

Edgar Filing: PAID INC - Form 10QSB

PAID INC
Form 10QSB
November 14, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-QSB

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

For the quarterly period ended September 30, 2006

COMMISSION FILE NUMBER 0-28720

PAID, INC.
(Exact Name of Small Business Issuer as Specified in its Charter)

DELAWARE
(State or other jurisdiction of
Incorporation or organization)

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

4 Brussels Street, Worcester, Massachusetts 01610
(Address of principal executive offices)

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

Check whether the issuer: (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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 is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of November 7, 2006, the issuer had outstanding 217,233,217 shares of its Common Stock, par value \$.001 per share.

Transitional Small Business Disclosure Format

Yes No

Paid, Inc.
and Subsidiary
Form 10-QSB
For the Nine Months ended September 30, 2006

TABLE OF CONTENTS

Part I - Financial Information

Item 1. Financial Statements

Consolidated Balance Sheets

Edgar Filing: PAID INC - Form 10QSB

September 30, 2006 and December 31, 2005 (unaudited).....	3
Consolidated Statements of Operations	
Three and Nine months ended September 30, 2006 and 2005 (unaudited).....	4
Consolidated Statements of Cash Flows	
Nine months ended September 30, 2006 and 2005 (unaudited).....	5
Consolidated Statements of Changes in Shareholders' Deficit	
Nine months ended September 30, 2006 (unaudited).....	6
Notes to Consolidated Financial Statements	
Nine months ended September 30, 2006 and 2005.....	7-14
Item 2. Management's Discussion and Analysis or Plan of Operation.....	14
Item 3. Controls and Procedures.....	19
Part II - Other Information	
Item 1. Legal Proceedings.....	20
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	20
Item 3. Defaults Upon Senior Securities.....	20
Item 4. Submission of Matters to a Vote of Security Holders.....	20
Item 5. Other Information	20
Item 6. Exhibits	20
Signatures.....	21

-2-

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

PAID, INC. AND SUBSIDIARY CONSOLIDATED BALANCE SHEETS

	September 30, 2006 ---- (Unaudited)	Decem 2 - (Au
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 712,965	\$ 1,
Accounts receivable	32,480	
Inventories, net	1,404,112	1,
Investment in call options	326,625	

Edgar Filing: PAID INC - Form 10QSB

Deferred expenses	480,016	
Prepaid expenses	125,036	
Due from employees	82,808	
Other current assets	9,073	
	-----	-----
Total current assets	3,173,115	3,
Property and equipment, net	222,683	
Other intangible assets, net	12,003	
	-----	-----
Total assets	\$ 3,407,801	\$ 4,
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)		
Current liabilities:		
Notes payable	\$ 80,000	\$
Accounts payable	290,545	
Accrued expenses	911,051	1,
Deferred revenues	1,726,733	2,
	-----	-----
Total current liabilities	3,008,329	3,
	-----	-----
Long term liabilities:		
Convertible debt	--	1,
	-----	-----
Shareholders' equity (deficit):		
Common stock, \$.001 par value, 350,000,000 shares authorized; 216,716,755 and 200,405,555 shares issued and outstanding at September 30, 2006 and December 31, 2005, respectively	216,717	
Additional paid-in capital	27,808,304	25,
Accumulated deficit	(27,625,549)	(26,
	-----	-----
Total shareholders' equity (deficit)	399,472	(
	-----	-----
Total liabilities and shareholders' equity (deficit)	\$ 3,407,801	\$ 4,
	=====	=====

See accompanying notes to consolidated financial statements

-3-

PAID, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

Three months
ended
September

Three months
ended
September

Edgar Filing: PAID INC - Form 10QSB

	30, 2006	30, 2005
	-----	-----
Revenues	\$ 1,499,154	\$ 492,367
Cost of revenues	1,048,913	354,594
	-----	-----
Gross profit	450,241	137,773
	-----	-----
Operating expenses:		
Selling, general, and administrative expenses	942,920	969,282
Web site development costs	153,400	138,774
	-----	-----
Total operating expenses	1,096,320	1,108,056
	-----	-----
Loss from operations	(646,079)	(970,283)
	-----	-----
Other income (expense):		
Interest expense	(6,628)	(80,383)
Gain (loss) on call options	(266,250)	32,385
Other income	5,351	2
	-----	-----
Total other income (expense), net	(267,527)	(47,996)
	-----	-----
Loss before income taxes	(913,606)	(1,018,279)
Provision for income taxes	--	--
	-----	-----
Net loss	\$ (913,606)	\$ (1,018,279)
	=====	=====
Loss per share (basic and diluted)	\$ (0.00)	\$ (0.01)
	=====	=====
Weighted average shares	215,893,397	183,403,606
	=====	=====

See accompanying notes to consolidated financial statements

-4-

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

2006

200

Edgar Filing: PAID INC - Form 10QSB

Operating activities:		
Net loss	\$ (1,141,062)	\$ (2,45
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	115,621	70
Bad debt expense		
Settlement Agreement and Mutual Release - call options	--	(47
Amortization of unearned compensation	--	3
Beneficial conversion feature	--	9
Loss (gain) on call options	(309,000)	11
Common stock issued in payment of professional and consulting fees	748,425	1,04
Issuance of common stock pursuant to exercise of stock options granted to employees for services	212,437	22
Common stock issued in payment of interest	137,794	13
Changes in assets and liabilities:		
Accounts receivable	39,837	(49
Inventories	(39,864)	17
Deferred expenses	76,234	
Prepaid expense and other current assets	(73,305)	5
Accounts payable	15,209	8
Accrued expenses	(166,030)	(13
Deferred revenue	(578,545)	1,15
	-----	-----
Net cash provided by (used in) operating activities	(962,249)	26
	-----	-----
Investing activities:		
Proceeds from assignment of call options	283,000	9
Property and equipment additions	(60,773)	(16
	-----	-----
Net cash provided by (used in) investing activities	222,227	(7
	-----	-----
Financing activities:		
Net proceeds from (payments of) notes payable	(50,000)	25
Proceeds from sale of warrants	--	5
Proceeds from sale of common stock	--	3
Proceeds from assignment of call options	--	9
Proceeds from exercise of stock options	--	
	-----	-----
Net cash provided by (used in) financing activities	(50,000)	42
	-----	-----
Net increase (decrease) in cash and cash equivalents	(790,022)	61
Cash and cash equivalents, beginning	1,502,987	4
	-----	-----
Cash and cash equivalents, ending	\$ 712,965	\$ 66
	=====	=====

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Cash paid during the period for:

Income taxes	\$ --	\$
	=====	=====

Edgar Filing: PAID INC - Form 10QSB

Interest \$ 6,458

=====

See accompanying notes to consolidated financial statements

-5-

PAID, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' DEFICIT
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2006
(Unaudited)

	Common stock		Addition Paid-in Capita
	Shares	Amount	
Balance, December 31, 2005	200,405,555	\$200,406	\$25,575,
Issuance of common stock pursuant to exercise of stock options granted to employees for services	991,607	992	211,
Issuance of common stock pursuant to exercise of stock options granted to professionals and consultants	5,460,913	5,461	742,
Common stock issued in payment of interest on note payable	838,450	838	136,
Common stock issued for payment of convertible debt	9,020,230	9,020	1,140,
Net loss	--	--	
Balance, September 30, 2006	216,716,755	\$216,717	\$27,808,
	=====	=====	=====

See accompanying notes to consolidated financial statements

-6-

PAID, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2006 and 2005

Note 1. Organization

Paid, Inc. and subsidiary (the "Company") provides businesses and clients with marketing, management, merchandising, auction management, website hosting, and authentication and consignment services for the entertainment, sports and collectibles industries. The Company also provides other services for celebrities and sports personalities including autograph signings, appearances, marketing opportunities and event ticketing. The Company continues to sell sports collectibles and merchandise through a variety of outlets, including

Edgar Filing: PAID INC - Form 10QSB

online auctions and wholesale and distribution outlets.

General

The financial statements included in this report have been prepared by the Company pursuant to the rules and regulations of the United States Securities and Exchange Commission for interim financial reporting and include all adjustments (consisting only of normal recurring adjustments which are, in the opinion of management, necessary for a fair presentation). Except for the balance sheet at December 31, 2005, these financial statements have not been audited.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to rules and regulations for interim reporting. The Company believes that the disclosures contained herein are adequate to make the information presented not misleading. However, these financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's annual report for the year ended December 31, 2005, which are included in the Company's Form 10-KSB.

Principles of consolidation

The accompanying consolidated financial statements include the accounts of Paid, Inc. and its wholly-owned subsidiary, Rotman Collectibles, Inc. All inter-company balances and transactions have been eliminated.

Inventories

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

On a periodic basis management reviews inventories on hand to ascertain if any is slow moving or obsolete. In connection with this review, at September 30, 2006 and December 31, 2005 the Company has provided for reserves totaling \$17,000 and \$50,000, respectively.

Investment in call options

The Company accounts for investment in call options in accordance with EITF 96-18, "Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services". Accordingly, call options are recorded at fair value, determined by the

-7-

closing price of the Company's common stock, on the date they are received and adjusted to fair value at the balance sheet date. Any realized or unrealized gains or losses are recorded in other income (expense).

Revenue Recognition

The Company generates revenue from sales of fan experiences, from fan club membership fees, on sales of its purchased inventories, from web hosting services, from appraisal services and from advertising and promotional services.

Fan experiences sales include tickets and related experiences at concerts and

Edgar Filing: PAID INC - Form 10QSB

other events conducted by performing artists. Revenues associated with these fan experiences are generally reported gross, rather than net, following the criteria of EITF 99-19, "Reporting Revenue Gross as a Principal versus Net as an Agent", and are deferred until the related event has been concluded, at which time the revenues and related direct costs are recognized.

Fan club membership fees are recognized when the member joins and all direct costs associated with the membership have been incurred.

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

The Company provides web hosting services under two types of arrangements. Revenue is recognized on a monthly basis as the services are provided for those where payment is to be received in cash. Professional athletes' web sites are hosted under arrangements that are settled by the athlete providing a certain number of autographs on merchandise to be sold by the Company. Revenue related to player websites is recognized upon sale of the autographed merchandise.

Appraisal revenues are recognized when the appraisal is delivered to the customer.

Advertising revenues are recognized at the time the advertisement is initially displayed on the Company's web site. Sponsorship revenues are recognized at the time that the related event is conducted.

Advertising Costs

Advertising costs totaling approximately \$59,000 in 2006 and \$84,000 in 2005, are charged to expense when incurred.

Use of Estimates

In preparing consolidated financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities 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 and deferred tax asset valuation. Although these estimates are based on management's knowledge of current events and actions, they may ultimately differ from actual results.

-8-

Earnings Per Common Share

Basic earnings per share represents income available to common stockholders divided by the weighted-average number of common shares outstanding during the period. Diluted earnings per share reflects additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. Potential common shares that may be issued by the Company relate to convertible debt and outstanding stock options and warrants. The number of common shares that would be issued upon conversion of the convertible debt would have been 6,571,429 as of September 30, 2005. The number of common shares that would be included in the calculation of outstanding options and warrants is determined

Edgar Filing: PAID INC - Form 10QSB

using the treasury stock method. The assumed conversion of outstanding dilutive stock options and warrants would increase the shares outstanding but would not require an adjustment of income as a result of the conversion. Stock options and warrants applicable to 27,165,054 shares and 27,365,054 shares at September 30, 2006 and 2005, respectively, have been excluded from the computation of diluted earnings per share, as have the common shares that would be issued upon conversion of the convertible debt, because they were antidilutive for periods in which a loss is reported.

Website Development Costs

The Company accounts for website development costs in accordance with the provisions of EITF 00-2, "Accounting for Web Site Development Costs", which requires that costs incurred in planning, maintaining, and operating stages that do not add functionality to the site be charged to operations as incurred. External costs incurred in the site application and infrastructure development stage and graphic development are capitalized. Such capitalized costs are included in "Property and equipment." During the nine months ended September 30, 2006 and 2005 the Company capitalized approximately \$50,000 and \$165,000 of website development costs, respectively.

Share based Compensation

Effective January 1, 2006, the Company adopted the provisions of Statement of Financial Accounting Standards (SFAS) 123(R), Share-Based Payment, which establishes accounting for equity instruments exchanged for employee services. Under the provisions of SFAS 123(R), share-based compensation cost is measured at the grant date, based on the fair value of the award, and is recognized as an expense over the employee's requisite service period (generally the vesting period of the equity grant). Prior to January 1, 2006, the Company accounted for share-based compensation to employees in accordance with Accounting Principles Board (APB) Opinion No. 25, Accounting for stock issued to Employees, and related interpretations. The Company also followed the disclosure requirements of SFAS 123, Accounting for Stock-Based Compensation. The Company elected to adopt the modified prospective transition method as provided by SFAS 123(R) and, accordingly, financial statement amounts for the prior periods presented in the Form 10-QSB have not been restated to reflect the fair value method of expensing share-based compensation.

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

-9-

At the date of adoption, there were no unvested options outstanding and no options were granted during the nine months ended September 30, 2006. Consequently, there was no share-based compensation expense recorded during the nine months ended September 30, 2006.

The Company did not recognize compensation expense for employee stock option grants for the nine months ended September 30, 2005, since the Company had previously adopted the provisions of SFAS 123 through disclosure only. The

Edgar Filing: PAID INC - Form 10QSB

following illustrates the effects on net income and earnings per share for the three and nine months ended September 30, 2005 as if the Company had applied the fair value recognition provisions of SFAS 123 to share-based employee awards.

	Three months ended September 30, 2005	Nine months ended September 30, 2005
Net (loss) as reported	\$ (1,018,279)	\$ (2,459,270)
Share based compensation as recorded (net of any related income tax effects)	5,000	35,000
Share based compensation expense determined Under the fair value method (net of any related income tax effects)	(5,000)	(35,000)
	-----	-----
Proforma net (loss)	\$ (1,018,279)	\$ (2,459,270)
	=====	=====

Recent Accounting Pronouncements

In June 2006, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48") which is an interpretation of FASB Statement 109, "Accounting for Income Taxes." FIN 48 requires managements to perform a two-step evaluation of all tax positions, ensuring that these tax return positions meet the "more-likely than not" recognition threshold and can be measured with sufficient precision to determine the benefit recognized in the financial statements. These evaluations provide management with a comprehensive model for how a company should recognize, measure, present, and disclose in its financial statements certain tax positions that the Company has taken or expects to take on income tax returns. The Company does not believe the adoption of FIN 48 will have a material impact on its financial position or results of operations. FIN 48 is effective for the Company's fiscal year ending December 31, 2007.

In September 2006, the SEC issued Staff Accounting Bulletin No. 108 ("SAB 108"). SAB 108 addresses how the effects of prior year uncorrected misstatements should be considered when quantifying misstatements in current year financial statements. SAB 108 requires companies to quantify misstatements using a balance sheet and income statement approach and to evaluate whether either approach results in quantifying an error that is material in light of relevant quantitative and qualitative factors. When the effect of initial adoption is material, companies will record the effect as a cumulative effect adjustment to beginning of year retained earnings. The provisions of SAB 108 are effective for the Company's interim reporting period beginning January 1, 2007. The Company does not believe the adoption of SAB 108 will have a material impact on its financial position or results of operations.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements". SFAS 157 prescribes a single definition of fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Company

does not believe the adoption of SFAS 157 will have a material impact on its financial condition or results of operations. SFAS 157 is effective for the Company's interim reporting period beginning January 1, 2008.

Edgar Filing: PAID INC - Form 10QSB

Note 2. Notes Payable

At September 30, 2006 the Company was obligated on short-term notes payable totaling \$80,000, all of which was to a related party. At December 31, 2005 the Company was obligated on short-term notes payable totaling \$130,000, of which \$80,000 was to a related party. The related party notes bear interest at 8%, while the remainder bear interest at 8% to 10%. All of this short-term debt is due on demand. Interest expense charged to operations during the nine months ended September 30, 2006 and 2005 in connection with the related party notes totaled \$4,850 and \$7,900, respectively.

Note 3. Accrued Expenses

Accrued expenses are comprised of the following:

	September 30, 2006	December 31, 2005
	-----	-----
Interest	\$ 43,298	\$ 172,490
Payroll and related costs	241,479	204,280
Professional and Consulting fees	154,229	134,411
Consignments	172,782	172,782
Due to K Sports	62,500	62,500
Commissions	175,000	300,000
Other	61,763	30,618
	-----	-----
	\$ 911,051	\$ 1,077,081
	=====	=====

Note 4. Common Stock

Call Option Agreements

In connection with a February 1, 2002 settlement agreement with CSEI, the Company was granted call options for 2,283,565 unregistered common shares held by CSEI at an exercise price of \$.001 per share.

During January 2005 the remaining 394,565 options were assigned in exchange for approximately \$100,000. The proceeds from the assignment of these options were added to the paid in capital of the Company.

On May 9, 2005, the Company entered into a Settlement Agreement and Mutual Release with Leslie Rotman ("Seller") to settle all outstanding disputes regarding the value paid and the value received in the 2001 transaction in which Seller, Rotman Collectibles, Inc., and the Company entered into an Agreement and Plan of Merger (the "Merger Agreement"), pursuant to which Rotman Collectibles, Inc., a Massachusetts corporation, was merged into the Company's Delaware subsidiary, now named Rotman Collectibles, Inc. Seller is the mother of Gregory Rotman, President of the Company, and Richard Rotman, CFO/Vice President/Secretary of the Company. To settle any possible differences or disputes between the value paid and the value received, Seller delivered 2,000,000 shares of the Company's common stock into escrow, with a fair market value of \$600,000 based on the closing bid price of \$.30 on May 6, 2005 (as set forth in the Settlement Agreement and Mutual Release) and granted the Company an option to purchase the shares for \$.001 per share. The options are assignable by the Company and

Edgar Filing: PAID INC - Form 10QSB

were modified on March 31, 2006 to expire on March 31, 2007, two years from the date of grant. During the nine months ended September 30, 2006 and 2005 the Company assigned call options for 650,000 and 375,000 shares respectively, for \$283,000 and \$96,885. At September 30, 2006, 975,000 call options remain outstanding.

Stock Options and Warrants

On February 1, 2001 the Company adopted the 2001 Non-Qualified Stock Option Plan (the "2001 Plan") and has filed Registration Statements on Form S-8 to register 80,000,000 shares of its common stock. Under the 2001 Plan, employees and consultants may elect to receive their gross compensation in the form of options, exercisable at \$.001 per share, to acquire the number of shares of the Company's common stock equal to their gross compensation divided by the fair value of the stock on the date of grant.

During the nine months ended September 30, 2006 the Company granted options for 6,452,520 shares at various dates aggregating \$960,862 under this plan. During the nine months ended September 30, 2005 the Company granted options for 5,366,911 shares at various dates aggregating \$1,043,891 under this plan. All options granted during these periods were exercised.

During the nine months ended September 30, 2005 the Company entered into an Agreement and sold a warrant to purchase common stock ("Warrant") to an investor. The investor paid the Company \$50,000 as a deposit ("Deposit") for the right to acquire up to 2,000,000 shares of unregistered common stock at any time within one year of the Agreement at \$.15 per share. During 2006 the initial deposit was forfeited and the expiration date of the Warrant was extended for one year pending receipt of an additional \$50,000 payment. If exercised, \$50,000 will be applied as partial payment of the exercise price. If the Warrants are not exercised within one year of the extension the second deposit will be forfeited. The initial deposit has been recorded as an addition to Paid in Capital.

Share-based Incentive Plan

At September 30, 2006, the Company had stock option plans that include both incentive stock options and non-qualified stock options to be granted to certain eligible employees, non-employee directors, or consultants of the Company. The maximum number of shares currently reserved for issuance is 31,000,000 shares. The options granted have ten-year contractual terms and vest either immediately or annually over a five-year term.

At September 30, 2006, there were 5,463,000 shares available for future grants under the above stock option plans. The weighted average exercise price of options outstanding was \$0.045 at September 30, 2006.

The following table presents the average price and contractual life information about options outstanding and exercisable at September 30, 2006:

Exercise Price	Number of Outstanding Shares	Weighted Average Remaining Contractual Life (years)	Options Currently Exercisable
-----	-----	-----	-----
\$.81	9,000	3.00	9,000
1.62	57,000	2.75	57,000
.001	99,054	8.25	99,054
.041	25,000,000	6.25	25,000,000

Edgar Filing: PAID INC - Form 10QSB

The aggregated intrinsic value of options outstanding and vested at September 30, 2006 was \$7,383,065.

Note 5. Income Taxes

There was no provision for income taxes for the nine months ended September 30, 2006 and 2005 due to the Company's net operating loss 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 loss incurred by the Company and the valuation reserve against the Company's deferred tax asset.

At September 30, 2006, the Company has federal and state net operating loss carry forwards of approximately \$21,000,000 and \$16,800,000, respectively, available to offset future taxable income. The state carry-forwards will expire intermittently through 2011, while the federal carry forwards will expire intermittently through 2026.

Note 6. Convertible Debt Financing

As of September 30, 2006 the Company has no convertible debt outstanding.

On March 23, 2000, the Company entered into a Securities Purchase Agreement (the "Agreement"), whereby the Company sold an 8% convertible note in the amount of \$3,000,000 (the "Series A Note"), due in shares of common stock on March 31, 2002 to Augustine Fund, L.P. ("Buyer"). As of September 30, 2005 this note has been paid in full through a series of conversions to common stock. During the nine months ended September 30, 2005 the Company received conversion requests for the remaining \$251,892 balance into 1,412,942 common shares at prices ranging from \$.149 to \$.213 per share. During prior years \$2,748,108, had been converted into 25,314,096 shares of the Company's common stock at conversion prices ranging from \$.028 to \$.375 per share.

The Company entered into a second Loan Agreement, most recently modified in October 2005, whereby it issued an 8% convertible note in the amount of \$2,250,000, due November 7, 2006 (the "Series B Note") to Buyer. The Series B Note is convertible into common stock at a conversion price equal to the lesser of: (1) \$.25 per share, or (2) seventy-three percent (73%) of the average of the closing bid price for the common stock for the five (5) trading days immediately preceding the conversion date. Based upon advances through March 31, 2005 totaling \$2,250,000, had the Buyer converted the Series B Note at issuance, Buyer would have received \$3,082,193 in aggregate value of the Company's common stock upon conversion of the convertible note. As a result, in accordance with EITF 00-27, the intrinsic value of the beneficial conversion feature of \$832,193 was charged to interest expense over the original two

-13-

year term of the related note. The entire beneficial conversion feature was charged to operations as of December 31, 2005. The beneficial conversion feature that was charged to interest expense during the nine months ended September 30, 2005 totaled \$91,190. The total beneficial conversion discount related to this note was recorded as an increase in additional paid in capital and the unamortized portion as a reduction in the related note. During the nine months ended September 30, 2006 and 2005 the Company received conversion requests for \$1,150,000 and \$50,000 into 9,020,230 and 330,885 shares of the Company's common stock at conversion prices ranging from \$.092 to \$.151 per share. The first

Edgar Filing: PAID INC - Form 10QSB

\$1,050,000 was converted into 7,725,400 common shares at prices ranging from \$.135 to \$.152 per share between July 1, 2005 and December 31, 2005.

Note 7. Concentrations

For the nine months ended September 30, 2006 approximately 87% of the Company's revenue was derived from the sale of fan experiences and merchandise related to a major performing artist that was touring. The first tour ended in late March 2006 and a second tour began during September 2006.

Note 8. Commitments

The Company leases office facilities in Boston Massachusetts under a five year lease beginning May 2006 requiring monthly payments of approximately \$5,800, plus increases in real estate taxes and operating expenses, through April 2011.

In August 2006 the Company began paying rent, as a tenant at will, to a company in which Stephen Rotman, the father of Gregory and Richard Rotman, is a shareholder. Monthly payments under this arrangement of \$2,600 began on August 1, 2006.

During the nine months ended September 30, 2006 rent expense charged to operations under the above leases totaled approximately \$30,800, including \$4,900 to the related party.

Note 9. Related Party Transactions

During the nine months ended September 30, 2006 the Company incurred \$86,000 of consulting fees paid to Stephen Rotman.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION.

Overview

Our innovative products and services are utilized in celebrity services, ticketing, fan experiences, merchandising, online auctions and management, and web site development. Our celebrity services proprietary content management system provides an opportunity for our clients to offer more information, merchandise and experiences to their customers and communities. This proprietary system uses the AuctionInc. shipping calculator tools to provide improved customer service and fulfillment services. The technology is based on our patent-pending process that streamlines back-office and shipping processes for online auctions and e-commerce. Our new celebrity services offer athletes and entertainers official web sites and fan-club services including e-commerce storefronts, articles, polls, message boards, contests, biographies and custom features to attract thousands of visitors daily. Our autograph signing events, working in conjunction with our new sports agent marketing services, have created more services and opportunities for our sports clientele.

-14-

Critical Accounting Policies

Our significant accounting policies are more fully described in Note 1 to our financial statements. 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

Edgar Filing: PAID INC - Form 10QSB

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.

Property and Equipment: Property and equipment are stated at cost. Depreciation and amortization are computed over estimated useful lives that are reviewed periodically. In connection with this review we consider changes in the economic environment, technological advances, and management's assessment of future revenue potential and a review of the estimated useful lives of the various assets.

Results of Operations

Three months ended September 30, 2006 to three months ended September 30, 2005.

The following discussion compares the Company's results of operations for the three months ended September 30, 2006 with those for the three months ended September 30, 2005. 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. For the three months ended September 30, 2006, revenues were \$1,499,200, 89% of which was attributable to sales of fan club memberships, merchandise, and fan experiences related to tours of performing artists. Sales of the Company's own product and fees from buyers and sellers through the Rotman Auction operations represented 8% of revenues, and sports marketing revenues represented 3% of revenues. Gross sales of the Company's own product were \$118,700. Fan experience, Fan club membership and related merchandise sales revenues were \$1,338,300, and sports marketing revenues were \$37,900. Other revenues were \$4,100, less than 1% of gross revenues, during the three months ended September 30, 2006. Management anticipates increases from fan club memberships, merchandise, and fan experiences from tours, products and services related to several performing artists during the fourth quarter of 2006.

The Company's third quarter 2006 revenues represent an increase of \$1,006,800, or 204%, from the third quarter of 2005, in which revenue was \$492,400. For the three months ended September 30, 2005, sales of the Company's product were \$288,200, or 59% of gross sales, fan club membership and related merchandise sales revenues were \$153,200, 31% of gross revenues, sports marketing revenues were \$42,500, or 9% of gross revenues, and other revenues were \$8,400, or 2% of gross revenues.

-15-

The reason for the increase in revenues was greater revenues related to fan club memberships, merchandise, and fan experiences of \$1,185,200, offset by decreases in sports marketing services of \$4,600 and sales of Company owned product of approximately \$169,500 from the same period in 2005. Gross profit from Company

Edgar Filing: PAID INC - Form 10QSB

owned product sales for the three months ended September 30, 2006 was \$71,900, \$61,300 more than in 2005. The increased gross profit margin is a result of a management decision during the third quarter of 2005 to liquidate slower moving inventories while in 2006 goods were being sold at more normal margins.

Operating Expenses. Total operating expenses for the three months ended September 30, 2006 were \$1,096,300 compared to \$1,108,100 for the corresponding period in 2005, a decrease of \$11,800.

Sales, general and administrative ("SG&A") expenses for the three months ended September 30, 2006 were \$942,900, compared to \$969,300 for the three months ended September 30, 2005. The decrease of \$26,400 in SG&A costs includes decreases in depreciation and amortization of \$206,500, as certain assets became fully depreciated during 2006 and 2005 and other costs of \$43,300, offset by increases in payroll and related costs of \$49,800, professional fees \$97,100, rents of \$16,500, travel of \$28,700, postage and shipping of \$16,800, and credit card fees of \$14,500. The travel, credit card commissions and postage and shipping increases are all principally attributable to tours of performing artists.

Costs associated with planning, maintaining and operating our web sites for the three months ended September 30, 2006 increased by \$14,600 from 2005. This increase is due primarily to increases in payroll of \$4,000 and computer expenses of \$21,000 offset by decreases in consulting costs of \$10,000.

Interest Expense. For the three months ended September 30, 2006, the Company incurred \$6,600 of interest charges, compared to interest charges incurred of \$80,400 for the corresponding period in 2005, a decrease of \$73,800. All of this decrease is attributable to settlement of convertible debt during the second quarter of 2006.

Other income (expense). Other expense for the three months ended September 30, 2006 includes \$266,300 of realized and unrealized depreciation in the fair value of call options received in the 2005 settlement with Leslie Rotman. For the three months ended September 30, 2005 other income includes \$32,400 of gain associated with realized and unrealized appreciation in the fair value of the call options.

Net Profit (loss). The Company realized a net loss for the three months ended September 30, 2006 of \$913,600 compared to a net loss of \$1,018,300 for the three months ended September 30, 2005. Net profit for the three months ended September 30, 2006 was less than \$.01 per share while the net loss for the period ended September 30, 2005 was \$.01 per share.

Inflation. The Company believes that inflation has not had a material effect on its results of operations.

Nine months ended September 30, 2006 to nine months ended September 30, 2005.

The following discussion compares the Company's results of operations for the nine months ended September 30, 2006 with those for the nine months ended September 30, 2005. 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. For the nine months ended September 30, 2006, revenues were \$4,910,400, 90% of which was attributable to sales of fan club memberships, merchandise, and fan experiences related to tours of performing artists. Sales of the Company's own product and fees from buyers and sellers through the Rotman Auction operations represented 6% of revenues, and sports marketing revenues represented 3% of revenues. Gross sales of the Company's own product were \$294,100. Fan experience, Fan club

Edgar Filing: PAID INC - Form 10QSB

-16-

membership and related merchandise sales revenues were \$4,419,400, and sports marketing revenues were \$169,800. Other revenues were \$27,100, 1% of gross revenues, during the nine months ended September 30, 2006. Management anticipates increases from fan club memberships, merchandise, and fan experiences from tours, products and services related to several other performing artists during the fourth quarter of 2006.

The Company's 2006 revenues represent an increase of approximately \$2,925,000, or 147%, from the comparable period in 2005, in which revenue was \$1,985,400. For the nine months ended September 30, 2005, sales of the Company's product were \$1,122,600, or 56% of gross sales, fan club membership and related merchandise sales revenues were \$558,900, 28% of gross revenues, sports marketing revenues were \$272,600, or 14% of gross revenues, and other revenues were \$31,400, or 2% of gross revenues.

The reason for the increase in revenues was a \$3,860,500 increase related to the tours of performing artists, offset by lower revenues related to sports marketing services of \$102,800 and lower sales of Company owned product of approximately \$828,500 from the same period in 2005. Gross profit from Company owned product sales for the nine months ended September 30, 2006 was approximately \$111,800, \$214,600 less than in 2005. Since gross margin percentages on Company owned product were slightly higher in 2006 and sales of Company owned product were \$828,500 lower in the nine months ended September 30, 2006, the Company produced \$214,600 fewer gross margin dollars in 2006. The decrease in sales and gross profit margin is attributable to a management decision late in 2005 to streamline sales channels for Company owned product and, in turn, terminating sales on eBAY, in an effort to reduce related overhead.

Operating Expenses. Total operating expenses for the nine months ended September 30, 2006 were \$3,130,000 compared to \$3,408,700 for the corresponding period in 2005, a decrease of \$278,700.

Sales, general and administrative ("SG&A") expenses for the nine months ended September 30, 2006 were \$2,723,400, compared to \$2,982,100 for the nine months ended September 30, 2005. The decrease of \$258,700 in SG&A costs includes decreases in payroll and related costs of \$33,700, depreciation and amortization of \$628,300 as certain assets became fully depreciated during 2006 and 2005, offset by increases in professional fees of \$146,300, travel of \$66,600, credit card commissions of \$61,400, postage and shipping costs of \$63,100, and rents of \$24,500. The travel, credit card commissions and postage and shipping increases are all principally attributable to tours of performing artists.

Costs associated with planning, maintaining and operating our web sites for the nine months ended September 30, 2006 decreased by \$19,900 from 2005. This decrease is due primarily to a decrease in consulting costs of \$97,000, offset by increases in depreciation and amortization of \$38,900, and computer costs of \$37,800.

Interest Expense. For the nine months ended September 30, 2006, the Company incurred approximately \$15,400 of interest charges compared to interest charges of \$252,700 for the corresponding period in 2005, a decrease of \$237,300. \$60,000 of the decrease is attributable to a settlement with Augustine Fund with respect to amounts owed, \$91,200 to lower amortization of beneficial conversion features, and the balance to lower balances of interest-bearing debt in 2006.

Other income. Other income for the nine months ended September 30, 2006 includes

Edgar Filing: PAID INC - Form 10QSB

\$309,000 of realized and unrealized appreciation in the fair value of call options received in the 2005 settlement with Leslie Rotman. For the nine months ended September 30, 2005 other income includes \$470,500 of gain associated with the settlement with Leslie Rotman, offset by \$113,100 of realized and unrealized depreciation in the fair value of the call options.

-17-

Net Loss. The Company realized a net loss for the nine months ended September 30, 2006 of \$1,141,100 compared to a net loss of \$2,459,300 for the nine months ended September 30, 2005. The 2006 loss represented \$.01 per share, while the 2005 loss represented \$.02 per share.

Assets

At September 30, 2006, total assets of the Company were \$3,407,800 compared to \$4,229,600 at December 31, 2005. The decrease was primarily due to lower cash and deferred expenses of \$866,300 associated with entertainment events to be held during the subsequent periods. The Company also reports \$578,500 lower related liabilities, in the form of deferred revenues, at September 30, 2006 than at December 31, 2005.

Operating Cash Flows

A summarized reconciliation of the Company's net losses to cash provided by (used in) operating activities for the nine months ended September 30, 2006 and 2005 is as follows:

	2006 ----	2005 ----
Net loss	\$(1,141,100)	\$(2,459,300)
Depreciation and amortization	115,600	704,900
Amortization of beneficial conversion discount and debt discount	--	91,200
Common stock issued in payment of services	960,900	1,272,000
Common stock issued in payment of interest	137,800	137,200
Receipt of call options, net of related (gains) losses	(309,000)	(357,400)
Net current assets and liabilities associated with advance ticketing	(502,300)	686,700
Changes in current assets and liabilities	(224,100)	185,600
	-----	-----
Net cash used in operating activities	\$ (962,200)	\$ 260,900
	=====	=====

Working Capital and Liquidity

The Company had cash and cash equivalents of \$713,000 at September 30, 2006, compared to \$1,503,000 at December 31, 2005. The Company had \$164,800 of working capital at September 30, 2006 compared to \$152,300 at December 31, 2005. At September 30, 2006 current liabilities were \$3,008,300 compared to \$3,787,700 at December 31, 2005. Current liabilities decreased at September 30, 2006 compared to December 31, 2005 primarily due to decreases in deferred revenues of \$578,500 and accrued expenses of \$166,000.

The Company's independent auditors have issued a going concern opinion on the

Edgar Filing: PAID INC - Form 10QSB

Company's consolidated financial statements for the year ended December 31, 2005. The Company may need an infusion of additional capital to fund anticipated operating costs over the next 12 months. Management anticipates growth in revenues and gross profits later in 2006 from its celebrity services products and websites, and similar services to other entities; including memberships, fan experiences and ticketing, appearances, website development and hosting, and merchandise sales from both existing and new clients. In addition, pending receipt of the formal written notice of allowance of the Company's patent application, the Company will pursue a variety of possible revenue streams from its "AuctionInc" platform and patent which hosts a suite of management tools and enhanced shipping calculator solutions for small ecommerce enterprises. Subject to the discussion below, management believes that the

-18-

Company has sufficient cash commitments to fund operations during the next 12 months. These commitments include call options for approximately 975,000 shares of common stock, which, once assigned by the Company, can generate between \$100,000 and \$625,000 (based solely upon the 52 week high and low closing prices of the Company's common stock) of cash. However, there can be no assurance that assignment of the call options can be concluded on reasonably acceptable terms. If assignments are not made, management may need to seek alternative sources of capital to support operations.

Forward Looking Statements

This Quarterly Report on Form 10-QSB 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" 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 Exhibit 99, "Risk Factors", in the Company's Form 10-KSB for the fiscal year ended December 31, 2005.

For example, the Company's ability to achieve positive cash flow and to become profitable may be adversely affected as a result of a number of factors that could thwart its efforts. These factors include the Company's inability to successfully implement the Company's business and revenue model, tour or event cancellations, higher costs than anticipated, the Company's inability to sell its products and services to a sufficient number of customers, the introduction of competing products by others, the Company's failure to attract sufficient interest in and traffic to its sites, the Company's inability to complete development of its sites, the failure of the Company's operating systems, and the Company's inability to increase its revenues as rapidly as anticipated. If

Edgar Filing: PAID INC - Form 10QSB

the Company is not profitable in the future, it will not be able to continue its business operations.

ITEM 3. CONTROLS AND PROCEDURES

The Company's management, including the President of the Company and the Chief Financial Officer of the Company, has evaluated the effectiveness of the Company's "disclosure controls and procedures," as such term is defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Based upon their evaluation, the principal executive officer and principal financial officer concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures were effective 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.

-19-

There were no changes in the Company's internal control over financial reporting during the last fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

No disclosure.

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

No disclosure.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

No disclosure.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No disclosure

ITEM 5. OTHER INFORMATION

No disclosure

ITEM 6. EXHIBITS

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

Edgar Filing: PAID INC - Form 10QSB

-20-

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: November 14, 2006

PAID, INC.
Registrant

/s/ Gregory Rotman

Gregory Rotman, President

/s/ Richard Rotman

Richard Rotman, Chief Financial Officer,
Vice President and Secretary

-21-

LIST OF EXHIBITS

Exhibit No.	Description

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

-22-