

PAID INC  
Form 10-Q  
November 20, 2012

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, 2012

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.)

40 Washington Street, Westborough, Massachusetts 01581  
(Address of Principal Executive Offices) (Zip Code)

(617) 861-6050  
(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)

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

Yes  No

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As of November 19, 2012, the issuer had outstanding 326,313,074 shares of its Common Stock, par value \$.001 per share.

Explanatory Note: PAID, Inc. ("PAID") is filing this Form 10-Q in reliance upon Order Under Section 17A, and Section 36 of the Securities Exchange Act of 1934 Granting Exemptions From Specific Provisions of the Exchange Act and Certain Rules Thereunder (Release No. 68224/November 14, 2012)(the "Order"). Due to the location of certain professional advisors in the area impacted by Hurricane Sandy and their unavailability during such storm and the related aftermath, PAID Inc. has been unable to file this report by the filing deadline of November 14, 2012. As discussed in the Order, the Securities and Exchange Commission has provided companies that have been impacted by this event and have a report due during the period October 29, 2012 through November 20, 2012 with the ability to file such report on or before November 21, 2012.

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PAID, INC.  
 FORM 10-Q  
 FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2012

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## PART I - FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

## PAID, INC.

## CONDENSED BALANCE SHEETS

ASSETS	September 30, 2012 (Unaudited)	December 31, 2011 (Audited)
Current assets:		
Cash and cash equivalents	\$562,400	\$996,000
Investments	180,500	205,000
Accounts receivable, net	920,400	194,300
Inventories, net	1,011,400	876,700
Prepaid expenses and other current assets	371,000	574,100
Prepaid royalties	666,100	522,100
Total current assets	3,711,800	3,368,200
Property and equipment, net	233,800	91,000
Intangible asset, net	6,400	7,100
Prepaid facility costs	1,180,600	1,468,000
Total assets	\$5,132,600	\$4,934,300
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$656,700	\$491,400
Capital leases - current portion	27,500	13,800
Accrued expenses	2,160,800	1,332,500
Deferred revenues	346,700	303,400
Total current liabilities	3,191,700	2,141,100
Long-term liabilities:		
Capital leases - net of current	54,400	21,000
Commitments and contingencies (note 9)		
Shareholders' equity:		
Common stock, \$.001 par value, 350,000,000 shares authorized; 326,313,074 and 308,736,705 shares issued and outstanding at September 30, 2012 and December 31, 2011, respectively	326,300	308,800
Additional paid-in capital	51,956,100	49,273,300
Accumulated deficit	(50,395,900)	(46,809,900)
Total shareholders' equity	1,886,500	2,772,200
Total liabilities and shareholders' equity	\$5,132,600	\$4,934,300
See accompanying notes to condensed financial statements		



PAID, INC.  
 CONDENSED STATEMENTS OF OPERATIONS  
 (Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011
Revenues	\$7,093,500	\$1,620,400	\$10,661,100	\$4,006,200
Cost of revenues	5,696,200	1,010,500	8,125,500	2,593,600
Gross profit	1,397,300	609,900	2,535,600	1,412,600
Operating expenses	1,662,100	1,412,400	5,183,900	4,046,200
Loss from operations	(264,800)	) (802,500)	) (2,648,300)	) (2,633,600)
Other income (expense):				
Interest expense	(1,300)	) (800)	) (4,800)	) (2,000)
Other income	11,000	—	11,000	—
Unrealized gain/(loss) on investment	27,100	—	(24,400)	) —
Unrealized loss on stock price guarantee	(683,300)	) —	(919,500)	) —
Total other income (expense), net	(646,500)	) (800)	) (937,700)	) (2,000)
Loss before income taxes	(911,300)	) (803,300)	) (3,586,000)	) (2,635,600)
Provision for income taxes	—	—	—	—
Net loss	\$(911,300)	) \$(803,300)	) \$(3,586,000)	) \$(2,635,600)
Loss per share - basic	\$—	\$—	\$(0.01)	) \$(0.01)
Weighted average shares - basic and diluted	325,699,374	295,014,276	317,962,401	290,835,033

See accompanying notes to condensed financial statements

PAID, INC.  
 CONDENSED STATEMENTS OF CASH FLOWS  
 FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2012 AND 2011  
 (Unaudited)

	2012	2011
Operating activities:		
Net loss	\$(3,586,000)	) \$(2,635,600 )
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	56,000	29,500
Bad debts	—	15,000
Unrealized loss on investment	24,400	—
Share based compensation	532,500	339,000
Change in fair value of stock price guarantee	919,500	—
Amortization of prepaid facility costs	227,800	—
Fair value of stock options awarded to professionals and consultants in payment of fees for services provided	2,126,800	1,240,300
Fair value of stock options awarded to employees in payment of compensation	40,000	308,800
Changes in assets and liabilities:		
Accounts receivable	(726,100)	) (39,300 )
Inventories	(134,600)	) (15,800 )
Prepaid expense and other current assets	203,100	(211,700 )
Prepaid royalties	(144,000)	) (11,800 )
Prepaid facility costs	59,600	—
Accounts payable	165,300	34,600
Accrued expenses	(91,200)	) 53,800
Deferred revenue	43,300	1,077,800
Net cash provided by (used in) operating activities	(283,600)	) 184,600
Investing activities:		
Property and equipment additions	(136,400)	) (22,400 )
Financing activities:		
Payments on capital leases	(14,600)	) (8,400 )
Proceeds from the exercise of stock options	1,000	83,000
Net cash provided by (used in) financing activities	(13,600)	) 74,600
Net increase (decrease) in cash and cash equivalents	(433,600)	) 236,800
Cash and cash equivalents, beginning	996,000	747,200
Cash and cash equivalents, ending	\$562,400	\$984,000
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the period for:		
Income taxes	\$—	\$—
Interest	\$4,800	\$2,000
SUPPLEMENTAL DISCLOSURES OF NON-CASH INFORMATION		
Acquisition of property and equipment under capital lease	\$61,600	\$30,400
Common stock issued in payment of future facility costs	\$—	\$1,277,400



See accompanying notes to condensed financial statements

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PAID, INC.  
 CONDENSED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY  
 FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2012  
 (Unaudited)

	Common stock		Additional Paid-in Capital	Accumulated Deficit	Total
	Shares	Amount			
Balance, December 31, 2011	308,736,705	\$ 308,800	\$49,273,300	\$(46,809,900)	\$2,772,200
Issuance of common stock pursuant to exercise of stock options granted to employees for services	249,097	200	39,800	—	40,000
Issuance of common stock pursuant to exercise of stock options granted to professionals and consultants	16,365,272	16,300	2,110,500	—	2,126,800
Share based compensation related to issuance of incentive stock options	—	—	532,500	—	532,500
Options exercised	962,000	1,000	—	—	1,000
Net loss	—	—	—	(3,586,000 )	(3,586,000 )
Balance, September 30, 2012	326,313,074	\$ 326,300	\$51,956,100	\$(50,395,900)	\$ 1,886,500

See accompanying notes to condensed financial statements

PAID, INC.

NOTES TO CONDENSED FINANCIAL STATEMENTS

September 30, 2012 and 2011

Note 1. Business

The Company's primary focus is to provide brand-related services to businesses, celebrity clients in the entertainment industry as well as charitable organizations. PAID's brand management, brand marketing, social media marketing, product design and merchandising, website design, development and hosting services are designed to grow each client's customer base in size, loyalty and revenue generation. We offer entertainers and business entities comprehensive web-presence and related services supporting and managing clients' official websites and fan-community services including e-commerce, VIP ticketing, live event fan experiences, user-generated content, client content publishing and distribution, fan forums, social network management, social media marketing, customer data capture, management and analysis.

Management's Plan

The Company has continued to incur significant losses. For the nine months ended September 30, 2012, the Company reported a net loss of \$3,586,000, and the Company has an accumulated deficit of \$50,395,900 at September 30, 2012.

Management is positioning the Company to take advantage of growth opportunities within the music and entertainment related industries, mainly VIP experiences. With the consolidation of facilities into our new Westborough location, management believes that the Company will be able to increase productivity and will be able to create efficiencies without having to incur additional overhead to support our client base.

The Company has also developed a strategic plan to better use its Intellectual Property to generate cash flow. In addition, the Company has filed for a third patent application, which is currently in progress with the U.S. Patent and Trademark Office (USPTO).

Management believes that these changes will have a positive impact on revenues and gross profits, and with the recoupment of advanced royalties, an increase in inventory turns, and cost reductions, the Company should have sufficient resources to generate positive cash flow.

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 advanced royalties, increasing inventory turns, and through cost cutting.

Note 2. Significant Accounting Policies

General Presentation and Basis of Financial Statements

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"), and 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 years ended December 31, 2011, 2010 and 2009 that was filed on May 15, 2012.

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 2012.

Use of estimates

In preparing financial statements in conformity with GAAP, 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.

#### Investments

As of September 30, 2012, the Company's investments consisted of trading securities that were stated at fair value, with gains or losses resulting from changes in fair value recognized in earnings as other income (expense), net. Management determines the appropriate classification of its investments in debt and equity securities at the time of purchase and reevaluates such determinations at each balance sheet date. Marketable debt and equity securities that are bought and held principally for the purpose of selling them in the near term are classified as trading securities and are reported at fair value, with unrealized gains and losses recognized as earnings. Debt securities are classified as held for maturity when the Company has the positive intent and ability to hold the securities to maturity. Held to maturity securities are recorded as either short term or long term on the balance sheet based on contractual maturity dates and are stated at cost. Securities not classified as held to maturity or as trading, are classified as available-for-sale, and are carried at fair market value, with the unrealized gains and losses, net of tax, included in the determination of comprehensive income and reported in shareholders' equity.

#### Accounts Receivable

Accounts receivable are carried at original invoice amount less an estimate for doubtful receivables based on a review of all outstanding amounts on a monthly basis. Accounts receivable are presented net of an allowance for doubtful collections of \$48,300, at September 30, 2012, and December 31, 2011. 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. Accounts are written off when significantly past due after exhaustive efforts at collection.

#### 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.

Management periodically reviews inventories on hand to ascertain if any are slow moving or obsolete. Inventories are presented net of reserve for inventory obsolescence of \$655,100 at September 30, 2012, and December 31, 2011.

#### Advanced royalties

In accordance with GAAP, advanced royalties, which consist of artist royalty advances are deferred when paid and expensed based on the completion of performances, shows or other milestones. 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.

#### Property and Equipment

Property and equipment are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of 3 to 5 years. Leasehold improvements are depreciated over the lesser of the useful life of the asset or the respective lease term.

#### Intangible Assets

Intangible assets consist of patents which are being amortized on a straight-line basis over their estimated useful life of 17 years.

#### Asset Impairment

Long lived assets to be held and used are reviewed to determine whether any events or changes in circumstances indicate that their carrying amount may not be recoverable. The Company bases its evaluation on indicators about the future economic benefits that the assets can be expected to provide including historical or future profitability measurements. Management reviews the estimated useful lives, as well as other external market conditions or factors that may be present. If such impairment indicators are present or other factors exist that indicate that the carrying amount of the asset may not be recoverable, if impairment is indicated, the Company recognizes a loss for the difference between the carrying amount and the estimated fair value of the asset.

#### Fair Value Measurement

Financial instruments and certain non-financial assets and liabilities are measured at their fair value as determined based on the assets highest and best use. GAAP has established a framework for measuring fair value that is based on a hierarchy which requires that the valuation technique used be based on the most objective inputs available for measuring a particular asset or liability. There are three broad levels in the fair value hierarchy which describe the degree of objectivity of the inputs used to determine fair value. The fair value hierarchy is set forth below:

Level 1 - inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 - inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 - inputs to the valuation methodology are unobservable and significant to the fair value measurement. They are based on best information available in the absence of level 1 and 2 inputs.

The fair value of the Company's cash and cash equivalents, accounts receivable, investments, accounts payable, accrued expenses, and capital leases are approximately the same as their carrying amounts. In addition, the Company's derivative instruments, consisting of stock options, stock purchase warrants, and a stock price guarantee, are all valued using the Black-Scholes option pricing model.

#### Income Taxes

Income taxes are accounted for under the liability method. Under this method, deferred income taxes are provided for temporary differences between the financial reporting and the tax bases of assets and liabilities and are measured using enacted laws and rates that will be in effect when the differences are expected to reverse. A valuation allowance is provided when management believes it is more likely than not that some or all of the deferred tax assets will not be realized. GAAP requires that, in applying the liability method, the financial statement effects of an uncertain tax position be recognized based on the outcome that is more likely than not to occur. Under this criterion the most likely resolution of an uncertain tax position should be analyzed based on technical merits and on the outcome that would likely be sustained under examination. The Company has no uncertain tax positions as of December 31, 2011.

#### Revenue recognition

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

Fan experience sales generally include tickets and related experiences at concerts and other events conducted by performing artists associated with these fan experience revenues. These revenues 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.

The Company recognizes merchandise sales revenue upon verification of the credit card transaction, shipment of the merchandise, and the discharge of all obligations of the Company with respect to the transaction.

Client services revenues include web development and design, creative services, film and video services, marketing services and general business consulting services. For contracts that are of a short duration and fixed price, revenue is recognized when there are no significant obligations and upon acceptance by the customer of the completed project. Revenues on longer-term fixed price contracts are recognized using the percentage-of-completion method. Services that are preformed on a time and material basis are recognized as the related services are performed.

#### Cost of Revenues

Cost of revenues include event tickets, ticketing and venue fees, shipping and handling fees associated with e-commerce sales, merchandise and royalties paid to clients.

**Selling and Administrative Expenses**

Selling, general, and administrative expenses include indirect client related expenses, including credit card processing fees, payroll, travel, facility costs, and other general and administrative expenses.

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#### Advertising costs

Advertising costs, totaling approximately \$4,000 and \$6,900 for the nine months ended September 30, 2012 and 2011, respectively, are charged to expense when incurred.

#### Share-Based Compensation

Share-based compensation cost is measured at the fair value of the equity instrument awarded on the grant date, and is recognized as an expense over the recipients required service period (generally the vesting period of the equity grant).

#### 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 stable high credit quality institutions, and management believes that the risk of loss is negligible

For the nine months ended September 30, 2012 and 2011 revenues from a limited number of clients accounted for approximately 72% and 41%, respectively, of total revenues. In addition, 49% of advanced royalties are to one client at September 30, 2012 and 0% to that same client at December 31, 2011.

#### 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. The potential common shares that may be issued by the Company relate to outstanding stock options and warrants, and have been excluded from the computation of diluted earnings per share because they would reduce the reported loss per share and therefore have an anti-dilutive effect.

#### Reclassifications

Certain amounts in the 2011 financial statements have been reclassified to conform to the 2012 presentation with no effect on previously reported net loss or accumulated deficit.

#### Note 3. Accrued Expenses

Accrued expenses are comprised of the following:

	September 30, 2012	December 31, 2011
Payroll and related costs	\$65,900	\$41,600
Professional and consulting fees	92,600	51,200
Royalties	420,800	587,300
Stock payment guarantee liabilities	1,456,100	505,900
Other	125,400	146,500
Total	\$2,160,800	\$1,332,500

#### Note 4. Income Taxes

There was no provision for income taxes for the nine months ended September 30, 2012 and 2011 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 allowance against the Company's deferred tax asset. The valuation allowance has been recognized to fully reserve against net deferred tax assets at September 30, 2012 and December 31, 2011 is due to the likelihood that the benefit from the deferred tax asset will not be realized.

Net operating losses are the only temporary differences and the related carry forwards that give rise to deferred taxes.

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 2008-2011 remain open to examination by the IRS and state jurisdictions.

At September 30, 2012, the Company has federal and state net operating loss carry-forwards of approximately \$41,576,095 and \$20,406,514, 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 5. Related party transactions

Steven Rotman is the father of Gregory Rotman, former President of the Company, and Richard Rotman, former Vice-President/Secretary of the Company. The Company paid rent, at approximately \$2,500 per month, as a tenant at will, to a company in which Steven Rotman is a shareholder. On June 30, 2012 the Company terminated the tenant at will agreement, and vacated the premises as part of the facility consolidation to Westborough, Massachusetts. Rent expense for the nine months ended September 30, 2012 and 2011 was approximately \$15,000 and \$22,500 respectively.

#### Note 6. Advance Royalties

Advance royalties represent amounts the Company has advanced 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 made by issuing stock or stock options are recorded at the fair value on the date of issue. During the second quarter of 2012 the Company issued options to purchase common stock at an exercise price of \$0.001 per share for both advance and previously earned royalties. The options were exercised immediately along with a Company guarantee that the shares acquired would sell for at least \$1,246,118 within 6 months. If the shares do not reach the require \$0.12 per share within that period, the Company has the option of issuing additional shares at their fair value at the end of the period or making a cash payment for the difference between the guaranteed sales price and the fair value of the stock at the end of the 6 month period.

#### Note 7. Fair Value Disclosure

The following table presents fair values for those assets and liabilities measured at fair value on a recurring basis and the level within the fair value hierarchy in which the measurements fall. No transfers among the levels within the fair value hierarchy occurred during the nine months ended September 30, 2012.

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	Fair Value		
	Level	September 30, 2012	December 31, 2011
Investments	1	180,600	205,000
Royalty guarantee	2	(568,600	) —
Stock lease payment guarantee	2	(887,500	) (505,900 )

The fair value of the Company's investments classified as trading securities is determined based on the closing market prices of the respective common stocks as of September 30, 2012.

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The fair value of the rent guarantee was calculated using the Black-Scholes Option Pricing Model with the following assumptions:

Term of guarantee	5 months
Historical volatility	83.73%
Expected dividend	None
Risk free interest rate	0.01%

In 2011 the Company recorded \$442,600 in additional pre-paid rent expense due to the fair value of the guarantee, and will be amortized over the life of the lease. The fair value adjustment of the offsetting derivative liability will be recorded in the statement of operations as a component of other income.

The fair value of the royalty guarantee was calculated using the Black-Scholes Option Pricing Model with the following assumptions:

Term of guarantee	8 months
Historical volatility	116.58%
Expected dividend	None
Risk free interest rate	0.07%

In the second quarter of 2012 the Company recorded \$401,100 in additional pre-paid rent expense due to the fair value of the guarantee, and will be amortized over the guarantee period. The fair value adjustment of the offsetting derivative liability will be recorded in the statement of operations as a component of other income.

#### Note 8. Common Stock

##### Share-based Incentive Plans

The Company has 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 2011 Non-Qualified Stock Option Plan (the "2011 Plan"), was adopted to replace an earlier plan. Under the 2011 Plan, employees and consultants may elect to receive their gross compensation in the form of options, exercisable at \$0.001 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. At September 30, 2012 there were 2,466,137 shares reserved for issuance under this plan. The 2011 Plan shall be discontinued as of October 15, 2012, such that no further options shall be available for issuance under this plan as of that date.

The 2002 Stock Option Plan ("2002 Plan") provided for the award of qualified and non-qualified options for up to 30,000,000 shares. The options granted have a ten-year contractual term and had a vesting schedule of either immediately, two years, or four years from the date of grant. As of September 30, 2012 options for 13,121,952 shares are outstanding, with no additional shares reserved.

Information with respect to stock options granted and exercised under these plans during the nine months ended September 30, 2012 is as follows:

	Number of shares	Weighted average exercise price per share
Options outstanding at December 31, 2011	17,183,284	\$0.105
Granted	21,614,369	0.016

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Exercised	(17,576,369	) 0.001
Canceled	(5,068,750	) 0.143
Options outstanding at September 30, 2012	16,152,534	\$0.087

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On October 15, 2012, the Company adopted the 2012 Non-Qualified Stock Option Plan (the "2012 Plan"). The purpose of the 2012 Plan, is to provide long-term incentives and rewards to those employees of the Company, and any other individuals, whether directors, consultants or advisors who are in a position to contribute to the long-term success and growth of the Company. There are 5,000,000 shares reserved for issuance under this plan.

#### Fair value of issuances

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

	2012	2011
Expected term (based upon historical experience)	<1 week	<1 week
Expected volatility	118.33%	103.56%
Expected dividends	None	None
Risk free interest rate	0.06%	0.03%

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.

All but 5,500,000 options outstanding at September 30, 2012 are fully vested and exercisable. Information pertaining to options outstanding at September 30, 2012 is as follows:

Exercise Prices	Number of shares	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value
0.001	30,582	2.12	\$ 1,700
0.041	5,121,952	0.03	75,800
0.065	5,000,000	9.86	—
0.145	6,000,000	9.12	—
	16,152,534		

#### Note 9. Commitments and contingencies

##### Lease commitment

The Company leased an office facility in Boston, Massachusetts under a tenant at will agreement. In November 2011 the Landlord was notified under the provisions of the agreement that the Company would terminate the tenant at will agreement and vacate the premises in January 2012. The tenant at will agreement required monthly payments of approximately \$5,800, plus increases in real estate taxes and operating expenses.

On January 21, 2012 the Company closed its Boston office and moved to its new facility in Westborough, Massachusetts. During the second quarter, the Company completed the move of its fulfillment center located in Worcester, Massachusetts, to its new facility in Westborough, Massachusetts.

##### Prepaid facility costs

In 2011, the Company entered into a lease for premises located at 40 Washington Street, Westborough, Massachusetts (the "Washington Street Location"). The lease is for an initial five year term, with an option to renew for one additional five year term. Monthly rent is \$13,856 for the initial five year term, plus applicable taxes and operating expenses, all of which has been paid in shares of restricted stock of the Company.

The original lease payment consisted of 6,082,985 shares of common stock, having a closing market price of \$0.21 per share, on August 22, 2011. The payment was for rent over five years, projected taxes and operating expenses, and a security deposit.

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#### Stock price guarantee

The Company has guaranteed the landlord that the shares would sell on the open market for at least \$1,386,500, given the landlord sells the shares within a period of three months after the initial six month restriction on transfer has expired. Subsequently, the Company entered into the first amendment to the lease agreement, to extend the guarantee period to December 31, 2012.

#### Legal matters

In the normal course of business, the Company periodically becomes involved in litigation. As of September 30, 2012, 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.

#### Note 10. Subsequent events

The Company has evaluated its subsequent events through November 20, 2012, the date that the accompanying financial statements were issued. Material sub-sequent events reflected are disclosed in Note 8.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF 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 years ended December 31, 2011, 2010, and 2009 that was filed on May 15, 2012.

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” or “PAID”) 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.

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## 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 May 15, 2012. 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 estimates include:

## 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

Prepaid royalties represent amounts paid in advance to certain clients 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

Comparison of the three months ended September 30, 2012 and 2011.

The following discussion compares the Company's results of operations for the three months ended September 30, 2012 with those for the three months ended September 30, 2011. 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,			
	2012	2011	% Change	
Merchandising and fulfillment	\$1,515,300	\$688,400	120	%
Client services	58,900	84,900	(31	)%
Touring revenue	5,519,300	847,100	552	%

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Total revenues	\$7,093,500	\$1,620,400	338	%
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Revenues increased 338% in the third quarter due to a 552% increase in touring revenues, and an 120% increase in merchandising and fulfillment offset by a 31% decrease in client services.

Merchandising and fulfillment revenues increased \$826,900 or 120% to \$1,515,300 compared to \$688,400 in 2011. Revenues from existing clients increased \$644,200 or 103% to \$1,272,400 compared to \$628,200 in 2011, due to a nationally televised bi-annual event from one of our major customers and due to back to school and fall promotions. Revenues from the acquisition

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of new clients in 2012 resulted in \$242,800 in additional revenue for the third quarter, these new revenues were offset by a decrease of \$60,100 which represents revenues earned in the third quarter of 2011 but did not recur in 2012.

Client services revenues decreased \$26,000 or 31% to \$58,900 compared to \$84,900 in 2011. Revenues generated from existing services clients decreased \$24,600 or 33% to 50,300 from \$74,900 in the third quarter of 2012 compared to 2011. The decrease is attributable to a decrease in billable client activities in the third quarter 2012 compared to 2011.

Touring revenues increased \$4,672,200 or 552% to \$5,519,300, compared to \$847,100 in 2011. The Company has generated a consistent touring base and revenues are directly impacted by our clients' touring schedules and frequency. In the third quarter of 2012 the Company had several clients on tour which was the primary reason for the increase in revenues as compared to 2011.

#### Gross Profit

Gross profit increased \$787,400 or 129% to \$1,397,300 compared to \$609,900 in 2011. Gross margin decreased 17.9 percentage points to 19.7% from 37.6% in 2011. The decrease was mainly attributable due to a higher concentration of touring revenues which have much lower margins than merchandising and client services revenues.

#### Operating Expenses

Operating expenses for the third quarter were \$1,662,100 compared to \$1,412,400 in 2011, an increase of \$249,700 or 18%. Operating expenses excluding option compensation and depreciation which are non-cash charges, decreased \$44,500 or 3% to \$1,243,700 from \$1,288,100. The decrease is due to decreases of \$96,900 in payroll and related costs due to reductions in personnel and salary adjustments, \$40,200 in consulting costs, \$99,500 in general and administrative costs, offset by increases of \$70,100 in facility costs due to the consolidation of facilities, \$10,600 in accounting fees, and \$111,500 in client related expenses, which are associated with an increase in touring activities. Non-cash expenses increased \$294,200 due to an option compensation charge of \$239,300 as a result of options issued in the quarter and \$10,900 in additional depreciation expense, and stock price guarantee of \$44,000.

#### Proforma Results:

The following table compares the Company's results of operations excluding option compensation, and stock price guarantees for the three months ended September 30, 2012 with those for the three months ended September 30, 2011.

	Three Months Ended	
	September 30, 2012	September 30, 2011
Revenues	\$ 7,093,500	\$ 1,620,400
Cost of revenues	5,509,100	1,010,500
Gross profit	1,584,400	609,900
Operating expenses	1,265,800	1,299,400
Income (loss) from operations	318,600	(689,500 )
Reconciliation of non cash expenses to reported results		
Option compensation	352,300	113,000
Stock price guarantee	231,100	—

Reported loss from operations                      \$(264,800    ) \$(802,500    )

Net Loss

The Company realized a net loss in the third quarter of 2012 of \$911,300 compared to a net loss of \$803,300 for the same period in 2011. The losses for the third quarter of 2012 and 2011 each represent less than \$0.01 per share.

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Comparison of the nine months ended September 30, 2012 and 2011.

The following discussion compares the Company's results of operations for the nine months ended September 30, 2012 with those for the nine months ended September 30, 2011. 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,			
	2012	2011	% Change	
Merchandising and fulfillment	\$2,840,800	\$1,727,500	64	%
Client services	337,400	266,900	26	%
Touring revenue	7,482,900	2,011,800	272	%
Total revenues	\$10,661,100	\$4,006,200	166	%

Revenues increased 166% in the first three quarters of 2012 due to a 272% increase in touring revenues, a 26% increase in client services, and a 64% increase in merchandising and fulfillment.

Merchandising and fulfillment revenues increased \$1,113,300 or 64% to \$2,840,800 compared to \$1,727,500 in 2011. Revenues from existing clients increased \$1,011,900 or 69% to \$2,471,900 compared to \$1,460,000 in 2011, due to our continued efforts in marketing and social media campaigns, which resulted in reaching new customers, and a nationally televised bi-annual event with one of our major clients. Revenues from the acquisition of new clients in the first three quarters of 2012 resulted in \$368,900 in additional revenue, these new revenues were offset by a decrease of \$267,500, which represent revenues earned in the first three quarters of 2011 but did not recur in 2012.

Client services revenues increased \$70,500 or 26% to \$337,400 compared to \$266,900 in 2011. Revenues generated from existing services clients for the first three quarters decreased \$34,900 or 16% to \$183,000 from \$217,900 in 2011. The decrease is attributable to a decrease in billable client activities in the first three quarters of 2012 compared to 2011.

Touring revenues increased \$5,471,100 or 272% to \$7,482,900 compared to \$2,011,800 in 2011. The Company has generated a consistent touring base and revenues are directly impacted by our clients' touring schedules and frequency. In the first three quarters of 2012 the Company had several clients on tour which was the primary reason for the increase in revenues as compared to 2011.

## Gross Profit

Gross profit increased \$1,123,000 or 80% to \$2,535,600 compared to \$1,412,600 in 2011. Gross margin decreased 11.5 percentage points to 23.8% from 35.3% in 2011. The decrease was mainly attributable due to a higher concentration of touring revenues which have much lower margins than merchandising and client services revenues.

## Operating Expenses

Total operating expenses in 2012 were \$5,183,900 compared to \$4,046,200 in 2011, an increase of \$1,137,700 or 28%. Operating expenses excluding option compensation, stock price guarantee, and depreciation which are non-cash charges, increased \$873,700 or 24% to \$4,551,400 from \$3,677,700. The increase is due to increases of \$275,300 in payroll and related costs due to personnel and salary adjustments, \$67,800 in consulting costs, \$238,400 in facility

costs due to the consolidation of facilities, \$276,600 in accounting fees, due to the resignation of Grant Thornton, and the re-audit of 2009, 2010, and 2011 and \$136,900 in client related expenses, which are associated with an increase in touring activities. The increase was offset by a decrease in general operating expenses of \$121,200. Non-cash expenses increased \$264,000 due to an increase in option compensation of \$193,500 as a result of options issued in the third quarter, \$44,000 in stock price guarantee costs, and \$26,500 in additional depreciation expense.

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## Proforma Results:

The following table compares the Company's results of operations for the nine months ended September 30, 2012 with those for the nine months ended September 30, 2011.

	Nine Months Ended	
	September 30, 2012	September 30, 2011
Revenues	\$ 10,661,100	\$ 4,006,200
Cost of revenues	7,876,000	2,452,500
Gross profit	2,785,100	1,553,700
Operating expenses	4,607,400	3,707,200
Income (loss) from operations	(1,822,300 )	(2,153,500 )
Reconciliation of non cash expenses to reported results		
Option compensation	532,500	339,000
Stock price guarantee	293,500	141,100
Reported loss from operations	\$ (2,648,300 )	\$ (2,633,600 )

## Net Loss

The Company realized a net loss in the first three quarters of 2012 of \$3,586,000 compared to a net loss of \$2,635,600 for the same period in 2011. The losses for the first three quarters of 2012 and 2011 each represent \$0.01 per share.

## Operating Cash Flows

A summarized reconciliation of the Company's net loss to cash used in operating activities for the nine months ended September 30, 2012, and 2011 is as follows:

	2012	2011
Net loss	\$ (3,586,000 )	\$ (2,635,600 )
Depreciation and amortization	56,000	29,500
Unrealized gain on investment	24,400	—
Share based compensation	532,500	339,000
Amortization of prepaid facility costs	227,800	—
Change in fair value of stock price guarantee	919,500	—
Fair value of stock options awarded		
in payment of outside services and compensation	2,166,800	1,549,200
Deferred revenues, net of prepaid royalties	(100,700 )	1,066,000 )
Changes in current assets and liabilities	(523,900 )	(163,500 )
Net cash provided by (used in) operating activities	\$ (283,600 )	\$ 184,600 )

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### Working Capital and Liquidity

The Company had cash and cash equivalents of \$562,400 at September 30, 2012, compared to \$996,000 at December 31, 2011. The Company had approximately \$520,100 of working capital at September 30, 2012, a decrease of \$707,000, compared to \$1,227,100 at December 31, 2011. The decrease in working capital is attributable to the increase in our derivative liability of \$950,200 due to stock price guarantees. Adjusting working capital for the derivative liability, which is a non-cash current liability, working capital on a proforma basis increased in the nine months ending September 30, 2012 by \$243,200 to \$1,470,300.

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 advanced royalties, increasing inventory turns, and through cost cutting. Subject to the discussion below, management believes that the Company has adequate cash resources to fund operations during the next 12 months. In addition, the Company has filed a third patent application with the U.S. Patent and Trademark Office, and management has developed a strategic plan with respect to its Intellectual Property to generate cash flow. However, there can be no assurance that anticipated growth in new business will occur, and that the Company will be successful in utilizing its Intellectual Property to generate cash flow. 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.

As part of the strategic plan, the Company plans on forming two subsidiaries, one for its celebrity services business and the other for managing its patent portfolio. The Company has also developed a strategic plan to better use its Intellectual Property to generate cash flow. In addition, the Company has filed for a third patent application which is currently in progress with the U.S. Patent and Trademark Office (USPTO).

### 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. 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.

#### Derivative Instrument

The Company accounts for derivative instruments on the balance sheet at fair value using the Black-Scholes option pricing model calculation. Changes in fair value of the Company's stock price guaranties are recorded each period in the statement of operations as a component of other income.

#### 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, 2012, 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 as described in the Company's Form 10-K for the year ended December 31, 2011.

##### Changes in Internal Control Over Financial Reporting

There was no change in our internal control over financial reporting during the quarter ended September 30, 2012 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, 2012, 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, 2011.

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

None.

#### ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

#### ITEM 4. MINE SAFETY DISCLOSURES

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
- 32.0 CEO and CFO Certification required under Section 906 of Sarbanes-Oxley Act of 2002
- 101.INS XBRL Instance Document (furnished herewith)
- 101.SCH XBRL Taxonomy Extension Schema (furnished herewith)
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase (furnished herewith)
- 101.DEF XBRL Taxonomy Extension Definition Linkbase (furnished herewith)
- 101.LAB XBRL Taxonomy Extension Label Linkbase (furnished herewith)
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase (furnished herewith)

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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: 11/20/2012

By: /s/ W. Austin Lewis IV  
W. Austin Lewis IV, Chief Executive Officer

Date: 11/20/2012

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
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101.PRE	XBRL Taxonomy Extension Presentation Linkbase (furnished herewith)