PAID INC
Form 10-Q
November 14, 2014

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, 2014

COMMISSION FILE NUMBER 0-28720

(Exact Name of Registrant as Specified in its Charter)

DELAWARE	**73-1479833**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

200 Friberg Parkway, 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 x 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 x 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 x
(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 x

As of November 14, 2014, the issuer had outstanding 328,874,050 shares of its Common Stock, par value $0.001 per share.

PAID, INC.

FORM 10-Q

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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

PAID, INC.

CONDENSED BALANCE SHEETS

	September 30, 2014 (Unaudited)	December 31, 2013 (Audited)
ASSETS		
Current assets:		
Cash and cash equivalents	$287,625	$463,285
Investments in marketable securities	-	106,097
Accounts receivable, net	114,864	340,663
Other receivables, net	176,967	635,056
Inventories	1,305	1,305
Prepaid expenses and other current assets	32,244	41,180
Advanced royalties	216,569	214,527
Total current assets	829,574	1,802,113
Deposits and other assets	17,072	-
Property and equipment, net	23,700	43,614
Intangible asset, net	4,478	5,184
Total assets	$874,824	$1,850,911
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)		
Current liabilities:		
Accounts payable	$152,765	$500,320
Capital leases – current portion	15,802	20,775
Accrued expenses	802,902	438,948
Deferred revenues	-	13,614
Total current liabilities	971,469	973,657
Long-term liabilities:		
Capital leases – net of current portion	6,717	19,848
Total liabilities	978,186	993,505

Commitments and contingencies		
Shareholders' equity (deficit):		
Common stock, $0.001 par value, 350,000,000 shares authorized; 328,874,050 shares issued and outstanding at September 30, 2014 and December 31, 2013	328,874	328,874
Additional paid-in capital	52,782,050	52,744,046
Accumulated other comprehensive loss	-	(131,536)
Accumulated deficit	(53,214,286)	(52,083,978)
Total shareholders' equity (deficit)	(103,362)	857,406
Total liabilities and shareholders' equity (deficit)	$874,824	$1,850,911

See accompanying notes to condensed financial statements

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PAID, INC.

CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
Revenues	$48,340	$1,110,784	$749,916	$3,111,755
Cost of revenues	2,371	686,142	460,624	2,029,322
Gross profit	45,969	424,642	289,292	1,082,433
Operating expenses	221,776	457,718	805,554	1,639,552
Loss from operations	(175,807)	(33,076)	(516,262)	(557,119)
Other income (expense):				
Interest income (expense), net	(425)	(740)	1,418	(2,461)
Other income	350	-	86,967	-
Unrealized gain on investments in trading securities	-	-	-	94,856
Realized loss on investments in available-for-sale securities	-	-	(79,983)	-
Write down of other receivables	(50,561)	-	(278,089)	-
Gain on settlement of liabilities	-		34,759	
Unrealized gain (loss) on stock price guarantee	(157,939)	160,331	(375,147)	308,611
Total other income (expense), net	(208,575)	159,591	(610,075)	401,006
Income (loss) before provision for income taxes	(384,382)	126,515	(1,126,337)	(156,113)
Provision for income taxes	2,765	—	3,971	—
Net income (loss)	$(387,147)	$126,515	$(1,130,308)	$(156,113)
Income (loss) per share – basic	$(0.00)	$0.00	$(0.00)	$(0.00)
Weighted average number of common shares outstanding - basic	328,874,050	328,874,050	328,874,050	328,874,050
Income (loss) per share – diluted	$(0.00)	$0.00	$(0.00)	$(0.00)
Weighted average number of common shares outstanding - diluted	328,874,050	336,848,737	328,874,050	328,874,050
Net income (loss)	$ (387,147)	$ 126,515	$ (1,130,308)	$ (156,113)
Unrealized loss on investments in available-for-sale securities	-	(86,500)	-	(86,500)
Total comprehensive income (loss)	$ (387,147)	$40,015	$(1,130,308)	$(242,613)

See accompanying notes to condensed financial statements

PAID, INC.

CONDENSED STATEMENTS OF CASH FLOWS

FOR THE NINE MONTHS ENDED SEPTEMBER 30,

(Unaudited)

	2014	2013
Cash flows from operating activities:		
Net loss	$(1,130,308)	$(156,113)
Adjustments to reconcile net loss to cash and cash equivalents used in operating activities:		
Depreciation and amortization	20,620	57,874
Loss on disposal of assets	-	4,282
Realized loss on investments in available-for-sale securities	79,983	-
Unrealized gain on investments in trading securities	-	(94,856)
Write down of other receivables	278,089	-
Gain on settlement of liabilities	(34,759)	-
Share-based compensation	38,004	242,205
Change in fair value of stock price guarantee	375,147	(308,569)
Amortization of prepaid facility costs	-	176,686
Changes in assets and liabilities:		
Accounts receivable	225,799	(78,960)
Other receivables	214,759	-
Inventories	-	396,986
Prepaid expenses and other current assets	8,936	(201,417)
Advanced royalties	(2,042)	13,699
Deposits and other assets	(17,072)	-
Accounts payable	(347,555)	(372,789)
Accrued expenses	(11,193)	(283,797)
Deferred revenues	(13,614)	(139,242)
Net cash used in operating activities	(315,206)	(744,011)
Cash flows from investing activities:		
Proceeds from sale of investments in available-for-sale securities	157,650	-
Net cash provided by investing activities	157,650	-
Cash flows from financing activities:		
Payments on capital leases	(18,104)	(20,516)
Net cash used in financing activities	(18,104)	(20,516)
Net change in cash and cash equivalents	(175,660)	(764,527)
Cash and cash equivalents, beginning of period	463,285	1,433,034
Cash and cash equivalents, end of period	$287,625	$668,507
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Income taxes paid	$3,971	$—
Interest paid	$920	$2,461

See accompanying notes to condensed financial statements

PAID, INC.

NOTES TO CONDENSED FINANCIAL STATEMENTS (Unaudited)

September 30, 2014 and 2013

Note 1. Organization and Significant Accounting Policies

PAID, Inc. (“PAID” the “Company”, “we”, “us”, “our”) has developed AuctionInc, which is a software suite of online shipping and sales tax management tools assisting e-commerce businesses with shipping solutions, sales tax calculation, inventory management, and auction processing. In addition, this software suite also has additional functionality to assist e-commerce businesses with other aspects of the fulfillment process, but the main purpose of this product is to provide accurate shipping and sales tax calculations and packaging algorithms that provide customers with the best possible shipping and tax solutions.

The Company has five United States patents issued by the United States Patent and Trademark Office (USPTO) and one pending patent application. The Company intends to license its intellectual property on commercially reasonable terms to licensees in order to generate revenue for the Company. As part of this revenue generation effort, the Company commenced on December 20, 2013 patent infringement litigation against eBay, Inc. (Paid, Inc. v. eBay, Inc.; CV No. 4:13-cv-40151-TSH) in the United States District Court for the District of Massachusetts Central Division. The Company’s goal is to develop a robust licensing program utilizing its intellectual property assets.

Previously, the Company's primary focus was 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 were designed to grow each client's customer base in size, loyalty and revenue generation. We offered 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.

General Presentation and Basis of Financial Statements

The accompanying unaudited condensed 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 GAAP for complete financial statements and should be read in conjunction with the Company's audited financial statements and notes thereto included in the Annual Report on Form 10-K for the year ended December 31, 2013 that was filed on March 31, 2014.

In the opinion of Management, the Company has prepared the accompanying unaudited condensed financial statements on the same basis as its audited financial statements, and these unaudited condensed financial statements include all adjustments, consisting 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 2014.

Going Concern and Management's Plan

The accompanying unaudited condensed financial statements have been prepared on a going concern basis which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The Company has continued to incur losses, although it has taken significant steps to reduce them. For the nine months ended September 30, 2014, the Company reported a net loss of $1,130,308 and for the year ended December 31, 2013, the Company reported a net loss of $1,127,920. The Company has an accumulated deficit of $53,214,286 at September 30, 2014 and used $315,206 of cash and cash equivalents in operations for the nine months ended September 30, 2014. These factors raise substantial doubt about the Company’s ability to continue as a going concern.

Management has reduced the Company’s losses in the music and entertainment area and focused the Company on its growing patent portfolio and its shipping and tax calculation products. The Company is currently concluding its relationships within the music industry and is focusing all of its attention towards growing the AuctionInc business. We believe these changes to our business model will lead to improved efficiency, increased margins and a reduction of our operating costs. Going forward the primary focus of PAID is to expand upon and license its intellectual property as well as the sale of our AuctionInc line of shipping and tax calculation products. AuctionInc has recently added a new integration with a third party vendor in order to broaden its line of shipping calculator products and increase revenues.

These changes have reduced revenues and gross profits thus far in 2014 and management believes that this trend will continue for the remainder of 2014. However, the costs of doing business have been significantly reduced in hopes of lowering the net loss. 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 2014.

Use of Estimates

The preparation of the condensed financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant estimates made by the Company’s management include, but are not limited to the fair value of investments in marketable securities, the collectability of receivables, the realizability of inventories, the recoverability of long-lived assets, valuation of deferred tax assets and liabilities and the estimated fair value of the royalty and advance guarantees and share-based transactions. Actual results could materially differ from those estimates.

Fair Value Measurements

The Company measures the fair value of certain of its financial assets on a recurring basis. A fair value hierarchy is used to rank the quality and reliability of the information used to determine fair values. Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – Inputs other than Level 1 that are observable, either directly or indirectly, such as unadjusted quoted prices for similar assets and liabilities, unadjusted quoted prices in the markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; and

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

At September 30, 2014 and December 31, 2013, the Company's financial instruments include cash and cash equivalents, investments in marketable securities, accounts receivable, other receivables, accounts payable, capital leases, and accrued expenses. The carrying amount of cash and cash equivalents, accounts receivable, other receivables, accounts payable, capital leases, and accrued expenses approximates fair value due to the short-term maturities of these instruments. The fair value of the investments in marketable securities is determined based on quoted prices in active markets for identical assets or Level 1 inputs.

Cash and Cash Equivalents

The Company considers all highly liquid temporary cash investments with an initial maturity of three months or less to be cash equivalents. Management believes that the carrying amounts of cash equivalents approximate their fair value because of the short maturity period.

Concentration of Credit Risk

The Company maintains cash balances at financial institutions that are insured by the Federal Deposit Insurance Corporation ("FDIC") up to $250,000. At September 30, 2014, the Company had amounts in these accounts in excess of the FDIC limit. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk related to these deposits.

The Company extends credit based on an evaluation of the customer's financial condition, generally without requiring collateral. Exposure to losses on receivables is principally dependent on each customer's financial condition. The Company monitors its exposure for credit losses and maintains allowances for anticipated losses. Although the Company expects to collect amounts due, actual collections may differ from the estimated amounts. At September 30, 2014 and December 31, 2013, the Company has recorded an allowance for doubtful accounts of $53,300.

For the three months ended September 30, 2014 and 2013, revenues from two and three clients accounted for approximately 96% and 81%, respectively, of total revenues. For the nine months ended September 30, 2014 and 2013, revenues from two and three clients accounted for approximately 85% and 63%, respectively, of total revenues. These revenues were generated from the sales of our line of AuctionInc products, tour merchandise, VIP services, and merchandising and fulfillment services. As of September 30, 2014 and December 31, 2013, accounts receivable from one client accounted for 31% and 63%, respectively.

Investments In Marketable Securities

The Company accounts for its investments in marketable securities in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 320. The Company determines the appropriate classification of its investments at the time of purchase and reevaluates such designation at each balance sheet date.

As of July 1, 2013, the Company reclassified its investments from trading securities to available-for-sale securities. 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 in earnings. Available-for-sale securities are stated at fair value, generally based on market quotes, to the extent they are available. Unrealized gains and losses, net of applicable deferred taxes, are recorded as a component of accumulated other comprehensive income (loss) and reported in shareholders' equity (deficit). Realized gains and losses and declines in value judged to be other than temporary are determined based on the specific identification method and are reported in earnings in the statements of comprehensive income (loss). As of June 30, 2014 the Company liquidated its available-for-sale securities (see Note 2).

Other Receivables

Other receivables consist of shares of our common stock held by the Company's landlord, Carruth Capital, that are classified as available-for-sale. As of September 30, 2014 and December 31, 2013, 2,528,091 and 3,528,091 shares were held by Carruth Capital and were valued at $176,967 and $635,056, respectively, based on the market price of our common stock on those respective dates. The Company records an impairment of these shares when the market price decreases in the accompanying condensed consolidated statements of comprehensive income (loss). For three and nine months ended September 30, 2014, the write down of other receivables was $50,561 and $278,089 respectively.

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.

At each balance sheet date, the Company evaluates its ending inventory quantities on hand and on order and records a provision for excess quantities and obsolescence. Among other factors, the Company considers historical demand and forecasted demand in relation to the inventory on hand, competitiveness of product offerings, market conditions and product life cycles when determining obsolescence and net realizable value. In addition, the Company considers changes in the market value of components in determining the net realizable value of its inventory. Provisions are made to reduce excess or obsolete inventories to their estimated net realizable values. Once established, write-downs are considered permanent adjustments to the cost basis of the excess or obsolete inventories.

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 shares of the Company's common stock and advanced amounts are calculated based on the clients' projected earning potential over a fixed period of time. Advances made by issuing shares of common stock or common stock options are recorded at their fair value on the date of issue. If the shares do not reach the required price per share, the Company has the option of issuing additional shares or making cash payment of the difference between the required price per share and the fair value of the stock. The Company records a liability for the difference between the fair value of the stock and the guaranteed per share price amount. The change in fair value of the stock price guarantee is recorded in the accompanying condensed statements of comprehensive income (loss).

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. Any leasehold improvements are depreciated at the lesser of the useful life of the asset or the lease term. Equipment purchased under capital leases is amortized on a straight-line basis over the estimated useful life of the asset or the term of the lease, whichever is shorter.

Intangible Assets

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

Long-Lived Assets

The Company reviews the carrying values of its long-lived assets for possible impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the expected future cash flows from the use of the asset and its eventual disposition is less than the carrying amount of the asset, an impairment loss is recognized and measured using the fair value of the related asset. No impairment charges were incurred during the nine months ended September 30, 2014 and 2013. There can be no assurance, however, that market conditions will not change or demand for the Company’s services will continue, which could result in impairment of long-lived assets in the future.

Revenue Recognition

The Company generates revenue principally from sales of fan experiences, fan club membership fees, shipping calculator subscriptions, and from client services.

The Company recognizes revenues in accordance with the FASB ASC Topic 605. Accordingly, the Company recognizes revenues when there is persuasive evidence that an arrangement exists, product delivery and acceptance have occurred, the sales price is fixed or determinable, and collectability of the resulting receivable is reasonably assured.