

PAID INC
Form 10-Q
November 04, 2011
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2011

COMMISSION FILE NUMBER 0-28720

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

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

As of October 28, 2011, the issuer had outstanding 302,368,821 shares of its Common Stock, par value \$.001 per share.

PAID, INC.
 FORM 10-Q
 FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2011

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

PAID, INC.
BALANCE SHEETS

ASSETS	September 30, 2011 (Unaudited)	December 31, 2010 (Audited)
Current assets:		
Cash and cash equivalents	\$983,993	\$747,245
Accounts receivable, net	328,243	303,941
Inventories, net	1,068,366	1,052,524
Prepaid expenses and other current assets	537,173	112,592
Prepaid royalties	971,561	959,712
Total current assets	3,889,336	3,176,014
Property and equipment, net	95,774	71,767
Intangible asset, net	7,301	8,007
Prepaid facility costs	1,064,561	—
Total assets	\$5,056,972	\$3,255,788
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$327,108	\$292,493
Capital leases - current portion	13,732	6,510
Accrued expenses	523,730	469,953
Deferred revenues	1,242,457	164,627
Total current liabilities	2,107,027	933,583
Long-term liabilities:		
Capital leases - net of current	25,116	10,307
Commitments and contingencies (note 7)		
Shareholders' equity:		
Common stock, \$.001 par value, 350,000,000 shares authorized; 301,262,309 and 286,449,511 shares issued and outstanding at September 30, 2011 and December 31, 2010, respectively	301,263	286,450
Additional paid-in capital	48,094,870	44,861,127
Accumulated deficit	(45,471,304)	(42,835,679)
Total shareholders' equity	2,924,829	2,311,898
Total liabilities and shareholders' equity	\$5,056,972	\$3,255,788
See accompanying notes to financial statements		

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STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
Revenues	\$1,620,416	\$4,186,737	\$4,006,246	\$6,459,282
Cost of revenues	908,615	2,907,215	2,301,575	4,148,997
Gross profit	711,801	1,279,522	1,704,671	2,310,285
Operating expenses	1,514,319	1,623,475	4,338,293	4,242,498
Loss from operations	(802,518	) (343,953	) (2,633,622	) (1,932,213
Other income (expense):				
Interest expense	(777	) (241	) (2,010	) (241
Other income	—	—	7	50
Total other income (expense), net	(777	) (241	) (2,003	) (191
Loss before income taxes	(803,295	) (344,194	) (2,635,625	) (1,932,404
Provision for income taxes	—	—	—	—
Net loss	\$(803,295	) \$(344,194	) \$(2,635,625	) \$(1,932,404
Loss per share - basic	\$—	\$—	\$(0.01	) \$(0.01
Weighted average shares - basic and diluted	295,014,276	279,750,389	290,835,033	274,484,126

See accompanying notes to financial statements

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

	2011	2010
Operating activities:		
Net loss	\$(2,635,625	) \$(1,932,404)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	29,504	19,240
Bad debts	15,000	—
Share based compensation	339,000	339,000
Fair value of stock options awarded to professionals and consultants in payment of fees for services provided	1,240,340	1,658,526
Fair value of stock options awarded to employees in payment of compensation	308,827	217,996
Services received in consideration of payment of stock subscription receivable	—	70,000
Changes in assets and liabilities:		
Accounts receivable	(39,302	) (342,472)
Inventories	(15,842	) (88,969)
Prepaid expense and other current assets	(211,715	) 183,909
Prepaid royalties	(11,849	) (315,535)
Accounts payable	34,615	203,701
Accrued expenses	53,777	150,424
Deferred revenue	1,077,830	(17,797)
Net cash provided by operating activities	184,560	145,619
Investing activities:		
Property and equipment additions	(22,384	) (30,197)
Financing activities:		
Payments on capital leases	(8,390) —
Proceeds from the exercise of stock options	82,962	384,500
Net cash provided by financing activities	74,572	384,500
Net increase in cash and cash equivalents	236,748	499,922
Cash and cash equivalents, beginning	747,245	730,433
Cash and cash equivalents, ending	\$983,993	\$1,230,355
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the period for:		
Income taxes	\$—	\$—
Interest	\$2,010	\$241
SUPPLEMENTAL DISCLOSURES OF NON-CASH INFORMATION		
Acquisition of property and equipment under capital lease	\$30,421	\$—
Common stock issued in payment of future facility costs	\$1,277,427	\$—
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, 2011

(Unaudited)

	Common stock		Additional Paid-in Capital	Accumulated Deficit	Total
	Shares	Amount			
Balance, December 31, 2010	286,449,511	\$286,450	\$44,861,127	\$(42,835,679)	\$2,311,898
Issuance of common stock pursuant to exercise of stock options granted to employees for services	1,132,474	1,133	307,694	—	308,827
Issuance of common stock pursuant to exercise of stock options granted to professionals and consultants	4,635,059	4,635	1,235,705	—	1,240,340
Issuance of restricted common stock for the prepayment of facility costs	6,082,985	6,083	1,271,344	—	1,277,427
Share based compensation related to issuance of incentive stock options	—	—	339,000	—	339,000
Options exercised	2,962,280	2,962	80,000		82,962
Net loss	—	—	—	(2,635,625)	(2,635,625)
Balance, September 30, 2011	301,262,309	\$301,263	\$48,094,870	\$(45,471,304)	\$2,924,829

See accompanying notes to financial statements

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PAID, INC.
NOTES TO FINANCIAL STATEMENTS
September 30, 2011 and 2010

Note 1. Organization and Significant Accounting Policies

The primary focus of PAID, Inc. (the "Company") is to provide brand-related services to businesses and celebrity clients in the entertainment, sports and collectible industries. PAID's brand management, brand marketing, social media marketing, product design and merchandising, fulfillment services, website design, development and hosting, and authentication services are designed to grow each client's customer base in size, loyalty and revenue generation. We offer entertainers, celebrity athletes and business entities a comprehensive web-presence and related services by supporting and managing clients' official websites and fan-community services including e-commerce, VIP ticketing, live event fan experiences, user-generated content, and client content publishing and distribution.

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, 2010 that was filed on March 11, 2011.

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 2011.

Fair Value of Financial Instruments

Cash and cash equivalents, accounts receivable, accounts payable and accrued expenses - the carrying amount of these financial instruments approximates fair value because of the short-term nature of these instruments.

Management's Plan

The Company has continued to incur significant losses. For the nine months ended September 30, 2011, the Company reported a net loss of \$2,635,600, and for the years ended December 31, 2010, and 2009, the Company reported losses of \$3,306,800, and \$3,484,000, respectively. The Company has an accumulated deficit of \$45,471,300 at September 30, 2011.

Management continues to refine its business model and believes that it is in a position to take advantage of growth opportunities within the music and entertainment related industries. Management believes that revenues and gross profits for 2011, which are highly dependent on touring activities, will be consistent with prior years. The Company continues to develop new business which should have a positive impact on future revenues and gross profits. Management believes that with the development of new business, the recoupment of prepaid royalties and an increase in inventory turns, that there will be sufficient resources to generate positive cash flow. In addition, management continues to explore opportunities and has organized additional resources to monetize its patents.

Although there can be no assurances, the Company believes that the above management plan, will be sufficient to meet the Company's working capital requirements through the end of 2012.

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, 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.

Accounts Receivable

Accounts receivable are presented net of an allowance for doubtful collections of \$40,000 and \$25,000 at September 31, 2011, and December 31, 2010 respectively. In determining this allowance, objective evidence that a single receivable is uncollectible as well as a historical pattern of collections of accounts receivable that indicates the entire face amount of a portfolio of accounts receivable may not be collectible is considered at each balance sheet date.

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, 2011 and December 31, 2010 the Company provided for reserves totaling \$483,600 and \$609,000, 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 performances, shows or other activities. Certain stock advances contain guarantees related to the proceeds from the sale of the stock, and are accounted for at fair value on the date of issuance.

Revenue recognition

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

Fan experience 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.

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 \$292,100 and \$273,200 during the nine months ended September 30, 2011 and 2010, respectively, are reported as a component of selling, general and administrative expenses.

Advertising costs

Advertising costs, totaling \$6,900 and \$7,500 for the nine months ended September 30, 2011 and 2010, respectively, are charged to expense when incurred.

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Segment reporting

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

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.

For the nine months ended September 30, 2011 and 2010 revenues from a limited number of clients accounted for approximately 41% and 79%, respectively, of total revenues. These revenues were generated from the sales of tour merchandise, VIP services, and 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 14,933,284 and 18,995,564 shares at September 30, 2011 and 2010, 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.

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. This 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.

On April 19, 2011, the United States Patent and Trademark Office issued the Company's patent #7930237 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. This patent covers a technique for facilitating advanced, rapid, accurate estimation of shipping costs across multiple shipping carriers and shipping options between buyer and seller in an online auction.

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The patents are presented net of accumulated amortization of \$8,700 and \$8,000 at September 30, 2011 and December 31, 2010, respectively.

Amortization expense of intangible assets for each of the nine months ended September 30, 2011 and 2010 was \$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, 2011	December 31, 2010
Payroll and related costs	\$45,900	\$48,300
Professional and consulting fees	45,200	86,400
Royalties	353,500	266,100
Other	79,100	69,200
Total	\$523,700	\$470,000

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 year ended December 31, 2010 the investor provided the balance of the consulting services.

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. As of September 30, 2011, all of these warrants have expired.

Share-based Incentive Plans

During the nine months ended September 30, 2011, the Company had three 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.

2011 Plan

On February 1, 2011, the Company adopted the 2011 Non-Qualified Stock Option Plan (the "2011 Plan"), to replace the 2001 Plan discussed below, and has filed Registration Statements on Form S-8 to register 30,000,000 shares of its common stock. Under the 2011 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 the nine months ended September 30, 2011 is as follows:

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	Number of shares	Weighted average exercise price per share
Options outstanding at December 31, 2010	—	\$0.001
Granted	4,692,443	0.001
Exercised	(4,692,443) 0.001
Options outstanding at September 30, 2011	—	\$0.001

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A summary of the awards under this plan during the nine months ended September 30, 2011 is as follows:

	Number of shares 2011	Gross Compensation
Employee payroll	1,114,497	\$ 304,600
Consulting and professional fees	3,577,946	987,300
Total	4,692,443	\$ 1,291,900

At September 30, 2011 there were 25,307,557 shares reserved for issuance under this plan.

2001 Plan

The 2001 Non-Qualified Stock Option Plan (the "2001 Plan") expired on January 31, 2011. The Company adopted the 2001 Plan on February 1, 2001 and filed Registration Statements on Form S-8 to register 120,000,000 shares of its common stock. Under the 2001 Plan, employees and consultants could have elected 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 the nine months ended September 30, 2011 is as follows:

	Number of shares	Weighted average exercise price per share
Options outstanding at December 31, 2010	2,023,612	\$0.001
Granted	1,075,090	0.001
Exercised	(2,037,370)	) 0.001
Options outstanding at September 30, 2011	1,061,332	\$0.001

A summary of the awards under this plan during the nine months ended September 30, 2011 is as follows:

	Number of shares 2011	Gross Compensation
Employee payroll	17,977	\$4,200
Consulting and professional fees	1,057,113	253,100
Total	1,075,090	\$257,300
	2010	
Employee payroll	583,070	\$218,000
Consulting and professional fees	5,641,253	1,658,500
Total	6,224,323	\$ 1,876,500

There are currently no shares reserved for issuance under this plan.

2002 Plan

The 2002 Stock Option Plan ("2002 Plan") provides for the award of qualified and non-qualified options for up to 30,000,000 shares. As of September 30, 2011 there were 3,000,000 shares reserved for issuance, and options for 13,871,952 shares outstanding. The options granted have a ten-year contractual term and vested either immediately or four years from the date of grant.

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During the nine months ended September 30, 2011 there were no options granted, and 2,000,000 options exercised under this plan.

The intrinsic value of options exercised during the nine months ended September 30, 2011 was \$658,213 in exchange for \$82,962 of cash.

Fair value of issuances

The fair value of the Company's option grants under the 2011 and 2001 Plans was estimated at the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

	2011	2010	
Expected term (based upon historical experience)	<1 week	<1 week	
Expected volatility	103.56	% 105.83	%
Expected dividends	None	None	
Risk free interest rate	0.03	% 0.15	%

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 recognized.

All but 5,000,000 options outstanding at September 30, 2011 are fully vested and exercisable. Information pertaining to options outstanding at September 30, 2011 is as follows:

Exercise Prices	Number of shares	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value
0.001	1,061,332	6.98	\$232,400
0.041	8,871,952	1.03	1,588,100
0.415	5,000,000	6.28	—
	14,933,284		

Note 5. Income Taxes

There was no provision for income taxes for the nine months ended September 30, 2011 and 2010 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.

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

	September 30, 2011	December 31, 2010
Federal net operating loss carry forward	\$12,236,000	\$11,529,000
State net operating loss carry forward	1,558,000	1,340,000
	13,794,000	12,869,000
Valuation allowance	(13,794,000	) (12,869,000)
Net deferred tax asset	\$—	\$—

The valuation reserve applicable to net deferred tax assets at September 30, 2011 and December 31, 2010 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 2008-2010 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 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, 2011 and 2010.

At September 30, 2011, the Company has federal and state net operating loss carry forwards of approximately \$37,500,000 and \$16,400,000, 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 of Gregory Rotman, President of the Company, and Richard Rotman, Vice-President/Secretary of the Company. 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 \$2,500.

Note 7. Commitments and contingencies

Lease commitment

The Company leases an office facility in Boston, Massachusetts under a tenant at will arrangement until the Company finalizes its facility alternatives. The lease requires monthly payments of approximately \$5,800, plus increases in real estate taxes and operating expenses.

Prepaid facility costs

On August 5, 2011, the Company entered into a Lease with Flanders 155 LLC. On August 22, 2011, the Company prepaid its five year rental and other obligations in full with unregistered common stock of the Company. The payment consisted of 6,082,985 shares of common stock at the closing market price of \$0.21 per share. The payment amounted to \$1,277,400 and covers \$797,700 in rent over five years (\$13,300 per month), \$400,000 deposit towards projected taxes and operating expenses, and \$79,800 as a security deposit. The Company has guaranteed the landlord under the Lease that the shares will sell on the open market for at least the value of the rent and other costs for a period of three months after the initial six month restriction on transfer. If the shares are not sold during that period, the guarantee will lapse.

Legal matters

In the normal course of business, the Company periodically becomes involved in litigation. As of September 30, 2011, 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.

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Note 8. Prepaid Royalties

Prepaid royalties represent amounts paid in advance to certain clients and are recoupable against future royalties earned by the clients. Advances are issued in either cash or stock and advance amounts are calculated based on the clients' projected earning potential over a fixed period of time. Advances issued in stock are recorded at the fair value on the date of issue. The Company did not have any royalty payment guaranties outstanding at September 30, 2011.

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.

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, 2010 that was filed on March 11, 2011.

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 or services 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

The primary focus of PAID, Inc. (the "Company") is to provide brand-related services to businesses and celebrity clients in the entertainment, sports and collectible industries. PAID's brand management, brand marketing, social media marketing, product design and merchandising, fulfillment services, website design, development and hosting, and authentication services are designed to grow each client's customer base in size, loyalty and revenue generation. We offer entertainers, celebrity athletes and business entities a comprehensive web-presence and related services by supporting and managing clients' official websites and fan-community services including e-commerce, VIP ticketing, live event fan experiences, user-generated content, and client content publishing and distribution.

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 11, 2011. 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". Prepaid royalties represent amounts paid in advance to certain clients and are recoupable against future royalties earned by the clients. Advances are issued in either cash or stock and advance amounts are calculated based on the client's projected earning potential over a fixed period of time. Advances issued in stock are recorded at the fair value on the date of issue.

Results of Operations

Three months ended September 30, 2011 to three months ended September 30, 2010.

The following discussion compares the Company's results of operations for the three months ended September 30, 2011 with those for the three months ended September 30, 2010. 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,			
	2011	2010	% Change	
Online Merchandise and fulfillment	\$780,000	\$743,900	5	%
Film and video services	—	90,500	(100))%
Tour merchandise and VIP services	840,400	3,352,300	(75))%
Total revenues	\$1,620,400	\$4,186,700	(61))%

Revenues decreased 61% in the third quarter primarily from a 75% decrease in tour merchandise and VIP services and a 100% decrease in film and video services. The decrease was offset by a 5% increase in merchandise and fulfillment.

Merchandise and fulfillment revenues increased \$36,100 or 5% to \$780,000 compared to \$743,900 in 2010. In the third quarter of 2010, one of our major clients held a bi-annual fund raising event that generated approximately 35% of third quarter merchandise and fulfillment revenues for the Company. Excluding the revenues associated with the 2010 fund raising event, other merchandise and fulfillment revenues increased 66% or \$259,000. This increase was attributable to a greater focus on marketing initiatives and new product development.

The Company did not generate any film and video revenues during the third quarter of 2011 resulting in a 100% decrease in revenue as compared to 2010. The Company will continue to offer these services through marketing and

branding projects, which will help to support revenue generation for merchandise and touring activities.

Tour merchandise and VIP services decreased \$2,511,900 or 75% to \$840,400 compared to \$3,352,300 in 2010. Touring revenues are directly impacted by the touring schedules of our clients. In the third quarter of 2010, a major client that the company provides VIP services for, was on tour which generated significant revenues for the Company in that quarter. In 2011 that same client will be touring in the fourth quarter. This timing difference is the primary reason that revenues in 2011 decreased as compared to 2010.

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Gross Profit

Gross profit decreased \$567,700 or 44% to \$711,800 compared to \$1,279,500 in the third quarter of 2010. The decrease in third quarter revenues reduced gross profit by \$725,400, but was offset by \$157,500 due to a 44% increase in gross margin. Gross margin increased to 44% in 2011 from 31% in 2010. This increase was due to higher sales in fulfillment which carry a higher gross margin than touring activities.

Operating Expenses

Total operating expenses in 2011 were \$1,514,300 compared to \$1,623,500 in 2010, a decrease of \$109,200 or 7%. The decrease is due to decreases of \$41,000 in client expenses related to touring activities and credit card processing costs, \$44,200 in shipping costs, and \$55,000 in administrative and professional fees. These decreases were offset by an increase in personnel costs of \$31,000, due to an increase in key personnel.

Net Loss

The Company realized a net loss in the third quarter of 2011 of \$803,300 compared to a net loss of \$344,200 for the same period in 2010. The losses for the third quarter of 2011 and 2010 each represent less than \$0.01 per share.

Nine months ended September 30, 2011 to nine months ended September 30, 2010.

The following discussion compares the Company's results of operations for the nine months ended September 30, 2011 with those for the nine months ended September 30, 2010. 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,			
	2011	2010	% Change	
Online Merchandise and fulfillment	1,983,000	1,773,800	12	%
Film and video services	22,000	218,900	(90))%
Tour merchandise and VIP services	2,001,200	4,466,600	(55))%
Total revenues	4,006,200	6,459,300	(38))%

Revenues decreased 38% in 2011 primarily from a 55% decrease in tour merchandise and VIP services and a 90% decrease in film and video services. The decrease was offset by a 12% increase in merchandise and fulfillment.

Merchandise and fulfillment revenues increased \$209,200 or 12% to \$1,983,000 compared to \$1,773,800 in 2010. In the third quarter of 2010, one of our major clients held a bi-annual fund raising event that generated approximately 15% of total merchandise and fulfillment revenues for the Company. Excluding the revenues associated with the 2010 fund raising event, other merchandise and fulfillment revenues increased 36% or \$427,000. This increase was attributable to a greater focus on marketing initiatives and new product development.

Film and video services decreased \$196,900 or 90% to \$22,000, compared to \$218,900 in 2010. The Company continues to offer clients film and video services, but did not actively seek new film and video projects in the first three quarters of 2011. The Company redirected film and video staff onto other internal and client branding projects, which supports revenue generation in merchandise and touring activities. This redirection has caused a decrease in

film and video revenues for 2011. The Company plans on looking for new opportunities for these services in the future.

Tour merchandise and VIP services decreased \$2,465,400 or 55% to \$2,001,200, compared to \$4,466,600 in 2010. Touring revenues are directly impacted by the touring schedules of our clients. In the third quarter of 2010, a major client that the company provides VIP services for, was on tour which generated significant revenues for the Company. In 2011 that same client will be touring in the fourth quarter. This timing difference is the primary reason that revenues in 2011 decreased as compared to 2010.

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The Company's touring and VIP activities are subject to the effects of touring seasonality which are specific to each of our touring clients. Touring clients typically do not announce tour plans until two to four months in advance of the first show. Consequently, revenues for the first three quarters ended September 30, 2011, are not necessarily indicative of results to be expected for the full year. The Company represents several touring clients, most of which are expected to tour through the end of 2011.

Gross Profit

Gross profit in 2011 decreased \$605,600 or 26% to \$1,704,700 compared to \$2,310,300 in 2010. The decrease in 2011 revenues reduced gross profit by \$705,300, but was offset by \$99,700 due to a 19% increase in gross margin. Gross margin increased to 43% from 36%. This increase was due to higher sales in fulfillment which carry a higher gross margin than touring activities.

Operating Expenses

Total operating expenses in 2011 were \$4,338,300 compared to \$4,242,500 in 2010, an increase of \$95,800 or 2%. The increase is due to increases of \$62,300 in client expenses related to shipping costs associated with tour merchandise, and \$109,700 in payroll costs due to an increase in key personnel, offset by a \$76,200 decrease in consulting and other administrative costs.

Net Loss

The Company realized a net loss in the first three quarters of 2011 of \$2,635,600, as compared to a net loss of \$1,932,400 for the same period in 2010. The losses for the first three quarters of 2011 and 2010 each represent \$0.01 per share.

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, 2011, and 2010 is as follows:

	2011	2010
Net loss	\$ (2,635,600	) \$ (1,932,400
Depreciation and amortization	29,500	19,200
Share based compensation	339,000	339,000
Intrinsic value of stock options awarded		
in payment of outside services and compensation	1,549,200	1,876,500
Services provided in consideration of stock subscription	—	70,000
Deferred revenues, net of prepaid royalties	1,066,000	(333,300
Changes in current assets and liabilities	(163,500	) 106,600
Net cash provided by operating activities	\$ 184,600	\$ 145,600

Working Capital and Liquidity

The Company had cash and cash equivalents of \$984,000 at September 30, 2011, compared to \$747,200 at December 31, 2010. The Company had approximately \$1,782,300 of working capital at September 30, 2011, a decrease of \$460,100, compared to \$2,242,400 at December 31, 2010. The decrease in working capital is attributable to the use of cash to fund operating activities for the first three quarters of 2011.

The Company may need an infusion of additional capital to fund anticipated operating costs over the next 12 months. Management believes that there are sufficient resources to generate positive cash flow through the continued growth in new business, through the recoupment of prepaid royalties, and an increase in inventory turns. Subject to the discussion below, management believes that the Company has adequate cash resources to fund operations during the next 12 months. In addition, management continues to explore opportunities and has organized additional resources to monetize its patents. However, there can be no assurance that anticipated touring activity will occur, and that the Company will be successful in monetizing its patents. 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.

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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 not exposed to market risk resulting from changes in foreign currency exchange rates. The Company's overall risk management strategy seeks to balance the magnitude of the exposure and the costs and availability of appropriate financial instruments.

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 tour merchandise and VIP ticket 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. Our clients typically tour between March and October. 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, have 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, 2011, 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 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, 2011 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, 2011.

In the first quarter of 2011, we added additional staff to begin to remediate the lack of segregation of duties. We also began to implement standard operating procedures and controls during the first three quarters of 2011 and will continue to do so throughout the remainder 2011 in order to remediate the remaining material weaknesses at the entity and activity levels, and to review further our procedures and controls. Although we have not remediated any of the material weaknesses during the first three quarters of 2011, we will continue to 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.

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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.

Changes in Internal Control Over Financial Reporting

There was no change in our internal control over financial reporting during the quarter ended September 30, 2011 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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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, 2011, 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, 2010.

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

Sales of unregistered shares of the Company's common stock associated with the Company's lease with Flanders 155 LLC was reported on Form 8-K filed with the SEC on October 5, 2011. In addition, the Company issued 2,000,000 shares of unregistered common stock pursuant to option exercises under the 2002 Stock Option Plan. Such issuance constitutes less than 1% of the issued and outstanding shares of common stock of the Company. The sale of the securities was exempt from registration pursuant to the exemption contained in Section 4(2) of the Securities Act of 1933, as amended, inasmuch as it was not a public offering since no general solicitation or advertising of any kind was used in connection with the issuance and there were only two recipients, who are knowledgeable and understands the investment risks. The price per share was \$.041 which was the exercise price for the shares, based on the closing price as reported on the OTCBB on the day before the options were granted in April 2003.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. (REMOVED AND RESERVED)

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
- 32.0 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 3, 2011

By: /s/ Gregory Rotman
Gregory Rotman, President

Date: November 3, 2011

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

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LIST OF EXHIBITS

Exhibit No.	Description
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