

PAID INC  
Form 10-Q  
May 15, 2013

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-Q**

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

**For the quarterly period ended March 31, 2013**

**COMMISSION FILE NUMBER 0-28720**

**(Exact Name of Registrant as Specified in its Charter)**

**DELAWARE**

**73-1479833**

(State or Other Jurisdiction of Incorporation or Organization) (I.R.S. Employer Identification No.)

**40 Washington Street, Westborough, Massachusetts 01581**

(Address of Principal Executive Offices) (Zip Code)

**(617) 861-6050**

(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer”, “accelerated filer”, and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐ Accelerated Filer ☐  
Non-accelerated filer ☐ Smaller reporting company ☒  
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

As of May 15, 2013, the issuer had outstanding 328,874,050 shares of its Common Stock, par value \$.001 per share.

**PAID, INC.**

**FORM 10-Q**

**FOR THE THREE MONTHS ENDED MARCH 31, 2013**

**TABLE OF CONTENTS**

-

**Part I – Financial Information**

**Item 1. Financial Statements**

Condensed Balance Sheets March 31, 2013 (unaudited) and December 31, 2012	3
Condensed Statements of Operations Three months ended March 31, 2013 and 2012 (unaudited)	4
Condensed Statements of Cash Flows Three months ended March 31, 2013 and 2012 (unaudited)	5
Condensed Statement of Changes in Shareholders' Equity Three months ended March 31, 2013 (unaudited)	6
Condensed Notes to Financial Statements Three months ended March 31, 2013 and 2012	7-16

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	17
---	----

Item 3. Quantitative and Qualitative Disclosures about Market Risk	20
--	----

Item 4. Controls and Procedures	20
---------------------------------	----

**Part II – Other Information**

Item 1. Legal Proceedings	21
---------------------------	----

Item 1A. Risk Factors	21
-----------------------	----

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	21
---	----

Item 3. Defaults Upon Senior Securities	21
---	----

Item 4. Mine Safety Disclosures	21
---------------------------------	----

Item 5. Other Information	21
Item 6. Exhibits	21
Signatures	22

**PART I - FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****PAID, INC.****CONDENSED BALANCE SHEETS**

	March 31, 2013 (Unaudited)	December 31, 2012 (Audited)
<b>ASSETS</b>		
Current assets:		
Cash	\$ 1,158,200	\$ 1,433,000
Investments	251,500	142,800
Accounts receivable, net	256,900	348,800
Inventories, net	315,100	420,700
Prepaid expenses and other current assets	422,400	310,200
Advanced royalties	336,100	329,800
Total current assets	2,740,200	2,985,300
Property and equipment, net	189,000	212,900
Intangible asset, net	5,900	6,100
Prepaid facility costs	1,022,500	1,027,200
Total assets	\$3,957,600	\$4,231,500
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$609,600	\$728,000
Capital leases - current portion	25,200	26,300
Accrued expenses	1,527,700	1,512,800
Deferred revenues	189,200	230,500
Total current liabilities	2,351,700	2,497,600
Long-term liabilities:		
Capital leases - net of current	42,700	48,600
Commitments and contingencies (note 5)		

Shareholders' equity:

Common stock, \$.001 par value, 350,000,000 shares authorized; 328,874,050 and 328,874,050 shares issued and outstanding at March 31, 2013 and December 31, 2012, respectively	328,900	328,900
Additional paid-in capital	52,456,000	52,376,500
Accumulated deficit	(51,157,700)	(50,956,100 )
Stock subscription receivable	(64,000 )	(64,000 )
Total shareholders' equity	1,563,200	1,685,300
 Total liabilities and shareholders' equity	 \$3,957,600	 \$4,231,500

See accompanying notes to condensed financial statements

**PAID, INC.****CONDENSED STATEMENTS OF OPERATIONS****(Unaudited)**

	Three Months Ended	
	March 31, 2013	March 31, 2012
Revenues	\$932,300	\$ 1,280,900
Cost of revenues	573,900	775,400
Gross profit	358,400	505,500
Operating expenses	665,000	1,605,900
Loss from operations	(306,600 )	(1,100,400 )
Other income (expense):		
Interest expense	(900 )	(1,700 )
Other income	-	70,000
Unrealized gain on investment	108,700	-
Unrealized loss on stock price guarantee	(2,800 )	-
Total other income, net	105,000	68,300
Loss before income taxes	(201,600 )	(1,032,100 )
Provision for income taxes	—	—
Net loss	\$(201,600 )	\$(1,032,100 )
Loss per share - basic	\$—	\$—
Weighted average shares - basic and diluted	328,874,050	309,669,694

See accompanying notes to condensed financial statements

**PAID, INC.****CONDENSED STATEMENTS OF CASH FLOWS****FOR THE THREE MONTHS ENDED MARCH 31,****(Unaudited)**

	2013	2012
Operating activities:		
Net loss	\$(201,600 )	\$(1,032,100 )
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	19,900	13,900
Unrealized (gain) on investment	(108,700 )	(127,500 )
Share based compensation	79,500	90,100
Change in fair value of stock price guarantee	2,900	57,500
Amortization of prepaid facility costs	65,200	42,500
Fair value of stock options awarded to professionals and consultants in payment of fees for services provided	-	475,500
Fair value of stock options awarded to employees in payment of compensation	-	30,000
Changes in assets and liabilities:		
Accounts receivable	96,200	(142,300 )
Inventories	105,600	(52,600 )
Prepaid expense and other current assets	(112,200 )	7,400
Advanced royalties	(6,300 )	98,600
Prepaid facility costs	(60,500 )	-
Accounts payable	(118,400 )	209,500
Accrued expenses	12,000	(439,800 )
Deferred revenue	(41,300 )	661,500
Net cash used in operating activities	(267,700 )	(107,800 )
Investing activities:		
Property and equipment additions	-	(114,400 )
Net cash used in investing activities	-	(114,400 )
Financing activities:		
Payments on capital leases	(7,100 )	(2,200 )
Net cash used in financing activities	(7,100 )	(2,200 )
Net decrease in cash	(274,800 )	(224,400 )
Cash, beginning	1,433,000	996,000
Cash, ending	\$1,158,200	\$771,600

**SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION**

Cash paid during the period for:

Income taxes	\$—	\$—
Interest	\$900	\$1,700



See accompanying notes to condensed financial statements

**PAID, INC.**

**CONDENSED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**

**FOR THE THREE MONTHS ENDED MARCH 31, 2013**

**(Unaudited)**

	Common stock		Additional Paid-in	Accumulated	Stock Subscription	
	Shares	Amount	Capital	Deficit	Receivable	Total
Balance, December 31, 2012	328,874,050	\$328,900	\$52,376,500	\$(50,956,100)	\$(64,000)	\$1,685,300
Share based compensation related to issuance of incentive stock options	—	—	79,500	—	—	79,500
Net loss	—	—	—	(201,600)	—	(201,600)
Balance, March 31, 2013	328,874,050	\$328,900	\$52,456,000	\$(51,157,700)	\$(64,000)	\$1,563,200

See accompanying notes to condensed financial statements

**PAID, INC.**

**NOTES TO CONDENSED FINANCIAL STATEMENTS**

**March 31, 2013 and 2012**

**Note 1. Organization and Significant Accounting Policies**

The primary focus of PAID, Inc. (the "Company" or "PAID") has been the providing of brand-related services to businesses and celebrity clients in the entertainment, sports and collectible industries. PAID's brand management, brand marketing, social media marketing, product design and merchandising, fulfillment services, website design, development and hosting, and authentication services are designed to grow each client's customer base in size, loyalty and revenue generation. We offer entertainers, celebrity athletes and business entities a comprehensive web-presence and related services by supporting and managing clients' official websites and fan-community services including e-commerce, VIP ticketing, live event fan experiences, user-generated content, and client content publishing and distribution.

*General Presentation and Basis of Financial Statements*

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"), and to the rules and regulations of the Securities and Exchange Commission ("SEC") regarding interim financial reporting. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements and should be read in conjunction with the Company's audited financial statements included in the Annual Report on Form 10-K for the years ended December 31, 2012 and 2011 that was filed on April 15, 2013.

In the opinion of management, the Company has prepared the accompanying financial statements on the same basis as its audited financial statements, and these financial statements include all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the results of the interim periods presented. The operating results for the interim periods presented are not necessarily indicative of the results expected for the full year 2013.

*Management's Plan*

The Company has continued to incur losses, although it has taken significant steps to reduce them. For the three months ended March 31, 2013, the Company reported a net loss of \$201,600, and for the year ended December 31, 2012, the Company reported a loss of \$4,146,200. The Company has an accumulated deficit of \$51,157,700 at March 31, 2013.

In January 2013, the Company entered into a partnership agreement with Music City Networks (“MCN”). In accordance with the agreement, as of the effective date, MCN will be providing the above mentioned client based services directly to the Company’s clients in exchange for a profit participation as defined in the agreement. Going forward the primary focus of PAID is to expand upon and monetize its Intellectual Property.

Management has reduced the losses in the music and entertainment area and focused the Company on its growing patent portfolio. The Company has restructured personnel and has partnered with MCN to oversee business functions, such as fulfillment operations, client services, and business development. This changes the business model for engaging in these activities to improve efficiency and reduce costs. The Company will continue to develop key partnerships to aid in the acquisition of new clients and services and thus continue to be involved in this aspect of the business.

Management believes that these changes will reduce revenues and gross profits for 2013, however, the costs of doing business will be significantly reduced in hopes of eliminating the net loss and providing positive cash flow from operations. Although there will be a reduction in revenues and gross profits, the reduction should be offset by the profit participation in MCN's activities. In addition, the Company continues to increase its efforts to generate income from its patents.

Although there can be no assurances, the Company believes that the above management plan will be sufficient to meet the Company's working capital requirements through the end of 2013.

#### *Use of estimates*

In preparing financial statements in conformity with GAAP, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the balance sheets and reported amounts of revenue and expenses during the reporting periods. Material estimates that are particularly susceptible to significant change in the near term relate to inventories, deferred tax asset valuation, assumptions used in the determination of fair value of stock options and warrants using the Black-Scholes option-pricing model, and forfeiture rates related to unvested stock options. Although these estimates are based on management's knowledge of current events and actions, they may ultimately differ from actual results.

#### *Investments*

As of March 31, 2013, the Company's investments consisted of trading securities that were stated at fair value, with gains or losses resulting from changes in fair value recognized in earnings as other income (expense), net. Management determines the appropriate classification of its investments in debt and equity securities at the time of purchase and reevaluates such determinations at each balance sheet date. Marketable debt and equity securities that are bought and held principally for the purpose of selling them in the near term are classified as trading securities and are reported at fair value, with unrealized gains and losses recognized as earnings. Debt securities are classified as held for maturity when the Company has the positive intent and ability to hold the securities to maturity. Held to maturity securities are recorded as either short term or long term on the balance sheet based on contractual maturity dates and are stated at cost. Securities not classified as held to maturity or as trading, are classified as available-for-sale, and are carried at fair market value, with the unrealized gains and losses, net of tax, included in the determination of comprehensive income and reported in shareholders' equity.

#### *Accounts Receivable*

Accounts receivable are carried at original invoice amount less an estimate for doubtful receivables based on a review of all outstanding amounts on a monthly basis. Accounts receivable are presented net of an allowance for doubtful collections of \$53,300, at March 31, 2013, and December 31, 2012. In determining this allowance, objective evidence that a single receivable is uncollectible as well as a historical pattern of collections of accounts receivable that indicates the entire face amount of a portfolio of accounts receivable may not be collectible is considered at each balance sheet date. Accounts are written off when significantly past due after exhaustive efforts at collection.

### *Inventories*

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

Management periodically reviews inventories on hand to ascertain if any are slow moving or obsolete. In connection with this review, at March 31, 2013 and December 31, 2012 the Company provided for reserves totaling \$1,053,200.

### *Advanced royalties*

In accordance with GAAP, advanced royalties, which consist of artist royalty advances, are deferred when paid and expensed based on the completion of performances, shows or other activities. Certain stock advances contain guarantees related to the proceeds from the sale of the stock, and the liability is accounted for at fair value on the date of issuance.

### *Property and Equipment*

Property and equipment are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of 3 to 5 years. Leasehold improvements are depreciated over the lesser of the useful life of the asset or the respective lease term.

### *Intangible Assets*

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

### *Asset Impairment*

Long lived assets to be held and used are reviewed to determine whether any events or changes in circumstances indicate that their carrying amount may not be recoverable. The Company bases its evaluation on indicators about the future economic benefits that the assets can be expected to provide including historical or future profitability measurements. Management reviews the estimated useful lives, as well as other external market conditions or factors that may be present. If such impairment indicators are present or other factors exist that indicate that the carrying amount of the asset may not be recoverable, if impairment is indicated, the Company recognizes a loss for the difference between the carrying amount and the estimated fair value of the asset.

#### *Fair Value Measurement*

Financial instruments and certain non-financial assets and liabilities are measured at their fair value as determined based on the assets highest and best use. GAAP has established a framework for measuring fair value that is based on a hierarchy which requires that the valuation technique used be based on the most objective inputs available for measuring a particular asset or liability. There are three broad levels in the fair value hierarchy which describe the degree of objectivity of the inputs used to determine fair value. The fair value hierarchy is set forth below:

Level 1 - inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 - inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.



Level 3 - inputs to the valuation methodology are unobservable and significant to the fair value measurement. They are based on best information available in the absence of level 1 and 2 inputs.

The fair value of the Company's cash, accounts receivable, investments, accounts payable, accrued expenses, and capital leases are approximately the same as their carrying amounts. In addition, the Company's derivative instruments, consisting of stock options, stock purchase warrants, and a stock price guarantee, are all valued using the Black-Scholes option pricing model based on quoted market prices.

#### *Income Taxes*

Income taxes are accounted for under the liability method. Under this method, deferred income taxes are provided for temporary differences between the financial reporting and the tax bases of assets and liabilities and are measured using enacted laws and rates that will be in effect when the differences are expected to reverse. A valuation allowance is provided when management believes it is more likely than not that some or all of the deferred tax assets will not be realized.

GAAP requires that, in applying the liability method, the financial statement effects of an uncertain tax position be recognized based on the outcome that is more likely than not to occur. Under this criterion the most likely resolution of an uncertain tax position should be analyzed based on technical merits and on the outcome that would likely be sustained under examination. The Company has no uncertain tax positions as of December 31, 2012.

#### *Revenue recognition*

The Company currently generates revenue principally from sales of fan experiences, fan club membership fees, sales of its purchased inventories, and from consulting services.

Fan experience sales generally include tickets and related experiences at concerts and other events conducted by performing artists associated with these fan experience revenues, 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 ratably over the term of the related membership, generally one year.

The Company recognizes merchandise sales revenue upon verification of the credit card transaction, shipment of the merchandise, and the discharge of all obligations of the Company with respect to the transaction.

Client services revenues include web development and design, creative services, film and video services, marketing services and general business consulting services. For contracts that are of a short duration and fixed price, revenue is recognized when there are no significant obligations and upon acceptance by the customer of the completed project. Revenues on longer-term fixed price contracts are recognized using the percentage-of-completion method. Services that are preformed on a time and material basis are recognized as the related services are performed.

#### *Cost of Revenues*

Cost of revenues include event tickets, ticketing and venue fees, shipping and handling fees associated with e-commerce sales, merchandise and royalties paid to clients.

*Selling and Administration Expenses*

Selling, general, and administrative expenses include indirect client related expenses, including credit card processing fees, payroll, travel, facility costs, and other general and administrative expenses.

*Advertising costs*

Advertising costs, totaling \$1,700 and \$1,000 for the three months ended March 31, 2013 and 2012, respectively, are charged to expense when incurred.

*Share-Based Compensation*

Share-based compensation cost is measured at the fair value of the equity instrument awarded on the grant date, and is recognized as an expense over the recipients required service period (generally the vesting period of the equity grant).

*Concentrations*

The Company's financial instruments that are exposed to concentrations of credit risk consist primarily of cash. The Company places its cash with stable high credit quality institutions, and management believes that the risk of loss is negligible.

For the three months ended March 31, 2013 and 2012, revenues from a limited number of clients accounted for approximately 58% and 78%, respectively, of total revenues.

*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. The potential common shares that may be issued by the Company relate to outstanding stock options and warrants, and have been excluded from the computation of diluted earnings per share because they would reduce the reported loss per share and therefore have an anti-dilutive effect.

### *Reclassifications*

Certain amounts in the 2012 financial statements have been reclassified to conform to the 2013 presentation with no effect on previously reported net loss or accumulated deficit.

### **Note 2. Accrued Expenses**

Accrued expenses are comprised of the following:

	March 31, 2013	December 31, 2012
Payroll and related costs	\$5,200	\$ 18,100
Professional and consulting fees	42,700	77,400
Royalties	932,600	858,300
Stock payment guarantee liabilities	446,100	443,200
Other	101,100	115,800
Total	\$1,527,700	\$ 1,512,800

**Note 3. Common Stock****Share-based Incentive Plans**

During the period ended March 31, 2013, the Company had four 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.

**Share-based Incentive Plans****Active Plans:*****2012 Plan***

On October 15, 2012, the Company adopted the 2012 Non-Qualified Stock Option Plan (the "2012 Plan"). The purpose of the 2012 Plan is to provide long-term incentives and rewards to those employees of the Company, and any other individuals, whether directors, consultants or advisors who are in a position to contribute to the long-term success and growth of the Company. The options granted have a 10 year contractual term and vest one hundred percent on the date of grant. There are 3,000,000 shares reserved for future issuance under this plan. Information with respect to stock options granted under this plan during the period ended March 31, 2013 is as follows:

	Number of shares	Weighted average exercise price per share
Options outstanding at December 31, 2012	7,000,000	\$ 0.043
Granted	—	—
Exercised	—	—
Options outstanding at March 31, 2013	7,000,000	\$ 0.043

***2011 Plan***