

PAID INC  
Form 10-Q  
May 15, 2013

**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 March 31, 2013**

**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

As of May 15, 2013, the issuer had outstanding 328,874,050 shares of its Common Stock, par value \$.001 per share.

**PAID, INC.**

**FORM 10-Q**

**FOR THE THREE MONTHS ENDED MARCH 31, 2013**

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**PART I - FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****PAID, INC.****CONDENSED BALANCE SHEETS**

|   | March 31,<br>2013<br>(Unaudited) | December 31,<br>2012<br>(Audited) |
|---|----------------------------------|-----------------------------------|
| <b>ASSETS</b>                               |                                  |                                   |
| Current assets:                             |                                  |                                   |
| Cash  | \$ 1,158,200                     | \$ 1,433,000                      |
| Investments                                 | 251,500                          | 142,800                           |
| Accounts receivable, net                    | 256,900                          | 348,800                           |
| Inventories, net                            | 315,100                          | 420,700                           |
| Prepaid expenses and other current assets   | 422,400                          | 310,200                           |
| Advanced royalties                          | 336,100                          | 329,800                           |
| Total current assets                        | 2,740,200                        | 2,985,300                         |
| Property and equipment, net                 | 189,000                          | 212,900                           |
| Intangible asset, net                       | 5,900                            | 6,100                             |
| Prepaid facility costs                      | 1,022,500                        | 1,027,200                         |
| Total assets                                | \$ 3,957,600                     | \$ 4,231,500                      |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b> |                                  |                                   |
| Current liabilities:                        |                                  |                                   |
| Accounts payable                            | \$ 609,600                       | \$ 728,000                        |
| Capital leases - current portion            | 25,200                           | 26,300                            |
| Accrued expenses                            | 1,527,700                        | 1,512,800                         |
| Deferred revenues                           | 189,200                          | 230,500                           |
| Total current liabilities                   | 2,351,700                        | 2,497,600                         |
| Long-term liabilities:                      |                                  |                                   |
| Capital leases - net of current             | 42,700                           | 48,600                            |
| Commitments and contingencies (note 5)      |                                  |                                   |

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Shareholders' equity:

|  |              |              |
|--|--------------|--------------|
| Common stock, \$.001 par value, 350,000,000 shares authorized; 328,874,050 and 328,874,050 shares issued and outstanding at March 31, 2013 and December 31, 2012, respectively | 328,900      | 328,900      |
| Additional paid-in capital   | 52,456,000   | 52,376,500   |
| Accumulated deficit  | (51,157,700) | (50,956,100) |
| Stock subscription receivable  | (64,000 )    | (64,000 )    |
| Total shareholders' equity   | 1,563,200    | 1,685,300    |
| <br>   |              |              |
| Total liabilities and shareholders' equity   | \$3,957,600  | \$4,231,500  |

See accompanying notes to condensed financial statements

**PAID, INC.****CONDENSED STATEMENTS OF OPERATIONS****(Unaudited)**

|   | Three Months Ended |                |
|---|--------------------|----------------|
|   | March 31,<br>2013  | March 31, 2012 |
| Revenues                                    | \$932,300          | \$ 1,280,900   |
| Cost of revenues                            | 573,900            | 775,400        |
| Gross profit                                | 358,400            | 505,500        |
| Operating expenses                          | 665,000            | 1,605,900      |
| Loss from operations                        | (306,600 )         | (1,100,400 )   |
| Other income (expense):                     |                    |                |
| Interest expense                            | (900 )             | (1,700 )       |
| Other income                                | -                  | 70,000         |
| Unrealized gain on investment               | 108,700            | -              |
| Unrealized loss on stock price guarantee    | (2,800 )           | -              |
| Total other income, net                     | 105,000            | 68,300         |
| Loss before income taxes                    | (201,600 )         | (1,032,100 )   |
| Provision for income taxes                  | —                  | —              |
| Net loss                                    | \$(201,600 )       | \$(1,032,100 ) |
| Loss per share - basic                      | \$—                | \$—            |
| Weighted average shares - basic and diluted | 328,874,050        | 309,669,694    |

See accompanying notes to condensed financial statements

**PAID, INC.****CONDENSED STATEMENTS OF CASH FLOWS****FOR THE THREE MONTHS ENDED MARCH 31,****(Unaudited)**

|   | 2013         | 2012           |
|---|--------------|----------------|
| Operating activities:   |              |                |
| Net loss  | \$(201,600 ) | \$(1,032,100 ) |
| Adjustments to reconcile net loss to net cash used in operating activities:                                   |              |                |
| Depreciation and amortization   | 19,900       | 13,900         |
| Unrealized (gain) on investment   | (108,700 )   | (127,500 )     |
| Share based compensation  | 79,500       | 90,100         |
| Change in fair value of stock price guarantee   | 2,900        | 57,500         |
| Amortization of prepaid facility costs  | 65,200       | 42,500         |
| Fair value of stock options awarded to professionals and consultants in payment of fees for services provided | -            | 475,500        |
| Fair value of stock options awarded to employees in payment of compensation                                   | -            | 30,000         |
| Changes in assets and liabilities:  |              |                |
| Accounts receivable   | 96,200       | (142,300 )     |
| Inventories   | 105,600      | (52,600 )      |
| Prepaid expense and other current assets  | (112,200 )   | 7,400          |
| Advanced royalties  | (6,300 )     | 98,600         |
| Prepaid facility costs  | (60,500 )    | -              |
| Accounts payable  | (118,400 )   | 209,500        |
| Accrued expenses  | 12,000       | (439,800 )     |
| Deferred revenue  | (41,300 )    | 661,500        |
| Net cash used in operating activities   | (267,700 )   | (107,800 )     |
| Investing activities:   |              |                |
| Property and equipment additions  | -            | (114,400 )     |
| Net cash used in investing activities   | -            | (114,400 )     |
| Financing activities:   |              |                |
| Payments on capital leases  | (7,100 )     | (2,200 )       |
| Net cash used in financing activities   | (7,100 )     | (2,200 )       |
| Net decrease in cash  | (274,800 )   | (224,400 )     |
| Cash, beginning   | 1,433,000    | 996,000        |
| Cash, ending  | \$1,158,200  | \$771,600      |

**SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION****Cash paid during the period for:**

|              |       |         |
|--------------|-------|---------|
| Income taxes | \$—   | \$—     |
| Interest     | \$900 | \$1,700 |



See accompanying notes to condensed financial statements

**PAID, INC.****CONDENSED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY****FOR THE THREE MONTHS ENDED MARCH 31, 2013****(Unaudited)**

|   | Common stock |           | Additional<br>Paid-in<br>Capital | Accumulated<br>Deficit | Stock<br>Subscription<br>Receivable | Total       |
|---|--------------|-----------|----------------------------------|------------------------|-------------------------------------|-------------|
|   | Shares       | Amount    |                                  |                        |                                     |             |
| Balance, December 31, 2012  | 328,874,050  | \$328,900 | \$52,376,500                     | \$(50,956,100)         | \$(64,000 )                         | \$1,685,300 |
| Share based compensation<br>related to issuance of incentive<br>stock options | —            | —         | 79,500                           | —                      | —                                   | 79,500      |
| Net loss  | —            | —         | —                                | (201,600 )             | —                                   | (201,600 )  |
| Balance, March 31, 2013   | 328,874,050  | \$328,900 | \$52,456,000                     | \$(51,157,700)         | \$(64,000)                          | \$1,563,200 |

See accompanying notes to condensed financial statements

**PAID, INC.**

**NOTES TO CONDENSED FINANCIAL STATEMENTS**

**March 31, 2013 and 2012**

**Note 1. Organization and Significant Accounting Policies**

The primary focus of PAID, Inc. (the "Company" or "PAID") has been the providing of 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 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, 2012 and 2011 that was filed on April 15, 2013.

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 2013.

*Management's Plan*

The Company has continued to incur losses, although it has taken significant steps to reduce them. For the three months ended March 31, 2013, the Company reported a net loss of \$201,600, and for the year ended December 31, 2012, the Company reported a loss of \$4,146,200. The Company has an accumulated deficit of \$51,157,700 at March 31, 2013.

In January 2013, the Company entered into a partnership agreement with Music City Networks (“MCN”). In accordance with the agreement, as of the effective date, MCN will be providing the above mentioned client based services directly to the Company’s clients in exchange for a profit participation as defined in the agreement. Going forward the primary focus of PAID is to expand upon and monetize its Intellectual Property.

Management has reduced the losses in the music and entertainment area and focused the Company on its growing patent portfolio. The Company has restructured personnel and has partnered with MCN to oversee business functions, such as fulfillment operations, client services, and business development. This changes the business model for engaging in these activities to improve efficiency and reduce costs. The Company will continue to develop key partnerships to aid in the acquisition of new clients and services and thus continue to be involved in this aspect of the business.

Management believes that these changes will reduce revenues and gross profits for 2013, however, the costs of doing business will be significantly reduced in hopes of eliminating the net loss and providing positive cash flow from operations. Although there will be a reduction in revenues and gross profits, the reduction should be offset by the profit participation in MCN's activities. In addition, the Company continues to increase its efforts to generate income from 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 2013.

#### *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.

#### *Investments*

As of March 31, 2013, 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 \$53,300, at March 31, 2013, and December 31, 2012. 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. When a purchase contains multiple copies of the same item, they are stated at average cost.

Management periodically reviews inventories on hand to ascertain if any are slow moving or obsolete. In connection with this review, at March 31, 2013 and December 31, 2012 the Company provided for reserves totaling \$1,053,200.

*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 activities. Certain stock advances contain guarantees related to the proceeds from the sale of the stock, and the liability is 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, 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 based on quoted market prices.

#### *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, 2012.

#### *Revenue recognition*

The Company currently generates revenue principally from sales of fan experiences, fan club membership fees, sales of its purchased inventories, and from consulting 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, 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 performed 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 Administration 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.

*Advertising costs*

Advertising costs, totaling \$1,700 and \$1,000 for the three months ended March 31, 2013 and 2012, 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. The Company places its cash with stable high credit quality institutions, and management believes that the risk of loss is negligible.

For the three months ended March 31, 2013 and 2012, revenues from a limited number of clients accounted for approximately 58% and 78%, respectively, of total revenues.

*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 2012 financial statements have been reclassified to conform to the 2013 presentation with no effect on previously reported net loss or accumulated deficit.

**Note 2. Accrued Expenses**

Accrued expenses are comprised of the following:

|                                     | March 31,<br>2013 | December 31,<br>2012 |
|-------------------------------------|-------------------|----------------------|
| Payroll and related costs           | \$5,200           | \$ 18,100            |
| Professional and consulting fees    | 42,700            | 77,400               |
| Royalties                           | 932,600           | 858,300              |
| Stock payment guarantee liabilities | 446,100           | 443,200              |
| Other                               | 101,100           | 115,800              |
| Total                               | \$1,527,700       | \$ 1,512,800         |

**Note 3. Common Stock****Share-based Incentive Plans**

During the period ended March 31, 2013, the Company had four 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.

**Share-based Incentive Plans****Active Plans:*****2012 Plan***

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. The options granted have a 10 year contractual term and vest one hundred percent on the date of grant. There are 3,000,000 shares reserved for future issuance under this plan. Information with respect to stock options granted under this plan during the period ended March 31, 2013 is as follows:

|  | Number of shares | Weighted average<br>exercise price per<br>share |
|--|------------------|---|
| Options outstanding at December 31, 2012 | 7,000,000        | \$ 0.043  |
| Granted                                  | —                | —   |
| Exercised                                | —                | —   |
| Options outstanding at March 31, 2013    | 7,000,000        | \$ 0.043  |

***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. The options granted have a 10 year contractual term and vest one hundred percent on the date of grant. Information with respect to stock options granted under this plan during the period ended March 31, 2013 is as follows:

|   | Number of<br>shares | Weighted<br>average exercise<br>price per share |
|---|---------------------|---|
| Options outstanding at December 31 2012 | 3,000,000           | 0.015   |
| Granted                                 | -                   | -   |
| Exercised                               | -                   | -   |
| Options outstanding at March 31, 2013   | 3,000,000           | 0.145   |

There were no awards under this plan during the period ended March 31, 2013.

### ***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. The options granted have a ten-year contractual term and have a vesting schedule of either immediately, two years, or four years from the date of grant. Information with respect to stock options granted under this plan during the period ended March 31, 2013 is as follows:

|  | Number of<br>shares | Weighted<br>average exercise<br>price per share |
|--|---------------------|---|
| Options outstanding at December 31, 2012 | 8,000,000           | \$ 0.095  |
| Granted                                  | -                   | -   |
| Cancelled or Expired                     | -                   | -   |
| Exercised                                | -                   | -   |
| Options outstanding at March 31, 2013    | 8,000,000           | \$ 0.095  |

There are currently no 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 period ended March 31, 2013 is as

follows:

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|  | Number of<br>shares | Weighted<br>average exercise<br>price per share |
|--|---------------------|---|
| Options outstanding at December 31, 2012 | 30,582              | \$ 0.001  |
| Granted                                  | -                   | -   |
| Cancelled or Expired                     | -                   | -   |
| Exercised                                | -                   | -   |
| Options outstanding at March 31, 2013    | 30,582              | \$ 0.001  |

### *Fair value of issuances*

The fair value of the Company's option grants under the 2012, 2011, and 2002 Plans were estimated at the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

|  | March 31, 2012 | March 31, 2011 |
|--|----------------|----------------|
| Expected term (based upon historical experience) | <1 week        | <1 week        |
| Expected volatility                              | 118.35 %       | 103.26 %       |
| Expected dividends                               | None           | None           |
| Risk free interest rate                          | 0.10 %         | 0.02 %         |

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.

| Exercise Prices | Number of<br>Shares | Weighted<br>Average<br>Remaining<br>Contractual Life | Aggregate<br>Intrinsic Value* |
|-----------------|---------------------|--|-------------------------------|
| 0.001           | 30,582              | 1.58   | \$ 2,110.00                   |
| 0.041           | 5,000,000           | 9.36   | 145,000.00                    |
| 0.048           | 2,000,000           | 9.69   | 44,000.00                     |
| 0.065           | 5,000,000           | 9.36   | 25,000.00                     |
| 0.145           | 6,000,000           | 8.62   | -                             |
| weighted        | 18,000,000          | 9.14   | \$ 216,110.00                 |

\*The intrinsic value of a stock option is the amount by which the market value of the underlying stock exceeds the exercise price of the option



Summary of all stock option plans during the period ended March 31, 2013 is as follows:

|  | Number of<br>Shares | Weighted<br>Average Price |
|--|---------------------|---------------------------|
| Options outstanding at December 31, 2012 | 18,030,582          | \$ 0.083                  |
| Granted                                  | -                   | \$ -                      |
| Cancelled                                | -                   | \$ -                      |
| Exercised                                | -                   | \$ -                      |
| Options outstanding at March 31, 2013    | 18,030,582          | \$ 0.083                  |

#### **Note 4. Income Taxes**

There was no provision for income taxes for the three months ended March 31, 2013 and 2012 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 March 31, 2013 and December 31, 2012 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 2009-2011 remain open to examination by the IRS and state jurisdictions.

At March 31, 2013, the Company has federal and state net operating loss carry forwards of approximately \$41,000,000 and \$19,900,000, 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 2032.

#### **Note 5. Commitments and contingencies**

*Lease commitment*

During 2011, the Company entered into a lease agreement for its Westborough, Massachusetts location. The lease is for an initial five year term, with an option to renew for an 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 prepaid with 6,082,985 shares of restricted stock of the Company at a closing market price of \$.21 per share. However, due to declining stock prices, the Company may need to supplement the prepayments with additional future stock issuances or cash.

*Legal matters*

In the normal course of business, the Company periodically becomes involved in litigation. As of March 31, 2013, 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 6. Advanced Royalties**

Advanced 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 advanced 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 \$1,246,188 within 6 months. If the shares do not reach the required \$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 of the difference between the guaranteed sales price and the fair value of the stock at the end of the 6 month period. The Company extended the guarantee through 2013.

**Note 7. Fair Value Disclosures**

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 three months ended March 31, 2013.

|                   | Fair Value |                |                   |
|-------------------|------------|----------------|-------------------|
|                   | Level      | March 31, 2013 | December 31, 2012 |
| Investments       | 1          | \$ 251,500     | \$ 142,800        |
| Royalty Guarantee | 2          | (79,200 )      | (79,000 )         |
| Advance Guarantee | 2          | (366,900 )     | (364,200 )        |

The fair value of the Company's investments classified as trading securities is determined based on the closing market prices of the respective common stock as of March 31, 2013.

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

|                       |          |
|-----------------------|----------|
| Term of guarantee     | 9 months |
| Historical volatility | 217.84 % |
| Expected dividend     | None     |

Risk free interest rate 0.04 %

**Note 8. Subsequent Events**

During April 2013, in connection with the agreement the Company entered into with MCN (see Note 1), a large portion of the Company's inventory was transferred to MCN. The value of the inventory transferred was deemed an advance to MCN by the Company to be offset against any future expenses incurred, as defined under the agreement. MCN will now be providing the fulfillment and VIP services and the Company will receive a portion of the profit from the services.

**ITEM MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS**  
**2. 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 year ended December 31, 2012 that was filed on April 15, 2013.

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") has been the providing of 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 distribution.

In January 2013, the Company entered into a partnership agreement with Music City Networks ("MCN"). In accordance with the agreement, as of the effective date, MCN will be providing the above mentioned client based services directly to the Company's clients in exchange for a profit participation as defined in the agreement. Going forward the primary focus of PAID is to expand upon and monetize its Intellectual Property.



## **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 April 15, 2013. However, certain of our accounting policies most notably with respect to revenue recognition, 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:

### *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.

### *Advanced royalties*

The Company accounts for advanced 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**

*Comparison of the three months ended March 31, 2013 and 2012.*

The following discussion compares the Company's results of operations for the three months ended March 31, 2013 with those for the three months ended March 31, 2012. 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 March 31, |             |             |
|-------------------------------|------------------------------|-------------|-------------|
|                               | 2013                         | 2012        | %<br>Change |
| Merchandising and fulfillment | \$627,100                    | \$680,500   | (8)%        |
| Client services               | 17,700                       | 67,400      | (74)%       |
| Touring revenue               | 287,500                      | 533,000     | (46)%       |
| Total revenues                | \$932,300                    | \$1,280,900 | (27)%       |

Revenues decreased 27% in the first quarter primarily from a 46% decrease in touring revenues, an 8% decrease in merchandising and fulfillment, and a 74% decrease in client services.

Merchandising and fulfillment revenues decreased \$53,400 or 8% to \$627,100 compared to \$680,500 in 2012.

Client services revenues decreased \$49,700 or 74% to \$17,700 compared to \$67,400 in 2012. The decrease was attributable to the completion of a large consulting project where the Company provided music industry consulting services.

Touring revenues decreased \$245,500 or 46% to \$287,500, compared to \$533,000 in 2012. The Company has generated a consistent touring base and revenues are directly impacted by our client's touring schedules and frequency. During the first quarter of 2013 there was a limited amount of touring.

### *Gross Profit*

Gross profit decreased \$147,100 or 29% to \$358,400 compared to \$505,500 in 2012. Gross margin decreased 1.1 percentage points to 38.4% from 39.5% in 2012.

### *Operating Expenses*

Total operating expenses in 2013 were \$665,000 compared to \$1,605,900 in 2012, a decrease of \$940,900 or 59%. The decrease is largely due to decreases of \$800,000 in payroll, including consulting and related costs.

*Net Loss*

The Company realized a net loss in the first quarter of 2013 of \$201,600 compared to a net loss of \$1,032,100 for the same period in 2012. The losses for the first quarter of 2013 and 2012 each represent less than \$0.01 per share.

**Operating Cash Flows**

A summarized reconciliation of the Company's net loss to cash used in operating activities for the three months ended March 31, 2013, and 2012 is as follows:

|   | 2013        | 2012          |
|---|-------------|---------------|
| Net loss  | \$(201,600) | \$(1,032,100) |
| Depreciation and amortization   | 19,900      | 13,900        |
| Unrealized gain on investment   | (108,700)   | (127,500 )    |
| Share based compensation  | 79,500      | 90,100        |
| Change in fair value of stock price guarantee   | 2,900       | 57,500        |
| Amortization of prepaid facility costs  | 65,200      | 42,500        |
| Fair value of stock options awarded to professionals and consultants in payment of fees for services provided | -           | 475,500       |
| Fair value of stock options awarded to employees in payment of compensation                                   | -           | 30,000        |
| Changes in current assets and liabilities   | (124,900)   | (342,300 )    |
| Net cash used in operating activities   | \$(267,700) | \$(107,800 )  |

**Working Capital and Liquidity**

The Company had cash of \$1,158,200 at March 31, 2013, compared to \$1,433,000 at December 31, 2012. The Company had \$388,500 of working capital at March 31, 2013, a decrease of \$99,200, compared to \$487,700 at December 31, 2012. The decrease in working capital is attributable to the use of cash to fund operating activities for the first quarter of 2013.

The Company may need an infusion of additional capital to fund anticipated operating costs over the next 12 months. 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 growth in new business will occur, and that the Company will be successful in monetizing its patents.

**ITEM 3. Quantitative and Qualitative Disclosures about Market Risk**

Not applicable for smaller reporting companies.

**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 March 31, 2013, 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, 2012.

**Changes in Internal Control Over Financial Reporting**

There was no change in our internal control over financial reporting during the quarter ended March 31, 2013 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 March 31, 2013, 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, 2012.

**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
- 32.1 and 32.2 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)



**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: May 15, 2013 By: /s/ W. Austin Lewis, IV  
W. Austin Lewis, President and CFO

LIST OF EXHIBITS

| <u>Exhibit No.</u> | <u>Description</u>   |
|--------------------|--|
| 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         |
| 32.1 and 32.2      | 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)                 |