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PAID INC  
Form 10QSB  
November 15, 2004

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, 2004

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

As of November 4, 2004, the issuer had outstanding 167,504,383 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 Three and Nine Months ended September 30, 2004

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### PART I - FINANCIAL INFORMATION

#### ITEM 1. FINANCIAL STATEMENTS

##### PAID INC. AND SUBSIDIARY CONSOLIDATED BALANCE SHEETS

	September 30, 2004 ----- (Unaudited)	December 31, 2003 ----- (Audited)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 66,582	\$ 104,397
Accounts receivable	2,271	3,529
Inventories, net	694,532	702,078
Prepaid expenses	109,713	57,364
Other current assets	19,767	22,331
	-----	-----
Total current assets	892,865	889,699

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Property and equipment, net	162,720	397,950
Other intangible assets, net	829,225	1,414,737
	-----	-----
Total assets	\$ 1,884,810	\$ 2,702,386
	=====	=====

LIABILITIES AND SHAREHOLDERS' DEFICIT

Current liabilities:		
Notes payable	\$ 130,000	\$ 145,000
Accounts payable	133,103	204,698
Accrued expenses	974,775	663,993
	-----	-----
Total current liabilities	1,237,878	1,013,691
	-----	-----
Convertible debt	2,545,091	3,001,573
	-----	-----
Contingencies	--	--
	-----	-----
Shareholders' deficit:		
Common stock, \$.001 par value, 350,000,000 shares authorized; 166,976,946 and 159,100,218 shares issued and outstanding at September 30, 2004 and December 31, 2003, respectively	166,977	159,100
Additional paid-in capital	19,954,239	17,832,123
Accumulated deficit	(22,019,375)	(19,304,101)
	-----	-----
Total shareholders' deficit	(1,898,159)	(1,312,878)
	-----	-----
Total liabilities and shareholders' deficit	\$ 1,884,810	\$ 2,702,386
	=====	=====

See accompanying notes to consolidated financial statements

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

	Three months ended September 30, 2004	Nine months ended September 30, 2004	Three m ende Septe 30, 2
	-----	-----	-----
Revenues	\$ 401,753	\$ 1,151,039	\$ 3
Cost of revenues	257,694	624,407	1
	-----	-----	-----
Gross profit	144,059	526,632	1
	-----	-----	-----
Operating expenses:			
Selling, general, and administrative expenses	787,141	2,253,182	8
Web site development costs	227,401	603,733	1
	-----	-----	-----
Total operating expenses	1,014,542	2,856,915	9

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Loss from operations	(870,483)	(2,330,283)	(7
Other income (expense):			
Interest expense	(129,262)	(385,058)	(1
Other income	--	67	
Total other expense, net	(129,262)	(384,991)	(1
Loss before income taxes	(999,745)	(2,715,274)	(9
Provision for income taxes	--	--	
Net loss	\$ (999,745)	\$ (2,715,274)	\$ (9
Loss per share (basic and diluted)	\$ (0.01)	\$ (0.02)	\$
Weighted average shares	164,952,477	162,424,772	149,6

See accompanying notes to consolidated financial statements

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

	2004	2003
	----	----
Operating activities:		
Net loss	\$ (2,715,274)	\$ (2,701,012)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation and amortization	822,376	1,075,775
Amortization of unearned compensation	--	44,619
Beneficial conversion feature	240,164	170,785
Stock issued in payment of interest	82,614	--
Common stock issued in payment of professional and consulting fees	730,014	835,473
Issuance of common stock pursuant to exercise of stock options granted to employees for services	76,617	58,366
Changes in assets and liabilities:		
Accounts receivable	1,258	(630)
Inventories	7,546	130,720
Accounts payable	(71,595)	(113,879)
Accrued expenses	310,782	148,668
Prepaid expense and other current assets	(49,785)	12,090
Net cash used in operating activities	(565,283)	(339,025)
Investing activities:		
Property and equipment additions	(1,634)	(1,864)

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Financing activities:		
Net proceeds from (repayment of) notes payable	(15,000)	50,000
Proceeds from loan payable	--	48,474
Proceeds from convertible debt	65,926	387,226
Proceeds from assignment of call options	478,000	--
Proceeds from exercise of stock options	176	--
	-----	-----
Net cash provided by financing activities	529,102	485,700
	-----	-----
Net decrease in cash and cash equivalents	(37,815)	144,811
Cash and cash equivalents, beginning	104,397	41,283
	-----	-----
Cash and cash equivalents, ending	\$ 66,582	\$ 186,094
	=====	=====

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Cash paid during the year for:

Income taxes	\$ --	\$ --
	=====	=====
Interest	\$ 1,125	\$ 4,500
	=====	=====

See accompanying notes to consolidated financial statements

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PAID INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' DEFICIT  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2004  
(Unaudited)

	Common stock		Additional
	Shares	Amount	Paid-in
	-----	-----	-----
Balance, December 31, 2003	159,100,218	\$ 159,100	\$ 17,832,123
Common stock issued pursuant to exercise of stock options granted to employees for services	288,379	289	76,328
Common stock issued in payment of professional and consulting fees	2,526,085	2,526	727,488
Common stock issued in payment of interest on convertible debt	1,229,669	1,230	81,384
Stock options exercised	176,250	176	--
Conversions of notes payable	3,656,345	3,656	734,532
Beneficial conversion discount	--	--	24,384

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Proceeds from assignment of call options	--	--	478,000
Net loss	--	--	--
Balance, September 30, 2004	166,976,946	\$ 166,977	\$ 19,954,239
	=====	=====	=====

See accompanying notes to consolidated financial statements

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PAID, INC. AND SUBSIDIARY  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 SEPTEMBER 30, 2004 AND 2003

Note 1. Organization and Summary Of Significant Accounting Policies

Line of business

Paid, Inc. and subsidiary (the "Company") operates and maintains an internet portal dedicated to collectibles in a variety of categories. The Company conducts online auctions of its own merchandise and items posted under consignment arrangements by third party sellers.

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). 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 such 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, 2003, which are included in the Company's Form 10-KSB.

Principles of consolidation

The accompanying financial statements include the accounts of Paid, Inc. and its wholly-owned subsidiary, Rotman Collectibles, Inc.

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.

On a periodic basis management reviews inventories on hand to ascertain if any is slow moving or obsolete. In connection with this review, at both September 30, 2004 and December 31, 2003 the Company has provided for reserves totaling \$270,000.

Revenue Recognition

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The Company generates revenue on sales of its purchased inventories, from fees and commissions on sales of merchandise under consignment type arrangements, from web hosting services, from appraisal services and from advertising and promotional services.

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.

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For sales of merchandise under consignment-type arrangements, the Company takes physical possession of the merchandise, but is not obligated to, and does not take title or ownership of merchandise. When an auction is completed, consigned merchandise that has been sold is shipped upon receipt of payment. The Company recognizes the net commission and service revenues relating to the consigned merchandise upon receipt of the gross sales proceeds and shipment of the merchandise. The Company then releases the net sales proceeds to the Consignor, 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 \$86,300 in 2004 and \$86,600 in 2003 are charged to expense when incurred.

### 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 11,204,532 as of September 30, 2004, and 24,197,698 as of September 30, 2003. The number of common shares that would be included in the calculation of outstanding options and warrants is determined using the treasury stock method. The assumed conversion of outstanding dilutive stock options and warrants would increase the shares outstanding but would not require an adjustment of income as a result of the conversion. Stock options and warrants applicable to 25,466,000 at September 30, 2004 and 25,642,250 at September 30, 2003 have been excluded

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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 are antidilutive. Diluted earnings per share have not been presented as a result of the Company's net loss for each period.

### Web Site and Software Development Costs

The Company accounts for web site development costs in accordance with the provisions of EITF 00-2, "Accounting for Web Site Development Costs" ("EITF 00-2"), 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."

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### Note 2. Notes and Loan Payable

At September 30, 2004 and December 31, 2003, the Company was obligated on short-term notes payable totaling \$130,000 and \$145,000, respectively. At both September 30, 2004 and December 31, 2003 \$130,000 was to a related party. The related party notes bear interest at 8%, while the remainder bear interest at 18%. All of the short-term debt is due in 2004. Interest expense charged to operations in connection with the related party notes totaled \$7,900 and \$7,800 for the nine months ended September 30, 2004 and 2003 respectively.

### Note 3. Common Stock

#### Call Option Agreements

The Company was granted call options for 2,283,565 unregistered common shares held by ChannelSpace Entertainment, Inc. ("CSEI") at an exercise price of \$.001 per share. The call options expire on January 31, 2005.

During 2004 the Company assigned options to purchase 1,475,000 shares of stock from CSEI to certain individuals in exchange for \$478,000, which was added to the paid in capital of the Company.

#### Stock Options

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 60,000,000 shares of its common stock. Under the 2001 Plan employees and consultants may elect to receive their gross compensation in the form of options 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, 2004, the Company granted options for 2,814,464 shares at various dates aggregating \$806,631 under this plan. During the nine months ended September 30, 2003 the Company granted options for 15,347,803 shares at various dates aggregating \$893,839 under this plan. All options granted during each period were exercised.

The Company applies Accounting Principles Board Opinion No. 25 and related interpretations in accounting for its stock option plans. Accordingly, compensation cost has been recognized based on the difference between the fair market value of the common stock at the grant date and the exercise price. The following table reflects proforma net loss and loss per share had the Company elected to adopt the fair value approach for SFAS No. 123, as amended by SFAS No. 148.



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	For the nine months ended September 30,	
	----- 2004	----- 2003
Net loss, as reported	(\$2,715,274)	(\$2,701,012)
Add stock compensation costs on options granted below fair market value	--	44,619
Less stock compensation costs had option expense been measured at fair value	(202,950)	(637,254)
Proforma net loss, as adjusted	----- (\$2,918,224)	----- (\$3,293,647)
Weighted average shares	=====	=====
	162,424,772	139,069,209
	=====	=====
Loss per share (basic and diluted), as reported	----- (\$ .02)	----- (\$ .02)
Proforma loss per share (basic and diluted), as adjusted	=====	=====
	(\$ .02)	(\$ .02)
	=====	=====

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	For the three months ended September 30,	
	----- 2004	----- 2003
Net loss, as reported	(\$999,745)	(\$901,645)
Less stock compensation costs had option expense been measured at fair value	(67,650)	(107,684)
Proforma net loss, as adjusted	----- (\$1,067,395)	----- (\$1,009,329)
Weighted average shares	=====	=====
	164,952,477	149,659,365
	=====	=====
Loss per share (basic and diluted), as reported	----- (\$ .01)	----- (\$ .01)
Proforma loss per share (basic and diluted), as adjusted	=====	=====
	(\$ .01)	(\$ .01)
	=====	=====

These proforma amounts may not be representative of future disclosures since the estimated fair value of stock options is amortized to expense over the vesting period, and additional options may be granted in future years.

#### Note 4. Income Taxes

There was no provision for income taxes for the periods ended September 30, 2004 and 2003 due to the Company's net operating loss and its valuation reserve against deferred income taxes.

The difference between the provision for income taxes from 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.

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At September 30, 2004, the Company has federal and state net operating loss carry forwards of approximately \$17,400,000 available to offset future taxable income. The state carry-forwards will expire intermittently through 2009, while the federal carry forwards will expire intermittently through 2024.

### Note 5. Convertible Debt Financing

As of September 30, 2004 the Company has issued \$2,700,292 of convertible debt, which is presented net of unamortized beneficial conversion discounts of \$155,201.

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. (the "Buyer"). The Series A Note, as most recently modified on May 21, 2002, is convertible into common stock at a conversion price

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equal to the lesser of: (1) \$.375 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. In connection with the agreement, the Company also issued warrants to the Buyer and Delano Group Securities to purchase 300,000 and 100,000 shares of common stock, respectively. The purchase price per share of common stock is equal to \$2.70, one hundred and twenty percent (120%) of the lowest of the closing bid prices for the common stock during the five (5) trading days prior to the closing date. The warrants will expire on March 31, 2005. A May 21, 2002 modification agreement extended the maturity date of the note until September 30, 2002, provided for additional ninety-day extensions, the most recent of which was exercised on September 30, 2004, beyond that date until March 31, 2005, waived interest for periods after March 31, 2002, and released the Company from all requirements to register any common shares issuable under the note or to keep any existing registration statements effective. As of September 30, 2004 the outstanding balance of this note was \$450,292, since \$2,549,708 has been converted into 24,087,658 shares of the Company's common stock at conversion prices ranging from \$.028 to \$.375 per share.

On November 7, 2001, the Company entered into a Loan Agreement, whereby it issued an 8% convertible note in the amount of \$1,000,000, due November 7, 2003 (the "Series B Note") to Buyer. This note was modified most recently on October 31, 2003, to, among other things, allow the Company to borrow up to \$2,250,000. The Series B Note, as modified, 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 September 30, 2004, 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 is being charged to interest expense over the term of the related note. The beneficial conversion feature that was charged to interest expense totaled \$80,605 and \$240,164 during the three and nine months ended September 30, 2004, respectively. The beneficial conversion feature that was charged to interest expense totaled \$64,089 and \$170,785 during the three and nine months ended September 30, 2003, respectively. The total beneficial conversion discount related to this note has been recorded as an increase in additional paid in capital and the unamortized portion as a reduction in the related note. In addition, the Company entered into a Registration Rights

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Agreement whereby the Company agreed to file a Registration Statement with the Securities and Exchange Commission (SEC) within sixty (60) days of a request from the Buyer ("Filing Date"), covering the common stock to be issued upon conversion of the Series B Note. If this Registration Statement is not declared effective by the SEC within sixty (60) days of the filing date the conversion percentage shall decrease by two percent (2%) for each month that the Registration Statement is not declared effective. One of the modification agreements extended the maturity date of the Series B Note to November 7, 2004, provided the opportunity to extend the maturity date to November 7, 2005, required that principal and interest be payable in shares of common stock, or cash, at the discretion of the Company, and provided that any fees or expenses related to any registration of the common stock will be borne equally by the Company and the Buyer.

### Note 6. Issuance of Common Stock

During the nine months ended September 30, 2004 and 2003 the Company issued 2,526,085 and 14,399,868 shares of common stock respectively, in connection with the payment of approximately \$730,000 and \$835,500 of professional and consulting fees, respectively.

In addition, during the nine months ended September 30, 2004 the Company issued 1,229,669 shares of common stock in connection with the payment of approximately \$82,600 of interest due on its convertible debt.

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### Note 7. Subsequent Event

In October 2004 the Company acquired operating assets of K Sports & Entertainment LLC ("K Sports") comprised of accounts receivable, property and equipment, and intangible assets comprised of contract rights. The purchase price, totaling approximately \$175,000, is payable \$50,000 in cash and 390,625 unregistered shares of Company common stock. K Sports operated as a sports agency business. Concurrent with the acquisition, the Company entered into employment contracts with several of K Sports key personnel.

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

### Overview

Our innovative products and services are utilized in online auction management, e-commerce and web site development. AuctionInc. provides auction management tools and services to sellers and buyers. 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 famous people official web sites and fan-club services including e-commerce storefronts, articles, polls, message boards, contests, biographies and custom features to attract tens of thousands of visitors daily. Our primary business, based on our revenues, is the purchase and sale of collectibles and memorabilia through our Rotman Auction brand. Rotman Auction is an eBay Platinum Powerseller that sells thousands of items each week on eBay and provides consignment services, authentication and public and private autograph events. We also build and maintain large database-driven portals across a broad array of industries, including CollectingChannel.com, which is home to our online appraisal service, Ask the Appraiser.

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### 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 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 and Intangible Assets:** Property and equipment and intangible assets 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.

### Results of Operations

Three Months ended September 30, 2004 and 2003

The following discussion compares the Company's results of operations for the three months ended September 30, 2004 with those for the three months ended September 30, 2003. 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.

**Revenue.** For the three months ended September 30, 2004, revenue was \$401,800, 98% of which is attributable to sales of the Company's own product and fees from buyers and sellers through the Rotman Auction operations. Gross sales of the Company's own product were approximately \$392,000.

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Advertising and web hosting fees were approximately \$4,400 or 1% of gross revenues during the quarter ended September 30, 2004.

The Company's 2004 third quarter revenues represent an increase of approximately \$97,000, or 32%, from the three-month period ended September 30, 2003, in which revenue was approximately \$304,700. For the three month period ended September 30, 2003, sales of the Company's product were approximately \$295,800, or 97% of gross sales, and advertising and web hosting fees were \$3,600, or 1% of gross revenues.

The reason for the increase in revenues was higher sales of Company owned

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product of approximately \$96,200 from the same period in 2003. Higher sales of Company owned product are a result of a strategic management decision to list more product during the third quarter of 2004 than during the comparable quarter of 2003. Gross profit from Company owned product sales for the three months ended September 30, 2004 was approximately \$136,000, which represents a decrease of \$47,900 from the comparable quarter in 2003, in which gross profit from Company owned product sales was \$183,900. In an effort to convert inventories to cash, management made a strategic decision to sell product at lower gross margins during the third quarter of 2004. This diminishment in gross margin, coupled with approximately \$96,200 higher sales of Company owned product during those same periods, resulted in approximately \$47,800 less gross margin dollars.

Operating Expenses. Total operating expenses for the three months ended September 30, 2004 were approximately \$1,014,500, compared to \$986,100 for the corresponding period in 2003, an increase of \$28,500. Sales, general and administrative ("SG&A") expenses for the three months ended September 30, 2004 were approximately \$787,100, compared to \$809,500 for the three months ended September 30, 2003. The decrease of \$22,400 in SG&A costs includes decreases in depreciation and amortization of \$76,200 due to certain assets becoming fully depreciated during 2004, and professional fees of \$27,000, offset by increases in payroll and related costs of \$38,600 and other costs of \$42,200. Costs associated with planning, maintaining and operating our web sites for the three months ended September 30, 2004 increased approximately \$50,900 from the corresponding period in 2003. This increase is due primarily to increases in payroll of \$21,700, and consulting of \$37,600, offset by a decrease in depreciation of \$7,300.

Interest Expense. For the quarter ended September 30, 2004, the Company incurred interest charges of approximately \$129,300 principally associated with one convertible note, compared to interest charges of \$107,400 for the corresponding period in 2003. The increase of \$21,800 is attributable to higher balances of interest-bearing debt in 2004 as well as greater amortization of beneficial conversion features.

Net Loss. The Company realized a net loss for the three months ended September 30, 2004 of approximately \$999,700, or \$.01 per share, as compared to a loss of \$901,700, or \$.01 per share for the three months ended September 30, 2003.

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

Nine Months ended September 30, 2004 and 2003

The following discussion compares the Company's results of operations for the nine months ended September 30, 2004 with those for the nine months ended September 30, 2003. 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.

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Revenue. For the nine months ended September 30, 2004, revenue was \$1,151,000, 98% of which is attributable to sales of the Company's own product and fees from buyers and sellers through the Rotman Auction operations. Gross sales of the Company's own product were approximately \$1,122,600. Advertising and web hosting fees were approximately \$13,100 or 1% of gross revenues during the nine months ended September 30, 2004.

The Company's 2004 revenues represent a decrease of approximately \$40,800,

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or 3%, from the nine-month period ended September 30, 2003, in which revenue was approximately \$1,191,800. For the nine month period ended September 30, 2003, sales of the Company's product were approximately \$1,152,000, or 97% of gross sales, and advertising and web hosting fees were \$28,900, or 2% of gross revenues.

The reason for the decrease in revenues was slightly lower sales of Company owned product of approximately \$29,400 from the same period in 2003. Gross profit from Company owned product sales for the nine months ended September 30, 2004 was approximately \$502,400, approximately \$47,900 less than the same quarter in 2003. In an effort to convert inventories to cash, management made a strategic decision to sell product at lower gross margins during the third quarter of 2004. Since gross margin percentages on Company owned product were approximately 3% lower for the first nine months of 2004 than in 2003, and sales of Company owned product were approximately \$29,400 lower in the nine months ended September 30, 2004, the Company produced approximately \$47,900 lower gross margin dollars in 2004.

**Operating Expenses.** Total operating expenses for the nine months ended September 30, 2004 were approximately \$2,856,900, compared to \$3,000,200 for the corresponding period in 2003, a decrease of \$143,300. Sales, general and administrative ("SG&A") expenses for the nine months ended September 30, 2004 were approximately \$2,253,200, compared to \$2,466,700 for the nine months ended September 30, 2003. The decrease of \$213,500 in SG&A costs includes decreases in depreciation and amortization of \$163,800 due to certain assets becoming fully depreciated during 2004, and professional fees of \$118,300, offset by increases in other costs of \$60,100. Costs associated with planning, maintaining and operating our web sites for the nine months ended September 30, 2004 increased approximately \$70,300 from the corresponding period in 2003. This increase is due primarily to an increase in consulting costs of \$109,500 offset by decreases in depreciation and amortization of \$39,600.

**Interest Expense.** For the nine months ended September 30, 2004, the Company incurred interest charges of approximately \$385,100 principally associated with one convertible note, compared to interest charges of \$288,200 for the corresponding period in 2003. The increase of \$96,800 is attributable to higher balances of interest-bearing debt in 2004 as well as greater amortization of beneficial conversion features.

**Net Loss.** The Company realized a net loss for the nine months ended September 30, 2004 of approximately \$2,715,300, or \$.02 per share, as compared to a loss of \$2,701,000, or \$.02 per share for the nine months ended September 30, 2003.

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

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### Assets

At September 30, 2004, total assets of the Company were \$1,884,800, compared to \$2,702,400 at December 31, 2003. The decrease was primarily due to depreciation and amortization totaling \$822,400.

### Operating Cash Flows

A summarized reconciliation of the Company's net losses to cash used in operating activities for the nine months ended September 30, 2004 compared to September 30, 2003, is as follows:

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	2004	2003
	-----	-----
Net loss	\$ (2,715,300)	\$ (2,701,000)
Depreciation and amortization	822,400	1,120,400
Amortization of beneficial conversion discount and debt discount	240,200	170,800
Common stock issued in payment of services	806,600	893,800
Common stock issued in payment of interest	82,600	--
Changes in current assets and liabilities	198,200	177,000
	-----	-----
Net cash used in operating activities	\$ (565,300)	\$ (339,000)
	=====	=====

Working Capital and Liquidity

The Company had cash and cash equivalents of \$66,600 at September 30, 2004, compared to \$104,400 at December 31, 2003. The Company had a \$345,000 deficit in working capital at September 30, 2004, compared to a working capital deficit of \$124,000 at December 31, 2003. At September 30, 2004 current liabilities were \$1,237,900 compared to \$1,013,700 at December 31, 2003. During the nine months ended September 30, 2004 current liabilities increased primarily due to larger interest, consignment and compensation accruals, offset by reductions in accounts payable. As discussed in greater detail in Note 5 of the Financial Statements, included in Part I of the this quarterly report and incorporated by reference herein, the Company has two outstanding convertible notes held by Augustine Fund, L.P. The Series A Note, in the original principal amount of \$3,000,000, has been reduced to \$450,292 as of September 30, 2004 through the conversion of principal into common stock. The Series B Note has a principal amount outstanding as of September 30, 2004 of \$2,250,000.

The Company's independent auditors have issued a going concern opinion on the Company's consolidated financial statements for the year ended December 31, 2003. The Company needs an infusion of \$600,000 to \$800,000 of additional capital to fund anticipated operating costs over the next 12 months. Management anticipates growth in revenues and gross profits from its celebrity services products and websites, including memberships, fan experiences, appearances, and merchandise sales. In addition, "AuctionInc", which hosts a suite of management tools and enhanced shipping calculator solutions for small e-commerce enterprises, sales of movie posters, both from inventory and on consignment, and web hosting are expected to increase revenues and result in higher gross profit. Subject to the discussion

below, management believes that the Company has sufficient cash commitments to fund operations during the next 12 months. These commitments include call options for approximately 810,000 shares of common stock, which, once assigned by the Company, can generate between \$84,000 and \$582,000 (based solely upon the 52 week high and low closing prices of the Company's common stock) of cash.

Management believes that these plans should result in obtaining sufficient operating cash through the next 12 months. However, there can be no assurance 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

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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, 2003.

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, the collectibles community not accepting the services the Company offers, 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 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



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principal executive and financial officers, as appropriate to allow timely decisions regarding required disclosure.

There were no significant changes in the Company's internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

### PART II - OTHER INFORMATION

#### ITEM 1. LEGAL PROCEEDINGS

None.

#### ITEM 2. CHANGES IN SECURITIES AND SMALL BUSINESS ISSUER PURCHASES OF EQUITY SECURITIES

(c) During the third quarter of 2004, Augustine Fund, L.P. converted \$252,580 of the March 23, 2000 convertible note into 1,000,000 shares of common stock of the Company. The features of this convertible note are described in Note 5 of the Notes to Consolidated Financial Statements, which are included in Part I of this quarterly report. Augustine Fund, L.P. is an accredited investor that represented that it acquired the convertible notes and the warrants issued in connection with the note for its own account. The issuance of the securities is exempt from registration under Section 4(2) of the Securities Act of 1933 and Regulation D promulgated thereunder. The Company issued 1,229,669 shares of its common stock, par value \$.001 per share, to Augustine Fund, L.P., for \$82,614 interest due pursuant to the eight percent convertible note issued by the Company to the Augustine Fund, L.P. on November 7, 2001.

#### ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

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

None

#### ITEM 5. OTHER INFORMATION

None.

#### ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) 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 CEO and CFO Certification required under Section 906 of Sarbanes-Oxley Act of 2002

(b) Reports on Form 8-K

None

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## SIGNATURES

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 12, 2004

PAID, INC.  
Registrant

/s/ Gregory Rotman

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Gregory Rotman, President

/s/ Richard Rotman

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Richard Rotman, Chief Financial Officer,  
Vice President and Secretary

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## LIST OF EXHIBITS

### Exhibit No. Description

- |      |  |
|------|--|
| 31.1 | CEO Certification required under Section 302 of Sarbanes-Oxley Act of 2002         |
| 31.2 | CFO Certification required under Section 302 of Sarbanes-Oxley Act of 2002         |
| 32.1 | CEO and CFO Certification required under Section 906 of Sarbanes-Oxley Act of 2002 |

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