

Edgar Filing: PAID INC - Form 10QSB

PAID INC  
Form 10QSB  
November 14, 2005

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, 2005

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)

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, 2005, the issuer had outstanding 199,242,671 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, 2005

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### PART I - FINANCIAL INFORMATION

#### ITEM 1. FINANCIAL STATEMENTS

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

	September 30, 2005 ----- (Unaudited)
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 661,345

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Accounts receivable	541,372
Inventories, net	1,327,661
Investment in call options	390,000
Prepaid expenses	70,183
Due from employees	59,651
Other current assets	9,073
	-----
Total current assets	3,059,285
Property and equipment, net	223,495
Other intangible assets, net	103,111
	-----
Total assets	\$ 3,385,891
	=====
LIABILITIES AND SHAREHOLDERS' DEFICIT	
Current liabilities:	
Notes payable	\$ 180,000
Loan payable	200,000
Accounts payable	252,859
Accrued expenses	855,368
Deferred revenues	1,152,794
	-----
Total current liabilities	2,641,021
	-----
Convertible debt	1,137,319
	-----
Shareholders' deficit:	
Common stock, \$.001 par value, 350,000,000 shares authorized; 198,009,256 and 173,320,731 shares issued and outstanding at September 30, 2005 and December 31, 2004, respectively	198,009
Additional paid-in capital	25,252,647
Accumulated deficit	(25,843,105)
Unearned compensation	--
	-----
Total shareholders' deficit	(392,449)
	-----
Total liabilities and shareholders' deficit	\$ 3,385,891
	=====

See accompanying notes to consolidated financial statements

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

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	Three months ended September 30, 2005	Nine months ended September 30, 2005
	-----	-----
Revenues	\$ 492,367	\$ 1,985,376
Cost of revenues	354,594	1,140,715
	-----	-----
Gross profit	137,773	844,661
	-----	-----
Operating expenses:		
Selling, general, and administrative expenses	969,282	2,982,120
Web site development costs	138,774	426,551
	-----	-----
Total operating expenses	1,108,056	3,408,671
	-----	-----
Loss from operations	(970,283)	(2,564,010)
	-----	-----
Other income (expense):		
Interest expense	(80,383)	(252,695)
Gain (loss) on call options	32,385	(113,115)
Other income	2	470,550
	-----	-----
Total other income (expense), net	(47,996)	104,740
	-----	-----
Loss before income taxes	(1,018,279)	(2,459,270)
Provision for income taxes	--	--
	-----	-----
Net loss	\$ (1,018,279)	\$ (2,459,270)
	=====	=====
Loss per share (basic and diluted)	\$ (0.01)	\$ (0.01)
	=====	=====
Weighted average shares	183,403,606	178,878,154
	=====	=====

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)

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	2005	2004
	----	----
Operating activities:		
Net loss	\$ (2,459,270)	\$ (2,700,000)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation and amortization	704,964	800,000
Bad debt expense	340	-
Settlement Agreement and Mutual Release - call options	(470,500)	-
Amortization of unearned compensation	35,000	-
Beneficial conversion feature	91,190	200,000
Loss on call options	113,115	-
Common stock issued in payment of professional and consulting fees	1,043,891	700,000
Issuance of common stock pursuant to exercise of stock options granted to employees for services	228,110	-
Common stock issued in payment of interest	137,161	-
Changes in assets and liabilities:		
Accounts receivable	(495,973)	-
Inventories	176,922	-
Prepaid expense and other current assets	51,002	-
Accounts payable	88,030	-
Accrued expenses	(135,828)	300,000
Deferred revenue	1,152,794	-
	-----	-----
Net cash provided by (used in) operating activities	260,948	(500,000)
	-----	-----
Investing activities:		
Proceeds from assignment of call options	96,885	-
Property and equipment additions	(169,993)	-
	-----	-----
Net cash used in investing activities	(73,108)	-
	-----	-----
Financing activities:		
Net proceeds (repayment) of notes payable	50,000	-
Proceeds from loan payable	200,000	-
Proceeds from sale of warrants	50,000	-
Proceeds from sale of common stock	30,000	-
Proceeds from convertible debt	--	-
Proceeds from assignment of call options	99,611	400,000
Proceeds from exercise of stock options	336	-
	-----	-----
Net cash provided by financing activities	429,947	500,000
	-----	-----
Net increase (decrease) in cash and equivalents	617,787	-
Cash and equivalents, beginning	43,558	1,000,000
	-----	-----
Cash and equivalents, ending	\$ 661,345	\$ 1,000,000
	=====	=====

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Cash paid during the year for:

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Income taxes	\$	--	\$
	=====		=====
Interest	\$	1,041	\$
	=====		=====

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, 2005  
(Unaudited)

	Common stock		Additional	Accumu
	Shares	Amount	Paid-in	defi
	-----	-----	-----	-----
Balance, December 31, 2004	173,320,731	\$173,321	\$21,166,334	\$ (23,38
Common stock issued pursuant to exercise of stock options granted to employees for services	1,063,031	1,063	227,047	
Common stock issued in payment of professional and consulting fees	5,366,911	5,367	1,038,524	
Common stock issued in payment of interest	1,057,966	1,058	136,103	
Common stock issued in payment of note payable	761,905	761	159,239	
Issuance of common stock	200,000	200	29,800	
Stock options exercised	336,364	336	--	
Common stock issued for payment of convertible debt	9,469,227	9,470	1,342,422	
Amortization of unearned compensation	--	--	--	
Common stock issued for inventory	6,433,121	6,433	1,003,567	
Proceeds from sale of warrants	--	--	50,000	
Proceeds from assignment of call options	--	--	99,611	
Net loss	--	--	--	(2,45
	-----	-----	-----	-----
Balance, September 30, 2005	198,009,256	\$198,009	\$25,252,647	\$ (25,84
	=====	=====	=====	=====

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See accompanying notes to consolidated financial statements

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## PAID, INC. AND SUBSIDIARY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2005 and 2004

### Note 1. Organization and Summary of Significant Accounting Policies

#### Line of business

During the fourth quarter of 2004 Paid, Inc. and subsidiary (the "Company") acquired the operating assets of K Sports & Entertainment LLC ("K Sports"), a company that operated as a sports agency business. In addition, Paid's celebrity services operations host a number of celebrity websites and has begun the electronic management of performing artists' fan clubs and related services.

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 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). 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, 2004, 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.

#### 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, 2005 and December 31, 2004 the Company has provided for reserves totaling \$125,000 and \$300,000, 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 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 its purchased inventories, from fees and commissions on sales of merchandise under consignment type arrangements, from sales of fan experiences, from web hosting services, from fan club membership fees, 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.

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.

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

The Company sells fan experiences which include tickets and related experiences at concerts and other events conducted by performing artists. Revenues associated with these fan experiences are deferred until the related event is concluded, at which time the revenues and related direct costs are recognized.

#### Advertising Costs



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Advertising costs totaling approximately \$84,000 in 2005 and \$86,300 in 2004 are charged to expense when incurred.

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### 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 and 11,204,532 as of September 30, 2004. The number of common shares that would be included in the calculation of outstanding options 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 27,365,054 shares and 25,466,000 shares at September 30, 2005 and 2004, 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. Diluted earnings per share have not been presented as a result of the Company's net loss for each period.

### Website and Software Development Costs

The Company accounts for website 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." During the nine months ended September 30, 2005 the Company capitalized approximately \$165,000 of website development costs. There was no such capitalization during the nine months ended September 30, 2004.

### Note 2. Notes and Loan Payable

At September 30, 2005 and December 31, 2004 the Company was obligated on short-term demand notes payable to a related party totaling \$130,000 bearing interest at 8%. Interest expense charged to operations in connection with these related party notes totaled approximately \$7,900 for each of the nine month periods ended September 30, 2005 and 2004.

At September 30, 2005 the Company was also obligated on demand notes payable totaling \$50,000, bearing interest at 10%.

At December 31, 2004 the Company was also obligated on a \$160,000 short-term note payable, bearing interest at 18%, and due on March 1, 2005. In addition, the Company issued 125,000 unregistered shares of stock valued at \$17,500 as an origination fee which was amortized over the life of the note. This note and all related accrued interest was repaid through the issuance of 800,000 shares of common stock on March 1, 2005.

At September 30, 2005 the Company was obligated on a demand loan from Augustine Fund, L.P. in the amount of \$200,000, bearing interest at 8%.

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### Note 3. Accrued Expenses

Accrued expenses are comprised of the following:

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	September 30, 2005	December 31, 2004
	-----	-----
Interest	\$144,187	\$129,635
Payroll and related costs	233,237	172,120
Professional and consulting fees	160,745	378,210
Consignments	172,782	173,626
Due to K Sports	62,500	62,500
Commissions	10,000	40,000
Other	71,917	35,105
	-----	-----
	\$855,368	\$991,196
	=====	=====

### Note 4. Common Stock

#### Call Option Agreements

In connection with a 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. All remaining call options were assigned during January 2005.

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 option is assignable by the Company and expires one year from the date of grant. The related \$600,000 settlement gain has been apportioned between other income in the amount \$340,500, representing the amount attributable to goods sold in prior years and \$259,500 as reductions of inventory cost at January 1, 2005. Also included in other income is the effect of reducing the \$130,000 reserve related to the movie poster inventory at January 1, 2005.

During the nine months ended September 30, 2005 and 2004 the Company assigned options to purchase 394,565 and 1,475,000 shares of stock from CSEI to certain individuals in exchange for \$99,611 and \$478,000, respectively, which was added to the paid in capital of the Company. In addition, during the nine months ended September 30, 2005 the Company assigned options to purchase 375,000 shares of stock from Leslie Rotman to certain individuals in exchange for \$96,885.

#### Stock Options and Warrants

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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 70,000,000 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

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grant. 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. 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. 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. If exercised, the \$50,000 will be applied as partial payment of the exercise price. If the Warrants are not exercised within one year the Deposit will be forfeited. The Deposit has been recorded as an addition to Paid in Capital.

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 only to the extent described above. Had compensation cost for the Company's stock option plan been determined based on the fair value at the grant dates for awards under the plan consistent with the method prescribed by FASB Statement No. 123, the Company's net income and earnings per share would have been adjusted to the pro forma amounts indicated below:

	Nine Months Ended September 30,	
	2005	2004
	----	----
Net loss		
As reported	\$ (2,459,270)	\$ (2,715,274)
Stock based compensation cost,		
as reported (net of tax)	35,000	--
Stock based compensation cost		
that would have been included		
in the determination of		
net income had the fair value		
method been applied (net of tax)	(35,000)	(202,950)
	-----	-----
Pro forma	(2,459,270)	\$ (2,918,224)
	=====	=====
Loss per share (basic and diluted)		
as reported	\$ (.01)	\$ (.02)
	=====	=====
Proforma loss per share (basic		
and diluted), as adjusted	\$ (.01)	\$ (.02)
	=====	=====

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	Three Months Ended September 30,	
	2005	2004
	----	----
Net loss		
As reported	\$ (1,018,279)	\$ (999,745)
Stock based compensation cost, as reported (net of tax)	5,000	--
Stock based compensation cost that would have been included in the determination of net income had the fair value method been applied (net of tax)	(5,000)	(67,650)
	-----	-----
Pro forma	\$ (1,018,279)	\$ (1,067,395)
	=====	=====
Loss per share (basic and diluted) as reported	\$ (.01)	\$ (.01)
	=====	=====
Proforma loss per share (basic and diluted), as adjusted	\$ (.01)	\$ (.01)
	=====	=====

Note 5. Income Taxes

There was no provision for income taxes for the nine months ended September 30, 2005 and 2004 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.

At September 30, 2005, the Company has federal and state net operating loss carry forwards of approximately \$21,000,000 available to offset future taxable income. The state carry-forwards will expire intermittently through 2010, while the federal carry forwards will expire intermittently through 2025.

Note 6. Convertible Debt Financing

As of September 30, 2005 the Company has outstanding \$1,150,000 of convertible debt, which is presented net of unamortized beneficial conversion discounts of \$12,681.

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, provided for the extensions of the maturity date until March 31, 2005. 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 2004, 2003, and 2002 \$2,748,108 had been converted into 25,314,096 shares of the Company's common stock at conversion prices ranging from \$.028 to

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\$.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 September 30, 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

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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 \$30,733 and \$91,190 during the three and nine months ended September 30, 2005, respectively. 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 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 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. The modified Series B Note requires that principal and interest be payable in shares of common stock, or cash, at the discretion of the Company, and provides that any fees or expenses related to any registration of the common stock will be borne equally by the Company and the Buyer.

### Note 7. Related party transactions

During the nine months ended September 30, 2005 the Company purchased approximately \$1,010,000 of memorabilia for sale from Leslie Rotman, the mother of Richard and Greg Rotman in exchange for 6,433,121 shares of restricted stock valued at \$.157.

During the nine months ended September 30, 2004 the Company purchased approximately \$104,000 of memorabilia for sale from Steven Rotman, the father of Richard and Greg Rotman.

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

### Overview

Paid's celebrity services offer famous people official web sites and fan-club services including event ticketing, e-commerce storefronts, articles, polls, message boards, contests, biographies and custom features to attract tens of thousands of visitors daily. Our innovative products and services are utilized

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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 autograph signing events, working in conjunction with our new sports agent marketing services, known as K Sports, have created more services and opportunities for our sports clientele. Rotman Auction leverages the relationships from celebrity services and K Sports to sell products through distribution and retail outlets. We purchase and sell collectibles and memorabilia through our Rotman Auction brand. Rotman Auction continues to sell thousands of items each week and provides other services such as 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.

### 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 and a review of the estimated useful lives of the various assets.

### Results of Operations

Three Months ended September 30, 2005 and 2004

The following discussion compares the Company's results of operations for the three months ended September 30, 2005 with those for the three months ended September 30, 2004. The Company's financial

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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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Revenues. For the three months ended September 30, 2005, revenues were \$492,400, 60% of which is attributable to sales of the Company's own product, including products obtained through live autograph signings, and fees from buyers and sellers through the Rotman Auction operations. Gross sales of the Company's own product were \$289,800. Fan club membership and related merchandise sales revenues were \$153,200, 32% of gross revenues, sports marketing revenues were \$42,500, 9% of gross revenues, and advertising and web hosting fees were \$3,300 or less than 1% of gross revenues during the three months ended September 30, 2005.

The Company's 2005 revenues represent an increase of \$90,600, or 23%, from the three months ended September 30, 2004, in which revenues were \$401,800. For the three months ended September 30, 2004, sales of Company owned product through the Rotman Auction operations were \$392,000, or 94% of gross sales, and advertising and web hosting fees were \$6,900, or 2% of gross revenues.

The reason for the increase in revenues was \$195,800 of revenues from our recently established sports marketing and fan club membership services offset by lower sales of Company owned product of approximately \$102,200 from the same period in 2004. Gross profit from Company owned product sales for the three months ended September 30, 2005 was approximately \$9,300, \$126,700 less than in 2004. Since gross margin percentages on Company owned product decreased from 35% to 3%, and sales of Company owned product were \$102,200 lower in the three months ended September 30, 2005, the Company produced \$126,700 fewer gross margin dollars in 2005. The decrease in sales of Company owned product is attributable to a strategic shift away from eBay to new distribution channels, including the Company's own distribution channels, where higher price point goods can be sold with lower associated selling costs. The decrease in gross profit margin is attributable to the beginning of a bulk sale program of lower price point inventories. In addition, during the fourth quarter of 2004 the Company acquired the operating assets of K Sports & Entertainment LLC ("K Sports"), a sports marketing business and entered into a contract to host and manage the fan club website for a major performing artist. Revenues from these two sources accounted for \$195,700 of revenues in 2005.

Operating Expenses. Total operating expenses for the three months ended September 30, 2005 were \$1,108,100, compared to \$1,014,500 for the corresponding period in 2004, an increase of \$93,500. Sales, general and administrative ("SG&A") expenses for the three months ended September 30, 2005 were \$969,300, compared to \$787,100 for the three months ended September 30, 2004. The increase of \$182,100 in SG&A costs includes increases in payroll of \$96,300, and other costs of \$96,000 offset by a decrease in advertising of \$22,100. The additional SG&A costs are attributable to additional personnel, travel, and shipping and postage related to the integration and development of K Sports and fan club services. Costs associated with planning, maintaining and operating our web sites for the three months ended September 30, 2005 decreased \$88,600 from 2004. This decrease is due primarily to lower consulting associated with maintenance related to AuctionInc. and amortization, as web site development costs become fully amortized in 2005.

Other income. For the three months ended September 30, 2005 other income increased by \$32,400 from the comparable 2004 period. This increase is attributable to realized and unrealized gains on the fair value of the investment in call options.

Interest Expense. For the three months ended September 30, 2005, the Company incurred interest charges of approximately \$80,400 principally associated with one convertible note, compared to interest charges of \$129,300 for the corresponding period in 2004. The decrease of \$48,900 is attributable to lower amortization of beneficial conversion features in 2005, offset by interest on short term debt.

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Net Loss. The Company realized a net loss for the three months ended September 30, 2005 of \$1,018,300, or \$.01 per share, as compared to a loss of \$999,700, or \$.01 per share for the three months ended September 30, 2004.

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

Nine Months ended September 30, 2005 and 2004

The following discussion compares the Company's results of operations for the nine months ended September 30, 2005 with those for the nine months ended September 30, 2004. 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, 2005, revenues were \$1,985,400, 57% of which is attributable to sales of the Company's own product, including products obtained through live autograph signings, and fees from buyers and sellers through the Rotman Auction operations. Gross sales of the Company's own product were \$1,122,900. Fan club membership and related merchandise sales revenues were \$558,900, 28% of gross revenues, sports marketing revenues were \$272,500, 14% of gross revenues, and advertising and web hosting fees were \$14,300, 1% of gross revenues, during the nine months ended September 30, 2005.

The Company's 2005 revenues represent an increase of \$834,300, or 72%, from the nine months ended September 30, 2004, in which revenues were \$1,151,000. For the nine months ended September 30, 2004, sales of Company owned product through the Rotman Auction operations were \$1,122,600, or 95% of gross sales, and advertising and web hosting fees were \$13,100, or 1% of gross revenues.

The reason for the increase in revenues was \$831,400 from our recently established sports marketing and fan club membership services. Sales of Company owned product were unchanged. Gross profit from Company owned product sales for the nine months ended September 30, 2005 was approximately \$326,800, \$175,600 less than in 2004. Since gross margin percentages on Company owned product dropped from 45% to 29%, the Company produced \$175,600 fewer gross margin dollars in 2005. The drop in gross profit margin is attributable to the beginning of a bulk sale program of lower price point inventories offset by the effect on cost of sales of the settlement with Leslie Rotman with respect to the movie poster inventory. In addition, during the fourth quarter of 2004 the Company acquired the operating assets of K Sports & Entertainment LLC ("K Sports"), a sports marketing business and entered into a contract to host and manage the fan club website for a major performing artist. Revenues from these two sources accounted for \$831,400 of revenues in 2005.

Operating Expenses. Total operating expenses for the nine months ended September 30, 2005 were \$3,408,700, compared to \$2,856,900 for the corresponding period in 2004, an increase of \$551,800. Sales, general and administrative ("SG&A") expenses for the nine months ended September 30, 2005 were \$2,982,100, compared to \$2,253,200 for the nine months ended September 30, 2004. The increase of \$728,900 in SG&A costs includes increases in payroll of \$365,100, professional fees of \$183,500, and other costs of \$229,000 offset by a decrease in depreciation and amortization of \$46,400 as older assets become fully depreciated and amortized. The additional SG&A costs are attributable to additional personnel, professional fees, travel, and shipping and postage related to the integration and development of K Sports and fan club services.



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Costs associated with planning, maintaining and operating our web sites for the nine months ended September, 30, 2005 decreased \$177,200 from 2004. This decrease is due primarily to lower depreciation as certain website development costs became fully amortized in 2005 and lower consulting costs associated with maintenance related to AuctionInc.

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Other income. For the nine months ended September 30, 2005 other income increased by \$357,400 from the comparable 2004 period. This increase is attributable to a portion of the settlement with Leslie Rotman offset by realized and unrealized losses on the fair value of the investment in call options.

Interest Expense. For the nine months ended September 30, 2005, the Company incurred interest charges of approximately \$252,700 principally associated with one convertible note, compared to interest charges of \$385,100 for the corresponding period in 2004. The decrease of \$132,400 is attributable to lower amortization of beneficial conversion features in 2005 offset by interest on short term debt.

Net Loss. The Company realized a net loss for the nine months ended September 30, 2005 of \$2,459,300, or \$.01 per share, as compared to a loss of \$2,715,300, or \$.01 per share for the nine months ended September 30, 2004.

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

### Assets

At September 30, 2005, total assets of the Company were \$3,385,900, compared to \$1,764,900 at December 31, 2004. The increase was primarily due to the acquisition of a large collection of movie poster inventories totaling \$1,010,000, cash and accounts receivable balances associated with sales of tickets to entertainment events to be held during the fourth quarter of 2005 totaling \$1,000,000, offset by depreciation and amortization totaling \$704,900.

### 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, 2005 compared to September 30, 2004, is as follows:

	2005	2004
	----	----
Net loss	\$ (2,459,300)	\$ (2,715,300)
Depreciation and amortization	704,900	822,400
Amortization of beneficial conversion discount and debt discount	91,200	240,200
Common stock issued in payment of services	1,272,000	806,600
Common stock issued in payment of interest	137,200	82,600
Net current assets and liabilities associated with advance ticketing	686,700	--
Changes in other current assets and liabilities	(171,800)	198,200
	-----	-----
Net cash provided by (used in) operating activities	\$ 260,900	\$ (565,300)

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#### Working Capital and Liquidity

The Company had cash and cash equivalents of \$661,300 at September 30, 2005, compared to \$43,600 at December 31, 2004. The Company had a \$418,300 of working capital at September 30, 2005, compared to a working capital deficit of \$542,700 at December 31, 2004. At September 30, 2005 current liabilities were \$2,641,000 compared to \$1,446,000 at December 31, 2004. During the nine months ended September 30, 2005 current liabilities increased primarily due to deferred revenue of \$1,152,800 associated with events to be conducted during the fourth quarter of 2005.

As discussed in greater detail in Note 6 of the Financial Statements, included in Part I of the this quarterly report and incorporated by reference herein, the Company an outstanding convertible note held by Augustine Fund, L.P. The note has a principal amount outstanding as of September 30, 2005 of \$1,150,000.

The Company's independent auditors have issued a going concern opinion on the Company's consolidated financial statements for the year ended December 31, 2004. 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 from its celebrity services products and websites; including memberships, fan experiences and ticketing, appearances, and merchandise sales. In addition, "AuctionInc" which hosts a suite of management tools and enhanced shipping calculator solutions for small ecommerce enterprises, sales of movie posters, both from inventory and on consignment, and web hosting are expected to increase revenues and result in higher total 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 1,625,000 shares of common stock, which, once assigned by the Company, can generate between \$73,000 and \$527,000 (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 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

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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, 2004.

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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 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.

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## PART II - OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

None.

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

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During the third quarter of 2005, the Company received conversion requests from Augustine Fund, L.P. for \$1,050,000 of the November 7, 2001 convertible note, into 7,725,400 shares of common stock of the Company. The remaining balance on the November 7, 2001 convertible note as of September 30, 2005 is \$1,150,000. 328,731 shares were issued on July 26, 2005 at \$.1521 per share, and 7,396,669 shares were issued on September 26, 2005 at \$.135196 per share. The shares are freely tradable pursuant to Rule 144 of the Securities Act of 1933. Augustine Fund, L.P. is an accredited investor that represented that it acquired the convertible 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 November 7, 2001 convertible note, as amended on May 21, 2002, which has a remaining balance of \$1,150,000, is convertible into common stock at a conversion price equal to the lesser of (1) \$.25 per share, or (2) 73% of the average of the closing bid price for the common stock for the five (5) trading days immediately preceding the conversion date. The note bears an 8% interest rate, and its original principal amount was \$2,250,000. The Company may elect to pay interest in cash or common stock. Pursuant to the terms of the note, Augustine Fund, L.P. has elected to extend the maturity date to November 7, 2006. Any amount that remains unconverted as of the maturity date automatically converts into shares of Company common stock at the same conversion rate calculation described for conversions, except that the five (5) trading day calculation is a thirty (30) trading day calculation, and Augustine Fund, L.P. may not beneficially own shares in excess of 4.99% of the total issued and outstanding shares of the Company. The note is secured by substantially all of the assets of the Company and its subsidiary. The note may be prepaid in cash at the election of the Company, except within 90 days of a reorganization. Augustine Fund, L.P. has a right to demand prepayment upon a change in control.

On September 8, 2005, the Company entered into an Asset Purchase Agreement for the purchase of approximately \$1,010,000 of memorabilia for sale from Leslie Rotman, the mother of Richard and Greg Rotman, in exchange for 6,433,121 shares of restricted common stock valued at \$.157. The shares are not registered under the Securities Act of 1933. Leslie Rotman is an accredited investor. The issuance of the securities is exempt from registration under Section 4(2) of the Securities Act of 1933 and Regulation D promulgated thereunder.

### ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

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

None.

### ITEM 5. OTHER INFORMATION

None.

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### ITEM 6. EXHIBITS

- |      |  |
|------|--|
| 10   | Asset Purchase Agreement dated September 8, 2005, by and between Paid, Inc., and Leslie Rotman |
| 31.1 | CEO Certification required under Section 302 of Sarbanes-Oxley Act of 2002                     |

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- 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

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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 11, 2005

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
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10	Asset Purchase Agreement dated September 8, 2005, by and between Paid, Inc., and Leslie Rotman
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

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