compensation	339,000	340,000
Fair value of stock options awarded in payment of outside services and compensation	1,876,500	2,285,400
Services provided in consideration of stock subscription receivable	70,000	20,000
Deferred revenues, net of prepaid royalties	(17,800 )	245,900
Changes in current assets and liabilities	(208,900 )	(631,800 )
<b>Net cash provided by operating activities</b>	<b>\$ 145,600</b>	<b>\$ 536,600</b>

## Working Capital and Liquidity

The Company had cash and cash equivalents of \$1,230,400 at September 30, 2010, compared to \$730,400 at December 31, 2009. The Company had approximately \$2,717,000 of working capital at September 30, 2010 compared to \$1,991,000 at December 31, 2009. At September 30, 2010 current liabilities were \$1,279,000 compared to \$943,000 at December 31, 2009. Current liabilities increased at September 30, 2010 compared to December 31, 2009 primarily due to the increase of accounts payable and accrued expenses.

The Company's independent registered public accounting firm has issued a going concern opinion on the Company's financial statements for the year ended December 31, 2009. The Company may need an infusion of additional capital to fund anticipated operating costs over the next 12 months. Management anticipates continued growth in revenues and gross profits for the remainder of 2010 and into 2011 from its online merchandise and fulfillment services, for both new and existing clients. Subject to the discussion below, management believes that the Company has sufficient cash resources to fund operations during the next 12 months. In addition, management continues to explore opportunities to monetize its patent. However, there can be no assurance that anticipated touring activity will occur, and that the Company will be successful in monetizing its patent. Management continues to seek alternative sources of capital to support operations. Finally, world economic conditions, in particular those in the United States, may impact sales of fan experiences and the availability of financing.

## ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

## Market Risk

Market risk is the potential loss arising from adverse changes in market rates and prices, such as foreign currency rates, interest rates, and other relevant market rates or price changes. In the ordinary course of business, the Company is exposed to market risk resulting from changes in foreign currency exchange rates, and the Company regularly evaluates its exposure to such changes. The Company's overall risk management strategy seeks to balance the magnitude of the exposure and the costs and availability of appropriate financial instruments.

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### Impact of Inflation and Changing Prices

Historically, our business has not been materially impacted by inflation. We price and provide our service within a short time frame.

### Foreign Currency Fluctuation

Our revenue is primarily denominated in U.S. dollars. Therefore, we are not directly affected by foreign exchange fluctuations. However, fluctuations in foreign exchange rates may have an effect on merchandise sales for concerts occurring outside the U.S. We do not believe that foreign exchange fluctuations will materially affect our results of operations.

### Seasonality

Our revenue is subject to seasonality and fluctuations during the year primarily related to artist touring activities. More outdoor venues are available during May through September. In addition, the timing of tours for top-grossing acts could impact comparability of quarterly results year over year.

## ITEM 4. CONTROLS AND PROCEDURES

### Evaluation of Disclosure Controls and Procedures

The Company's management, including the President of the Company, as its principal executive officer, and the Chief Financial Officer of the Company, as its principal financial officer, has evaluated the effectiveness of the Company's "disclosure controls and procedures," as such term is defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Based upon this evaluation, the President and Chief Financial Officer concluded that, as of September 30, 2010, the Company's disclosure controls and procedures were not effective, due to material weaknesses in internal control over financial reporting, for the purpose of ensuring that the information required to be disclosed in the reports that the Company files or submits under the Exchange Act with the Securities and Exchange Commission is recorded, processed, summarized and reported within the time period specified by the Securities and Exchange Commission's rules and forms, and is accumulated and communicated to the Company's management, including its principal executive and financial officers, as appropriate to allow timely decisions regarding required disclosure.

The Company has identified five remaining material weaknesses in internal control over financial reporting. We identified three weaknesses with respect to entity level controls: (1) lack of corporate governance; (2) ineffective control environment; and (3) lack of segregation of duties. We identified two weaknesses with respect to activity level controls: (1) Lack of procedures and control documentation; and (2) lack of information technology controls and documentation. Because of these material weaknesses, we concluded that, as of September 30, 2010 our internal control over financial reporting was not effective based on the criteria outlined in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Accordingly, we have also concluded that our disclosure controls and procedures were not effective as of September 30, 2010.

We intend to implement procedures and controls throughout 2010 to remediate the remaining material weaknesses at the entity and activity levels, and to review further our procedures and controls. We have not remediated any of the material weaknesses during the first three quarters of 2010 other than what was described previously in our Annual Report on Form 10-K for the year ended December 31, 2009 that was filed on March 12, 2010. In addition, we will make additional changes to our infrastructure and related processes that we believe are also reasonably likely to strengthen and materially affect our internal control over financial reporting.

Prior to the complete remediation of these material weaknesses, there remains risk that the processes and procedures on which we currently rely will fail to be sufficiently effective, which could result in material misstatement of our financial position or results of operations and require a restatement. Moreover, because of the inherent limitations in all control systems, no evaluation of controls, even where we conclude the controls are operating effectively, can provide absolute assurance that all control issues including instances of fraud, if any, have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, our control systems, as we develop them, may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected and could be material to our financial statements.

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Changes in Internal Control Over Financial Reporting

There was no change in our internal control over financial reporting during the quarter ended September 30, 2010 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

In the normal course of business, the Company periodically becomes involved in litigation. As of September 30, 2010, in the opinion of management, the Company had no material pending litigation other than ordinary litigation incidental to the business.

ITEM 1A. RISK FACTORS

There are no material changes for the risk factors previously disclosed on Form 10-K for the year ended December 31, 2009.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. (REMOVED AND RESERVED)

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

31.1	CEO Certification required under Section 302 of Sarbanes-Oxley Act of 2002
31.2	CFO Certification required under Section 302 of Sarbanes-Oxley Act of 2002
32	CEO and CFO Certification required under Section 906 of Sarbanes-Oxley Act of 2002



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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

PAID, INC.  
Registrant

Date: November 8, 2010

By:

/s/ Gregory Rotman  
Gregory Rotman, President

Date: November 8, 2010

By:

/s/ Christopher R. Culross  
Christopher R. Culross, Chief Financial  
Officer

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LIST OF EXHIBITS

Exhibit No. Description

<u>31.1</u>	CEO Certification required under Section 302 of Sarbanes-Oxley Act of 2002
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