

Edgar Filing: PAID INC - Form 10QSB

PAID INC  
Form 10QSB  
August 14, 2007

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

FORM 10-QSB

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

For the quarterly period ended June 30, 2007

COMMISSION FILE NUMBER 0-28720

PAID, INC.

(Exact Name of Small Business Issuer as Specified in its Charter)

DELAWARE  
(State or other jurisdiction of  
Incorporation or organization)

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

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

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

Check whether the issuer: (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

As of August 10, 2007, the issuer had outstanding 227,639,380 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 Six Months ended June 30, 2007

TABLE OF CONTENTS

Part I - Financial Information

Item 1. Financial Statements

Consolidated Balance Sheets  
June 30, 2007 (unaudited) and December 31, 2006.....3

## Edgar Filing: PAID INC - Form 10QSB

|  |      |
|--|------|
| Consolidated Statements of Operations<br>Three and Six months ended June 30, 2007 and<br>2006 (unaudited).....   | 4    |
| Consolidated Statements of Cash Flows<br>Six months ended June 30, 2007 and<br>2006 (unaudited).....             | 5    |
| Consolidated Statements of Changes in Shareholders' Equity<br>Six months ended June 30, 2007<br>(unaudited)..... | 6    |
| Notes to Consolidated Financial Statements<br>Six months ended June 30, 2007 and 2006.....                       | 7-10 |
| Item 2. Management's Discussion and Analysis or<br>Plan of Operation.....  | 11   |
| Item 3. Controls and Procedures.....   | 15   |
| Part II - Other Information  |      |
| Item 1. Legal Proceedings.....   | 16   |
| Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.....   | 16   |
| Item 3. Defaults Upon Senior Securities.....   | 16   |
| Item 4. Submission of Matters to a Vote of Security Holders.....   | 16   |
| Item 5. Other Information.....   | 16   |
| Item 6. Exhibits.....  | 16   |
| Signatures.....  | 17   |

- 2 -

### PART I - FINANCIAL INFORMATION

#### ITEM 1. FINANCIAL STATEMENTS

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

|                           | June 30,<br>2007<br>----<br>(unaudited) | December 31,<br>2006<br>----<br>(audited) |
|---------------------------|---|---|
| ASSETS                    |   |   |
| Current assets:           |   |   |
| Cash and cash equivalents | \$ 455,530                              | \$ 138,326                                |
| Accounts receivable       | 60,484                                  | 34,731                                    |
| Inventories, net          | 1,194,307                               | 1,181,361                                 |
| Deferred expenses         | 112,339                                 | --  |
| Prepaid expenses          | 213,112                                 | 80,975                                    |
| Due from employees        | 43,030                                  | 32,803                                    |
| Other current assets      | 9,073                                   | 9,073                                     |

Edgar Filing: PAID INC - Form 10QSB

|  |              |              |
|--|--------------|--------------|
|  | -----        | -----        |
| Total current assets   | 2,087,875    | 1,477,269    |
| Property and equipment, net  | 129,513      | 191,518      |
| Other intangible assets, net   | 11,298       | 11,768       |
|  | -----        | -----        |
| Total assets   | \$ 2,228,686 | \$ 1,680,555 |
|  | =====        | =====        |
| LIABILITIES AND SHAREHOLDERS' EQUITY   |              |              |
| Current liabilities:   |              |              |
| Notes and loans payable  | \$ 80,000    | \$ 98,000    |
| Accounts payable   | 350,606      | 396,257      |
| Accrued expenses   | 765,061      | 915,176      |
| Deferred revenues  | 453,767      | --           |
|  | -----        | -----        |
| Total current liabilities  | 1,649,434    | 1,409,433    |
|  | -----        | -----        |
| Commitments and contingencies  | --           | --           |
|  | -----        | -----        |
| Shareholders' equity:  |              |              |
| Common stock, \$.001 par value, 350,000,000 shares<br>authorized; 226,661,631 and 218,329,910 shares<br>issued and outstanding at June 30, 2007 and<br>December 31, 2006, respectively | 226,662      | 218,330      |
| Additional paid-in capital   | 30,273,132   | 28,638,897   |
| Accumulated deficit  | (29,920,542) | (28,586,105) |
|  | -----        | -----        |
| Total shareholders' equity   | 579,252      | 271,122      |
|  | -----        | -----        |
| Total liabilities and shareholders' equity   | \$ 2,228,686 | \$ 1,680,555 |
|  | =====        | =====        |

See accompanying notes to consolidated financial statements

- 3 -

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

|          | Three months<br>ended June<br>30, 2007 | Six months<br>ended June<br>30, 2007 | Three<br>ende<br>30, |
|----------|--|--------------------------------------|----------------------|
|          | -----                                  | -----                                | -----                |
| Revenues | \$ 843,945                             | \$ 1,312,366                         | \$                   |

Edgar Filing: PAID INC - Form 10QSB

|   |              |                |       |
|---|--------------|----------------|-------|
| Cost of revenues                              | 516,780      | 704,172        |       |
|   | -----        | -----          | ----- |
| Gross profit                                  | 327,165      | 608,194        |       |
|   | -----        | -----          | ----- |
| Operating expenses:                           |              |                |       |
| Selling, general, and administrative expenses | 650,503      | 1,750,616      |       |
| Web site development costs                    | 95,683       | 193,978        |       |
|   | -----        | -----          | ----- |
| Total operating expenses                      | 746,186      | 1,944,594      |       |
|   | -----        | -----          | ----- |
| Loss from operations                          | (419,021)    | (1,336,400)    |       |
|   | -----        | -----          | ----- |
| Other income (expense):                       |              |                |       |
| Interest expense                              | (2,076)      | (4,339)        |       |
| Other income                                  | 3,909        | 6,302          |       |
|   | -----        | -----          | ----- |
| Total other income (expense), net             | 1,833        | 1,963          |       |
|   | -----        | -----          | ----- |
| Loss before income taxes                      | (417,188)    | (1,334,437)    |       |
| Provision for income taxes                    | --           | --             |       |
|   | -----        | -----          | ----- |
| Net income (loss)                             | \$ (417,188) | \$ (1,334,437) | \$    |
|   | =====        | =====          | ===== |
| Loss per share (basic and diluted)            | \$ (0.00)    | \$ (0.01)      | \$    |
|   | =====        | =====          | ===== |
| Weighted average shares (basic and diluted)   | 225,722,300  | 224,119,103    | 206   |
|   | =====        | =====          | ===== |

See accompanying notes to consolidated financial statements

- 4 -

PAID, INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE SIX MONTHS ENDED JUNE 30,

|   |  |                |                |
|---|--|----------------|----------------|
|   |  | 2007           | 2006           |
|   |  | ----           | ----           |
| Operating activities:   |  |                |                |
| Net loss  |  | \$ (1,334,437) | \$ (8,334,437) |
| Adjustments to reconcile net loss to net cash used in operating activities: |  |                |                |
| Depreciation and amortization   |  | 65,722         | 65,722         |

Edgar Filing: PAID INC - Form 10QSB

|  |            |       |
|--|------------|-------|
| Bad debt expense   | 250        |       |
| Issuance of common stock for payment of professional and consulting fees                         | 702,399    | 5     |
| Issuance of common stock pursuant to exercise of stock options granted to employees for services | 145,230    | 1     |
| Common stock issued in payment of interest   | --         | 1     |
| Changes in assets and liabilities:   |            |       |
| Accounts receivable  | (26,003)   |       |
| Inventories, net   | (12,946)   |       |
| Deferred expenses  | (112,339)  | 5     |
| Prepaid expense and other current assets   | (142,364)  | (1    |
| Accounts payable   | (45,651)   |       |
| Accrued expenses   | (134,115)  | (2    |
| Customer refunds payable   | --         |       |
| Deferred revenue   | 453,767    | (1,3  |
|  | -----      | ----- |
| Net cash (used in) operating activities  | (440,487)  | (9    |
|  | -----      | ----- |
| Investing activities:  |            |       |
| Property and equipment additions   | (3,247)    | (     |
|  | -----      | ----- |
| Financing activities:  |            |       |
| Net proceeds (repayments) of notes and loans payable   | (18,000)   | 1     |
| Proceeds from assignment of call options   | 15,538     | 1     |
| Proceeds from sale of common stock   | 763,400    |       |
|  | -----      | ----- |
| Net cash provided by financing activities  | 760,938    | 3     |
|  | -----      | ----- |
| Net increase (decrease) in cash and cash equivalents   | 317,204    | (6    |
| Cash and cash equivalents, beginning   | 138,326    | 1,5   |
|  | -----      | ----- |
| Cash and cash equivalents, ending  | \$ 455,530 | \$ 8  |
|  | =====      | ===== |

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Cash paid during the period for:

|              |          |       |
|--------------|----------|-------|
| Income taxes | \$ --    | \$    |
|              | =====    | ===== |
| Interest     | \$ 1,121 | \$    |
|              | =====    | ===== |

See accompanying notes to consolidated financial statements

- 5 -

PAID, INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY  
FOR THE SIX MONTHS ENDED JUNE 30, 2007

Edgar Filing: PAID INC - Form 10QSB

|   | Common stock |            | Additional<br>Paid-in<br>Capital |
|---|--------------|------------|----------------------------------|
|   | Shares       | Amount     |                                  |
| Balance, December 31, 2006  | 218,329,910  | \$ 218,330 | \$ 28,638,8                      |
| Issuance of common stock pursuant to exercise of stock options granted to employees for services        | 464,348      | 464        | 144,7                            |
| Issuance of common stock pursuant to exercise of stock options granted to professionals and consultants | 3,799,477    | 3,800      | 698,5                            |
| Issuance of common stock  | 4,017,896    | 4,018      | 759,3                            |
| Common stock issued in connection with acquisition of assets of K-sports & Entertainment, LLC           | 50,000       | 50         | 15,9                             |
| Proceeds from assignment of call options  | --           | --         | 15,5                             |
| Net loss  | --           | --         |                                  |
| Balance, June 30, 2007  | 226,661,631  | \$ 226,662 | \$ 30,273,1                      |

See accompanying notes to consolidated financial statements

- 6 -

PAID, INC. AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2007 AND 2006

Note 1. Organization and Significant Accounting Policies

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

General

The financial statements included in this report have been prepared by the Company pursuant to the rules and regulations of the United States Securities and Exchange Commission for interim financial reporting and include all adjustments (consisting only of normal recurring adjustments which are, in the opinion of management, necessary for a fair presentation). Except for the balance sheet at December 31, 2006, 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

## Edgar Filing: PAID INC - Form 10QSB

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, 2006, which are included in the Company's Form 10-KSB.

### Principles of consolidation

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

### Inventories

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

On a periodic basis management reviews inventories on hand to ascertain if any is slow moving or obsolete. The reserve for excess/obsolete inventories totaled \$200,000 at both June 30, 2007 and December 31, 2006.

### Website Development Costs

The Company accounts for website development costs in accordance with the provisions of EITF 00-2, "Accounting for Web Site Development Costs", which requires that costs incurred in planning, maintaining, and operating stages that do not add functionality to the site be charged to operations as incurred. External costs incurred in the site application and infrastructure development stage and graphic development are capitalized. Such capitalized costs are included in "Property and equipment." There were no such costs capitalized during the six months ended June 30, 2007, while during the six months ended June 30, 2006 the Company capitalized approximately \$49,500 of such costs.

### Revenue Recognition

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

- 7 -

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

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

For sales of merchandise owned and warehoused by the Company, the Company is responsible for conducting the sale, 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

## Edgar Filing: PAID INC - Form 10QSB

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.

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 \$31,000 in 2007 and \$46,000 in 2006, 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 potentially dilutive 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 outstanding stock options and warrants. 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 27,136,054 shares and 27,165,054 shares at June 30, 2007 and 2006 respectively, have been excluded from the computation of diluted earnings per share because they were antidilutive. Diluted earnings per share have not been presented as a result of the Company's net loss for each year.

### Note 2. Notes and Loans Payable

At June 30, 2007 and December 31, 2006 the Company was obligated on short-term demand notes payable totaling \$80,000 to a related party. The notes bear interest at 8%. Interest expense charged to operations in connection with these related party notes during each of the six months ended June 30, 2007 and 2006 totaled \$3,200. In addition, included in notes and loans payable at December 31, 2006 was an \$18,000 non interest bearing loan which was repaid in 2007.

### Note 3. Accrued Expenses

At June 30, 2007 and December 31, 2006, accrued expenses are comprised of the following:

|                                  | 2007      | 2006      |
|----------------------------------|-----------|-----------|
|                                  | ----      | ----      |
| Interest                         | \$ 47,400 | \$ 44,201 |
| Payroll and related costs        | 254,063   | 268,702   |
| Professional and consulting fees | 73,420    | 115,111   |
| Consignments                     | 172,782   | 172,782   |
| Due to K Sports                  | 14,500    | 30,500    |

- 8 -



## Edgar Filing: PAID INC - Form 10QSB

|             |            |            |  |
|-------------|------------|------------|--|
| Commissions | 176,000    | 266,246    |  |
| Other       | 26,896     | 17,634     |  |
|             | -----      | -----      |  |
|             | \$ 765,061 | \$ 915,176 |  |
|             | =====      | =====      |  |

### Note 4. Common Stock

#### Call Option Agreement

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 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, as most recently amended, expires on May 9, 2008. During and 2005 the Company assigned options to purchase 800,000 and 375,000 shares, respectively, of stock from Leslie Rotman to certain individuals in exchange for \$331,848 and \$96,885. During the six months ended June 30, 2007 the Company assigned options to purchase 50,000 to certain individuals in exchange for \$15,538. The proceeds from the assignments of these options were added to the paid in capital of the Company. At June 30, 2007, 775,000 call options remain outstanding.

#### Warrant

During the year ended December 31, 2005, the Company entered into an Agreement and sold a warrant to purchase common stock ("Warrant") to an investor. The investor paid the Company \$50,000 as a deposit ("Deposit") for the right to acquire up to 2,000,000 shares of unregistered common stock at any time within one year of the Agreement at \$.15 per share. During 2006 the expiration date of the Warrant was extended upon receipt of an additional \$50,000 payment. If exercised, \$100,000 will be applied as partial payment of the exercise price. If the Warrants are not exercised by June 1, 2008 the deposits will be forfeited. The deposits have been recorded as additions to Paid in Capital.

#### Share-based Incentive Plan

At June 30, 2007, the Company had stock option plans that include both incentive and non-qualified options to be granted to certain eligible employees, non-employee directors, or consultants of the Company. The maximum number of shares currently reserved for issuance is 31,000,000 shares. The options granted have ten-year contractual terms and vest either immediately or annually over a five-year term.

At June 30, 2007, there were 5,492,000 shares available for future grants under the above stock option plans. The weighted average exercise price of options outstanding was \$.043 at June 30, 2007. No options were granted during the six months ended June 30, 2007.

All options outstanding at June 30, 2007 are fully vested and exercisable. Information pertaining to options outstanding at June 30, 2007 is as follows:

Edgar Filing: PAID INC - Form 10QSB

- 9 -

Options Outstanding

| Exercise Prices | Number of shares | Weighted Average |             | Intrinsic Value |
|-----------------|------------------|------------------|-------------|-----------------|
|                 |                  | Remaining        | Contractual |                 |
| -----           | -----            | Life             | -----       | -----           |
| \$1.62          | 37,000           | 2                |             | \$ --           |
| .001            | 99,054           | 8                |             | 40,513          |
| .041            | 25,000,000       | 6                |             | 9,225,000       |
|                 | -----            |                  |             | -----           |
|                 | 25,136,054       |                  |             | \$ 9,265,513    |
|                 | =====            |                  |             | =====           |

Note 5. Income Taxes

The Company adopted the provisions of FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109" ("FIN No. 48"), on January 1, 2007. FIN No. 48 requires that the impact of tax positions be recognized in the financial statements if they are more likely than not of being sustained upon examination, based upon the technical merits of the position. As discussed in the consolidated financial statements in the Company's Annual Report on Form 10-KSB for the year ended December 31, 2006, the Company has a valuation allowance against the full amount of its deferred tax assets. The Company currently provides a valuation allowance against deferred tax assets when it is more likely than not that some portion, or all, of its deferred tax assets, will not be realized. The implementation of FIN No. 48 had no effect on the Company's financial position or results of operations.

The Company recognizes interest accrued related to unrecognized tax benefits in interest expense. Penalties, if incurred, are recognized as a component of income tax expense.

There were no provisions for income taxes for the six months ended June 30, 2007 and 2006 due to the Company's net operating loss and its valuation reserve against deferred income taxes. Tax returns for years beginning after December 31, 2002 remain open for examination by taxing authorities.

The difference between the provision for income taxes using amounts computed by applying the statutory federal income tax rate of 34% and the Company's effective tax rate is due primarily to the net operating loss incurred by the Company and the valuation reserve against the Company's deferred tax asset.

At June 30, 2007 the Company has federal and state net operating loss carry forwards of approximately \$24,000,000 and \$15,000,000, respectively, available to offset future taxable income. The state carry-forwards will expire intermittently through 2012, while the federal carry forwards will expire intermittently through 2027.

Note 6. Related party transactions

During the six months ended and 2006 the Company incurred \$72,000 of consulting fees paid to Steven Rotman, the father of Greg and Richard Rotman.

Note 7. Commitments

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

## Edgar Filing: PAID INC - Form 10QSB

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

During the six months ended June 30, 2007 rent expense charged to operations under the above leases totaled \$50,000, including \$15,000 to the related party.

- 10 -

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

#### Overview

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

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

## Edgar Filing: PAID INC - Form 10QSB

### Results of Operations

Three months ended June 30, 2007 to three months ended June 30, 2006

The following discussion compares the Company's results of operations for the three months ended June 30, 2007 with those for the three months ended June 30, 2006. 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.

- 11 -

**Revenues.** For the three months ended June 30, 2007, revenues were \$843,900, 96% of which was attributable to sales of fan club memberships and merchandise related to performing artists. Management anticipates increases from fan club memberships, merchandise, and fan experiences from tours, products and services related to several performing artists during the remainder of 2007 and into 2008.

The Company's second quarter 2007 revenues represent an increase of approximately \$239,600 from 2006 when revenues were \$604,400. For the three months ended June 30, 2006, sales of the Company's product were \$110,500, or 18% of gross sales, fan experiences, fan club memberships, and related merchandise sales revenues were \$433,500, 72% of gross revenues, and sports marketing revenues were \$42,700, or 7% of gross revenues.

The principal reasons for the increase in revenues were a \$379,000 increase related to tours of performing artists, offset by lower revenues related to sports marketing services of \$42,700 and lower sales of Company owned product of approximately \$102,800 from the same period in 2006. The increase in revenues related to tours of performing artists is attributable to the fact that the Company's artists were on tour for only a portion of the second quarter of 2006. At June 30, 2007 the Company had \$453,800 of deferred revenues related to tours to continue during the remainder of 2007. Gross loss from Company-owned product for the three months ended June 30, 2007 was \$19,000, \$31,000 less than in 2006.

**Operating Expenses.** Total operating expenses for the three months ended June 30, 2007 were \$746,200 compared to \$953,100 in 2006, a decrease of \$206,900.

Sales, general and administrative ("SG&A") expenses for the three months ended June 30, 2007 were \$650,500, compared to \$834,200 for the three months ended June 30, 2006. The decrease of \$183,700 in SG&A costs includes decreases in consulting fees of \$152,200 and payroll and related costs of \$85,800, offset by increases in rents of \$23,700, and travel of \$30,400. The travel increase is principally attributable to the fact that there were artists touring for longer periods during the second quarter of 2007 than during the same period on 2006.

Costs associated with planning, maintaining and operating our web sites for the three months ended June 30, 2007 decreased by \$23,200 from 2006. This decrease is due primarily to a decrease in consulting costs of \$19,000.

**Interest Expense.** For the three months ended June 30, 2007, the Company incurred approximately \$2,100 of interest charges compared to a recovery of interest charges of \$17,900 in 2006, an increase of \$20,000. The change in expense is primarily attributable to a settlement in 2006 with Augustine Fund L.P. with respect to amounts owed in connection with interest on the convertible debt.

**Net Loss.** The Company realized a net loss for the three months ended June 30, 2007 of \$417,200 compared to a net loss of \$550,700 for the three months ended

## Edgar Filing: PAID INC - Form 10QSB

June 30, 2006. The 2007 and 2006 losses each represented less than \$.01 per share.

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

Six months ended June 30, 2007 to six months ended June 30, 2006

The following discussion compares the Company's results of operations for the six months ended June 30, 2007 with those for the six months ended June 30, 2006. 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 six months ended June 30, 2007, revenues were \$1,312,400, 89% of which was attributable to sales of fan club memberships and merchandise related to performing artists. Sales of the Company's own product and fees from buyers and sellers through the Rotman Auction operations

- 12 -

represented 4% of revenues, sports marketing revenues represented 3% of revenues and other revenues represented 4% of gross revenues. Gross sales of the Company's own product were \$55,600. Fan club membership and related merchandise sales revenues were \$1,172,500, and sports marketing revenues were \$35,800. Management anticipates increases from fan club memberships, merchandise, and fan experiences from tours, products and services related to several performing artists during the remainder of 2007 and into 2008. During the six months ended June 30, 2007 the Company generated \$453,800 of deferred revenues related to artist's tours to continue during the remainder of 2007.

The Company's revenues for the first half of 2007 represent a decrease of approximately \$2,098,800 from 2006 when revenues were \$3,411,200. For the six months ended June 30, 2006, sales of the Company's product were \$175,400, or 5% of gross sales, fan experiences, fan club memberships, and related merchandise sales revenues were \$3,081,000, 90% of gross revenues, sports marketing revenues were \$131,800, or 4% of gross revenues.

The reason for the decrease in revenues was a \$1,908,500 decrease related to the tours of performing artists, lower revenues related to sports marketing services of \$96,100 and lower sales of Company owned product of approximately \$119,900 from the same period in 2006. The decrease in revenues related to tours of performing artists is attributable to the fact that fewer of the Company's artists were on tour during the first half of 2007 and those that were on tour began their tours during the second quarter. During the six months ended June 30, 2007 the Company generated \$453,800 of deferred revenues related to tours to continue during the remainder of 2007. Gross profit from Company owned product sales for the six months ended June 30, 2007 was approximately \$40,300, approximately the same as in 2006.

Operating Expenses. Total operating expenses for the six months ended June 30, 2007 were \$1,944,600 compared to \$2,033,700 in 2006, a decrease of \$89,100.

Sales, general and administrative ("SG&A") expenses for the six months ended June 30, 2007 were \$1,750,600, compared to \$1,780,500 for the six months ended June 30, 2006. The decrease of \$29,900 in SG&A costs includes decreases in payroll and related costs of \$34,400, credit card commissions of \$20,600, postage and shipping costs of \$68,500, advertising of \$15,900, and depreciation and amortization of \$12,600, offset by increases in professional fees of \$118,900, rents of \$32,500, and travel of \$25,300. The credit card commissions

## Edgar Filing: PAID INC - Form 10QSB

and postage and shipping decreases are all principally attributable to lower level of artists' touring activities during 2007.

Costs associated with planning, maintaining and operating our web sites for the six months ended June 30, 2007 decreased by \$59,300 from 2006. This decrease is due primarily to a decrease in consulting costs of \$108,100, offset by \$49,500 fewer web site development costs being capitalized in 2007 than in 2006.

Interest Expense. For the six months ended June 30, 2007, the Company incurred approximately \$4,300 of interest charges compared to interest charges of \$8,800 in 2006, a decrease of \$4,400. This decrease is attributable to lower balances of interest bearing debt in 2007.

Net Loss. The Company realized a net loss for the six months ended June 30, 2007 of \$1,334,400 compared to a net loss of \$802,700 for the six months ended June 30, 2006. The 2007 loss represents \$.01 per share while in 2006 the loss represented less than \$.01 per share.

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

- 13 -

### Assets

At June 30, 2007, total assets of the Company were \$2,228,700 compared to \$1,680,600 at December 31, 2006. The increase was primarily due to higher cash balances generated from the issuance of common stock and deferred revenues related to fan experiences scheduled after June 30, 2007.

### Operating Cash Flows

A summarized reconciliation of the Company's net losses to cash used in operating activities for the six months ended June 30, 2007 compared to June 30, 2006, is as follows:

|  | 2007<br>----  | 2006<br>---- |
|--|---------------|--------------|
| Net loss   | \$(1,334,400) | \$ (802,700) |
| Depreciation and amortization  | 65,700        | 76,200       |
| Common stock issued in payment of services                           | 847,600       | 671,300      |
| Common stock issued in payment of interest                           | --            | 137,800      |
| Net current assets and liabilities associated with advance ticketing | 453,800       | (751,800)    |
| Changes in current assets and liabilities                            | (365,900)     | (234,400)    |
|  | -----         | -----        |
| Net cash used in operating activities                                | \$ (333,200)  | \$ (903,600) |
|  | =====         | =====        |

### Working Capital and Liquidity

The Company had cash and cash equivalents of \$455,500 at June 30, 2007, compared to \$138,300 at December 31, 2006. The Company had \$438,400 of working capital at June 30, 2007 compared to \$67,800 at December 31, 2006. At June 30, 2007 current liabilities were \$1,649,400 compared to \$1,409,400 at December 31, 2006. Current liabilities increased at June 30, 2007 compared to December 31, 2006 primarily

## Edgar Filing: PAID INC - Form 10QSB

due to deferred revenues of \$453,700 associated with events scheduled to commence during the third and fourth quarters of 2007 offset by lower accrued commissions.

The Company's independent registered public accounting firm has issued a going concern opinion on the Company's consolidated financial statements for the year ended December 31, 2006. 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 during the remainder of 2007, and into 2008, from its celebrity services products and websites, and similar services to other entities; including memberships, fan experiences and ticketing, appearances, website development and hosting, and merchandise sales from both existing and new clients. In addition, "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, expiring on May 9, 2008, for approximately 775,000 shares of common stock, which, once assigned by the Company, will generate between \$70,000 and \$412,000 (based solely upon the 52 week high and low closing prices of the Company's common stock) of cash. However, there can be no assurance that assignment of the call options can be concluded on reasonably acceptable terms. If assignments are not made, management may need to seek alternative sources of capital to support operations.

### Forward Looking Statements

This Quarterly Report on Form 10-QSB contains certain forward-looking statements (within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934)

- 14 -

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, 2006.

For example, the Company's ability to achieve positive cash flow and to become profitable may be adversely affected as a result of a number of factors that could thwart its efforts. These factors include the Company's inability to successfully implement the Company's business and revenue model, tour or event

## Edgar Filing: PAID INC - Form 10QSB

cancellations, higher costs than anticipated, the Company's inability to sell its products and services to a sufficient number of customers, the introduction of competing products by others, the Company's failure to attract sufficient interest in and traffic to its sites, the Company's inability to complete development of its sites, the failure of the Company's operating systems, and the Company's inability to increase its revenues as rapidly as anticipated. If 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.

- 15 -

## PART II - OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

None.

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

None

### 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

31.1 CEO Certification required under Section 302 of Sarbanes-Oxley Act of 2002



Edgar Filing: PAID INC - Form 10QSB

- 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

- 16 -

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.

PAID, INC.  
Registrant

Date: August 14, 2007  
-----

/s/ Gregory Rotman  
-----

Gregory Rotman, President

Date: August 14, 2007  
-----

/s/ Richard Rotman  
-----

Richard Rotman, Chief Financial Officer,  
Vice President and Secretary

- 17 -

LIST OF EXHIBITS

| Exhibit No.<br>----- | Description<br>-----   |
|----------------------|--|
| 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 |

- 18 -