

Edgar Filing: PAID INC - Form 10QSB

PAID INC  
Form 10QSB  
August 14, 2006

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

FORM 10-QSB

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

For the quarterly period ended June 30, 2006

COMMISSION FILE NUMBER 0-28720

PAID, INC.

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

DELAWARE

(State or other jurisdiction of  
Incorporation or organization)

73-1479833

(I.R.S. Employer  
Identification No.)

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

(508) 791-6710

(Issuer's Telephone Number, Including Area Code)

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

Yes  No

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

As of August 10, 2006, the issuer had outstanding 215,811,397 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 Six Months ended June 30, 2006

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### PART I - FINANCIAL INFORMATION

#### ITEM 1. FINANCIAL STATEMENTS

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

| ASSETS                    | June 30,<br>2006<br>----<br>(Unaudited) | December 31,<br>2005<br>----<br>(Audited) |
|---------------------------|---|---|
| Current assets:           |   |   |
| Cash and cash equivalents | \$ 873,913                              | \$ 1,502,987                              |
| Accounts receivable       | 61,643                                  | 72,317                                    |
| Inventories, net          | 1,312,976                               | 1,364,248                                 |

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|  |              |              |
|--|--------------|--------------|
| Investment in call options   | 694,875      | 300,625      |
| Deferred expenses  | --           | 556,250      |
| Prepaid expenses   | 172,427      | 67,981       |
| Due from employees   | 74,516       | 66,558       |
| Other current assets   | 9,073        | 9,073        |
|  | -----        | -----        |
| Total current assets   | 3,199,423    | 3,940,039    |
| Property and equipment, net  | 250,656      | 256,244      |
| Other intangible assets, net   | 19,092       | 33,290       |
|  | -----        | -----        |
| Total assets   | \$ 3,469,171 | \$ 4,229,573 |
|  | =====        | =====        |
| LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)   |              |              |
| Current liabilities:   |              |              |
| Notes payable  | \$ 280,000   | \$ 130,000   |
| Accounts payable   | 291,560      | 275,336      |
| Accrued expenses   | 876,935      | 1,077,081    |
| Customer refunds payable   | 32,508       | --           |
| Deferred revenues  | 964,695      | 2,305,278    |
|  | -----        | -----        |
| Total current liabilities  | 2,445,698    | 3,787,695    |
|  | -----        | -----        |
| Long term liabilities:   |              |              |
| Convertible debt   | --           | 1,150,000    |
|  | -----        | -----        |
| Shareholders' equity (deficit):  |              |              |
| Common stock, \$.001 par value, 350,000,000 shares<br>authorized; 215,252,983 and 200,405,555 shares issued<br>and outstanding at June 30, 2006 and December 31,<br>2005, respectively | 215,253      | 200,406      |
| Additional paid-in capital   | 27,520,163   | 25,575,959   |
| Accumulated deficit  | (26,711,943) | (26,484,487) |
|  | -----        | -----        |
| Total shareholders' equity (deficit)   | 1,023,473    | (708,122)    |
|  | -----        | -----        |
| Total liabilities and shareholders' equity (deficit)   | \$ 3,469,171 | \$ 4,229,573 |
|  | =====        | =====        |

See accompanying notes to consolidated financial statements

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

Three months

Six months

Three mo

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|   | ended June<br>30, 2006 | ended June<br>30, 2006 | ended J<br>30, 20 |
|---|------------------------|------------------------|-------------------|
|   | -----                  | -----                  | -----             |
| Revenues                                      | \$ 604,388             | \$ 3,411,229           | \$ 63             |
| Cost of revenues                              | 219,974                | 2,171,469              | 25                |
|   | -----                  | -----                  | -----             |
| Gross profit                                  | 384,414                | 1,239,760              | 37                |
|   | -----                  | -----                  | -----             |
| Operating expenses:                           |                        |                        |                   |
| Selling, general, and administrative expenses | 834,244                | 1,780,474              | 90                |
| Web site development costs                    | 118,842                | 253,242                | 17                |
|   | -----                  | -----                  | -----             |
| Total operating expenses                      | 953,086                | 2,033,716              | 1,08              |
|   | -----                  | -----                  | -----             |
| Loss from operations                          | (568,672)              | (793,956)              | (70               |
|   | -----                  | -----                  | -----             |
| Other income (expense):                       |                        |                        |                   |
| Interest expense                              | 17,925                 | (8,758)                | (7                |
| Gain (loss) on call options                   | 599,625                | 575,250                | (14               |
| Other income                                  | 5                      | 8                      | 47                |
|   | -----                  | -----                  | -----             |
| Total other income (expense), net             | 617,555                | 566,500                | 24                |
|   | -----                  | -----                  | -----             |
| Income (loss) before income taxes             | 48,883                 | (227,456)              | (46               |
| Provision for income taxes                    | --                     | --                     | --                |
|   | -----                  | -----                  | -----             |
| Net income (loss)                             | \$ 48,883              | \$ (227,456)           | \$ (46            |
|   | =====                  | =====                  | =====             |
| Income (loss) per share (basic and diluted)   | \$ 0.00                | \$ (0.00)              | \$                |
|   | =====                  | =====                  | =====             |
| Weighted average shares (basic)               | 206,913,261            | 204,015,368            | 178,77            |
|   | =====                  | =====                  | =====             |
| Weighted average shares (diluted)             | 231,580,941            | n/a                    | -----             |
|   | =====                  | =====                  | =====             |

See accompanying notes to consolidated financial statements

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

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|  | 2006<br>---- | 2005<br>----   |
|--|--------------|----------------|
| Operating activities:  |              |                |
| Net loss   | \$ (227,456) | \$ (1,440,991) |
| Adjustments to reconcile net loss to net cash used in operating activities:                      |              |                |
| Depreciation and amortization  | 76,244       | 458,333        |
| Bad debt expense   |              | 340            |
| Settlement Agreement and Mutual Release - call options   | --           | (470,500)      |
| Amortization of unearned compensation  | --           | 30,000         |
| Beneficial conversion feature  | --           | 60,457         |
| Loss (gain) on call options  | (575,250)    | 145,500        |
| Common stock issued in payment of professional and consulting fees                               | 567,218      | 831,870        |
| Issuance of common stock pursuant to exercise of stock options granted to employees for services | 104,039      | 135,748        |
| Common stock issued in payment of interest   | 137,794      | 8,000          |
| Changes in assets and liabilities:   |              |                |
| Accounts receivable  | 10,674       | 10,392         |
| Inventories  | 51,272       | 11,512         |
| Deferred expenses  | 556,250      | --             |
| Prepaid expense and other current assets   | (112,404)    | 92,587         |
| Accounts payable   | 16,224       | 70,124         |
| Accrued expenses   | (200,146)    | (139,391)      |
| Customer refunds payable   | 32,508       | --             |
| Deferred revenue   | (1,340,583)  | --             |
|  | -----        | -----          |
| Net cash used in operating activities  | (903,616)    | (196,019)      |
|  | -----        | -----          |
| Investing activities:  |              |                |
| Proceeds from assignment of call options   | 181,000      | 27,000         |
| Property and equipment additions   | (56,458)     | (122,129)      |
|  | -----        | -----          |
| Net cash used in operating activities  | 124,542      | (95,129)       |
|  | -----        | -----          |
| Financing activities:  |              |                |
| Proceeds from loan payable   | 150,000      | 100,000        |
| Proceeds from sale of warrants   | --           | 50,000         |
| Proceeds from sale of common stock   | --           | 30,000         |
| Proceeds from assignment of call options   | --           | 99,611         |
| Proceeds from exercise of stock options  | --           | 336            |
|  | -----        | -----          |
| Net cash provided by financing activities  | 150,000      | 279,947        |
|  | -----        | -----          |
| Net decrease in cash and cash equivalents  | (629,074)    | (11,201)       |
| Cash and cash equivalents, beginning   | 1,502,987    | 43,558         |
|  | -----        | -----          |
| Cash and cash equivalents, ending  | \$ 873,913   | \$ 32,357      |
|  | =====        | =====          |

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

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Cash paid during the period for:

|              |       |       |       |    |
|--------------|-------|-------|-------|----|
| Income taxes | \$    | --    | \$    | -- |
|              | ===== |       | ===== |    |
| Interest     | \$    | 4,107 | \$    | -- |
|              | ===== |       | ===== |    |

See accompanying notes to consolidated financial statements

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

|  | Common stock |            | Additional<br>Paid-in<br>Capital |
|--|--------------|------------|----------------------------------|
|  | Shares       | Amount     |                                  |
|  | -----        | -----      | -----                            |
| Balance, December 31, 2005   | 200,405,555  | \$ 200,406 | \$ 25,575,95                     |
| Issuance of common stock pursuant to exercise of stock<br>options granted to employees for services        | 614,992      | 615        | 103,42                           |
| Issuance of common stock pursuant to exercise of stock<br>options granted to professionals and consultants | 4,373,756    | 4,374      | 562,84                           |
| Common stock issued in payment of<br>interest on note payable  | 838,450      | 838        | 136,95                           |
| Common stock issued for payment of<br>convertible debt   | 9,020,230    | 9,020      | 1,140,98                         |
| Net loss   | --           | --         | -                                |
|  | -----        | -----      | -----                            |
| Balance, June 30, 2006   | 215,252,983  | \$ 215,253 | \$ 27,520,16                     |
|  | =====        | =====      | =====                            |

See accompanying notes to consolidated financial statements

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

Note 1. Organization

Paid, Inc. and subsidiary (the "Company") provides businesses and clients with marketing, management, merchandising, auction management, website hosting, and authentication and consignment services for the entertainment, sports and collectibles industries. The Company also provides other services for

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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 as of December 31, 2005, these financial statements have not been audited.

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

### Principles of consolidation

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

### Inventories

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

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

### Investment in call options

The Company accounts for investment in call options in accordance with EITF 96-18, "Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services". Accordingly, call options are recorded at fair value, determined by the closing price of the Company's common stock, on the date they are received and adjusted to fair value at the balance sheet date. Any realized or unrealized gains or losses are recorded in other income (expense).

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### Revenue Recognition

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

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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 auction, billing the customer, shipping the merchandise to the customer, processing customer returns and collecting accounts receivable. The Company recognizes revenue upon verification of the credit card transaction and shipment of the merchandise, discharging all obligations of the Company with respect to the transaction.

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

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

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

### Advertising Costs

Advertising costs totaling approximately \$46,000 in 2006 and \$68,000 in 2005, are charged to expense when incurred.

### Use of Estimates

In preparing consolidated financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheets and reported amounts of revenue and expenses during the reporting periods. Material estimates that are particularly susceptible to significant change in the near term relate to inventories and deferred tax asset valuation. Although these estimates are based on management's knowledge of current events and actions, they may ultimately differ from actual results.

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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



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13,414,634 as of June 30, 2005. 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 27,165,054 shares and 27,465,054 shares at June 30, 2006 and 2005, respectively, have been excluded from the computation of diluted earnings per share, as have the common shares that would be issued upon conversion of the convertible debt, because they were antidilutive for periods in which a loss is reported.

### Website Development Costs

The Company accounts for website development costs in accordance with the provisions of EITF 00-2, "Accounting for Web Site Development Costs", which requires that costs incurred in planning, maintaining, and operating stages that do not add functionality to the site be charged to operations as incurred. External costs incurred in the site application and infrastructure development stage and graphic development are capitalized. Such capitalized costs are included in "Property and equipment." During the six months ended June 30, 2006 and 2005 the Company capitalized approximately \$49,500 and \$119,000 of website development costs, respectively.

### Share based Compensation

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

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

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

The Company did not recognize compensation expense for employee stock option

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grants for the six months ended June 30, 2005, since the Company had previously adopted the provisions of SFAS 123, through disclosure only. The following illustrates the effects on net income and earnings per share for the three and six months ended June 30, 2005 as if the Company had applied the fair value recognition provisions of SFAS 123 to share-based employee awards.

|   | Three months<br>ended<br>June 30, 2005<br>----- | Six months<br>ended<br>June 30, 2005<br>----- |
|---|---|---|
| Net (loss) as reported  | \$ (462,056)                                    | \$ (1,440,991)                                |
| Share based compensation as recorded<br>(net of any related income tax effects)                                       | 15,000  | 30,000  |
| Share based compensation expense determined<br>Under the fair value method (net of<br>any related income tax effects) | (15,000)<br>-----                               | (30,000)<br>-----                             |
| Proforma net (loss)   | \$ (462,056)<br>=====                           | \$ (1,440,991)<br>=====                       |

### Note 2. Notes Payable

At June 30, 2006 the Company was obligated on short-term notes payable totaling \$280,000, of which \$80,000 was to a related party. At December 31, 2005 the Company was obligated on short-term notes payable totaling \$130,000, of which \$80,000 was to a related party. The related party notes bear interest at 8%, while the remainder bear interest at 8% to 10%. All of this short-term debt was due on demand. Interest expense charged to operations during the six months ended June 30, 2006 and 2005 in connection with the related party notes totaled \$3,200 and \$5,200, respectively.

### Note 3. Accrued Expenses

Accrued expenses are comprised of the following:

|                                  | June 30,<br>2006<br>---- | December 31,<br>2005<br>---- |
|----------------------------------|--------------------------|------------------------------|
| Interest                         | \$ 39,345                | \$ 172,490                   |
| Payroll and related costs        | 235,504                  | 204,280                      |
| Professional and Consulting fees | 174,325                  | 134,411                      |
| Consignments                     | 172,782                  | 172,782                      |
| Due to K Sports                  | 62,500                   | 62,500                       |
| Commissions                      | 156,000                  | 300,000                      |
| Other                            | 36,479<br>-----          | 30,618<br>-----              |
|                                  | \$ 876,935<br>=====      | \$ 1,077,081<br>=====        |

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### Note 4. Common Stock

Call Option Agreements

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

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

On May 9, 2005, the Company entered into a Settlement Agreement and Mutual Release with Leslie Rotman ("Seller") to settle all outstanding disputes regarding the value paid and the value received in the 2001 transaction in which Seller, Rotman Collectibles, Inc., and the Company entered into an Agreement and Plan of Merger (the "Merger Agreement"), pursuant to which Rotman Collectibles, Inc., a Massachusetts corporation, was merged into the Company's Delaware subsidiary, now named Rotman Collectibles, Inc. Seller is the mother of Gregory Rotman, President of the Company, and Richard Rotman, CFO/Vice President/Secretary of the Company. To settle any possible differences or disputes between the value paid and the value received, Seller delivered 2,000,000 shares of the Company's common stock into escrow, with a fair market value of \$600,000 based on the closing bid price of \$.30 on May 6, 2005 (as set forth in the Settlement Agreement and Mutual Release) and granted the Company an option to purchase the shares for \$.001 per share. The options are assignable by the Company and were modified on March 31, 2006 to expire two years from the date of grant. During the six months ended June 30, 2006 and 2005 the Company assigned call options for 350,000 and 100,000 shares respectively, for \$181,000 and \$27,000. At June 30, 2006, 1,275,000 call options remain outstanding.

### Stock Options and Warrants

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

During the six months ended June 30, 2006 the Company granted options for 4,880,415 shares at various dates aggregating \$651,257 under this plan. During the six months ended June 30, 2005 the Company granted options for 4,754,455 shares at various dates aggregating \$967,618 under this plan. All options granted during these periods were exercised.

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

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### Share-based Incentive Plan

At June 30, 2006, the Company had stock option plans that include both incentive stock options and non-qualified stock options to be granted to certain eligible

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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, 2006, there were 5,483,000 shares available for future grants under the above stock option plans. The weighted average exercise price of options outstanding was \$0.045 at June 30, 2006.

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

| Exercise Price<br>----- | Number of<br>Outstanding<br>Shares<br>----- | Weighted Average Remaining<br>Contractual Life<br>(years)<br>----- | Options Currently<br>Exercisable<br>----- |
|-------------------------|---|--|---|
| \$ .81                  | 9,000                                       | 3.25   | 9,000                                     |
| 1.62                    | 57,000                                      | 3.00   | 57,000                                    |
| .001                    | 99,054                                      | 8.50   | 99,054                                    |
| .041                    | 25,000,000                                  | 6.50   | 25,000,000                                |

The aggregated intrinsic value of options outstanding and vested at June 30, 2006 was \$12,653,885.

### Note 5. Income Taxes

There was no provision for income taxes for the six months ended June 30, 2006 and 2005 due to the Company's net operating loss and its valuation reserve against deferred income taxes.

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

At June 30, 2006, the Company has federal and state net operating loss carry forwards of approximately \$20,000,000 and \$16,000,000, respectively, available to offset future taxable income. The state carry-forwards will expire intermittently through 2011, while the federal carry forwards will expire intermittently through 2026.

### Note 6. Convertible Debt Financing

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

On March 23, 2000, the Company entered into a Securities Purchase Agreement (the "Agreement"), whereby the Company sold an 8% convertible note in the amount of \$3,000,000 (the "Series A Note"), due in shares of common stock on March 31, 2002 to Augustine Fund, L.P. ("Buyer"). As of June 30, 2005 this note has been paid in full through a series of conversions to common stock. During the six months ended June 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,

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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 \$.375 per share.

The Company entered into a second Loan Agreement, most recently modified in October 2005, whereby it issued an 8% convertible note in the amount of \$2,250,000, due November 7, 2006 (the "Series B Note") to Buyer. The Series B Note is convertible into common stock at a conversion price equal to the lesser of: (1) \$.25 per share, or (2) seventy-three percent (73%) of the average of the closing bid price for the common stock for the five (5) trading days immediately preceding the conversion date. Based upon advances through March 31, 2005 totaling \$2,250,000, had the Buyer converted the Series B Note at issuance, Buyer would have received \$3,082,193 in aggregate value of the Company's common stock upon conversion of the convertible note. As a result, in accordance with EITF 00-27, the intrinsic value of the beneficial conversion feature of \$832,193 was charged to interest expense over the original two year term of the related note. The entire beneficial conversion feature was charged to operations as of December 31, 2005. The beneficial conversion feature that was charged to interest expense during the six months ended June 30, 2005 totaled \$60,457. The total beneficial conversion discount related to this note was recorded as an increase in additional paid in capital and the unamortized portion as a reduction in the related note. During the six months ended June 30, 2006 and 2005 the Company received conversion requests for \$1,150,000 and \$50,000 into 9,020,230 and 330,885 shares of the Company's common stock at conversion prices ranging from \$.092 to \$.151 per share. The first \$1,050,000 was converted into 7,725,400 common shares at prices ranging from \$.135 to \$.152 per share between July 1, 2005 and December 31, 2005.

### Note 7. Concentrations

For the six months ended June 30, 2006 approximately 86% of the Company's revenue was derived from the sale of fan experiences and merchandise related to a major performing artist that was touring. This tour ended in late March 2006 and a new tour is scheduled to begin during September 2006.

### Note 8. Commitments

The Company leases office facilities in Boston Massachusetts under a five year lease beginning May 2006 requiring monthly payments of approximately \$5,800, plus increases in real estate taxes and operating expenses, through April 2011. During the six months ended June 30, 2006 rent expense charged to operations under this lease totaled approximately \$8,500.

## ITEM 2. Management's Discussion and Analysis or Plan of Operation.

### Overview

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

#### 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.

#### Results of Operations

Three Months ended June 30, 2006 to Three Months ended June 30, 2005.

The following discussion compares the Company's results of operations for the three months ended June 30, 2006 with those for the three months ended June 30, 2005. The Company's financial statements and notes thereto included elsewhere in this quarterly report contain detailed information that should be referred to in conjunction with the following discussion.

**Revenues.** For the three months ended June 30, 2006, revenues were \$604,400, 72% of which was attributable to sales of fan club memberships, merchandise, and fan experiences related to tours of performing artists. Sales of the Company's own product and fees from buyers and sellers through the Rotman Auction operations represented 18% of revenues, and sports marketing revenues represented 7% of revenues. Gross sales of the Company's own product were \$110,500. Fan experience, Fan club membership and related merchandise sales revenues were \$433,500, and sports marketing revenues were \$42,700. Other revenues were \$17,700, 3% of gross revenues, during the three months ended June 30, 2006. Management anticipates continued increases from fan club memberships, merchandise, and fan experiences from tours, products and services related to several other performing artists during the remainder of 2006.

The Company's second quarter 2006 revenues represent a decrease of approximately \$29,000, or 5%, from the second quarter of 2005, in which revenue was \$633,400. For the three months ended June 30, 2005, sales of the Company's product were

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\$367,400, or 58% of gross sales, fan club membership and related merchandise sales revenues were \$137,800, 22% of gross revenues, sports marketing revenues were \$108,900, or 17% of gross revenues, and other revenues were \$19,400, or 3% of gross revenues.

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The reason for the decrease in revenues was less revenues related to sports marketing services of \$66,000 and lower sales of Company owned product of approximately \$256,900 from the same period in 2005, offset by increases of \$295,800 in fan experience revenues. Gross profit from Company owned product sales for the three months ended June 30, 2006 was \$12,300, \$197,100 less than in 2005. The decrease in sales and gross profit margin is attributable to a management decision late in 2005 to streamline sales channels for Company owned product and, in turn, terminating sales on eBAY, in an effort to reduce related overhead.

Operating Expenses. Total operating expenses for the three months ended June 30, 2006 were \$953,100 compared to \$1,083,300 for the corresponding period in 2005, a decrease of \$130,200.

Sales, general and administrative ("SG&A") expenses for the three months ended June 30, 2006 were \$834,200, compared to \$907,400 for the three months ended June 30, 2005. The decrease of \$73,200 in SG&A costs includes decreases in payroll and related costs of \$31,800 and depreciation and amortization of \$211,400, as certain assets became fully depreciated during 2006 and 2005, offset by increases in professional fees of \$125,100 travel of \$6,100, credit card commissions of \$19,400, postage and shipping costs of \$5,700 and rents of \$12,200. The travel, credit card commissions and postage and shipping increases are all principally attributable to tours of performing artists.

Costs associated with planning, maintaining and operating our web sites for the three months ended June 30, 2006 decreased by \$57,000 from 2005. This decrease is due primarily to a decrease in consulting costs of \$135,900 offset by increases in depreciation and amortization of \$22,000 and payroll of \$11,900. In addition, during the three months ended June 30, 2006 the Company did not capitalize any website development costs, while during the comparable 2005 period the Company capitalized \$32,000.

Interest Expense. For the three months ended June 30, 2006, the Company recovered approximately \$17,900 of interest charges principally associated with convertible debt, compared to interest charges incurred of \$78,500 for the corresponding period in 2005, a decrease of \$96,500. \$60,000 of the decrease is attributable to a settlement with Augustine Fund with respect to amounts owed, \$30,100 to lower amortization of beneficial conversion features and the balance to lower balances of interest-bearing debt in 2006.

Other income. Other income for the three months ended June 30, 2006 includes \$599,600 of realized and unrealized appreciation in the fair value of call options received in the 2005 settlement with Leslie Rotman. For the three months ended June 30, 2005 other income includes \$470,500 of gain associated with the settlement with Leslie Rotman, offset by \$145,500 of realized and unrealized depreciation in the fair value of the call options.

Net Profit (loss). The Company realized a net profit for the three months ended June 30, 2006 of \$48,900 compared to a net loss of \$462,100 for the three months ended June 30, 2005. Net profit for the three months ended June 30, 2006 was less than \$.01 per share while the net loss for the period ended June 30, 2005 was also less than \$.01 per share.

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

Six Months ended June 30, 2006 to Six Months ended June 30, 2005.

The following discussion compares the Company's results of operations for the six months ended June 30, 2006 with those for the six months ended June 30, 2005. The Company's financial statements and notes thereto included elsewhere in this quarterly report contain detailed information that should be referred to in conjunction with the following discussion.

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Revenues. For the six months ended June 30, 2006, revenues were \$3,411,200, 90% of which was attributable to sales of fan club memberships, merchandise, and fan experiences related to tours of performing artists. A tour of a major performing artist ended during March 2006 resulting in lower revenues during the second quarter of 2006 compared to the first quarter of 2006. Sales of the Company's own product and fees from buyers and sellers through the Rotman Auction operations represented 5% of revenues, and sports marketing revenues represented 4% of revenues. Gross sales of the Company's own product were \$175,400. Fan experience, Fan club membership and related merchandise sales revenues were \$3,081,000, and sports marketing revenues were \$131,800. Other revenues were \$23,000, 1% of gross revenues, during the six months ended June 30, 2006. Management anticipates continued increases from fan club memberships, merchandise, and fan experiences from tours, products and services related to several other performing artists during the remainder of 2006.

The Company's 2006 revenues represent an increase of approximately \$1,918,200, or 128%, from the comparable period in 2005, in which revenue was \$1,493,000. For the six months ended June 30, 2005, sales of the Company's product were \$834,400, or 56% of gross sales, fan club membership and related merchandise sales revenues were \$405,700, 27% of gross revenues, sports marketing revenues were \$229,900, or 15% of gross revenues, and other revenues were \$22,900, or 2% of gross revenues.

The reason for the increase in revenues was a \$2,675,300 increase related to the tours of performing artists, offset by lower revenues related to sports marketing services of \$98,100 and lower sales of Company owned product of approximately \$659,000 from the same period in 2005. Gross profit from Company owned product sales for the six months ended June 30, 2006 was approximately \$39,900, \$278,800 less than in 2005. Since gross margin percentages on Company owned product were substantially lower in 2006 and sales of Company owned product were \$659,000 lower in the six months ended June 30, 2006, the Company produced \$278,800 lower gross margin dollars in 2006. The decrease in sales and gross profit margin is attributable to a management decision late in 2005 to streamline sales channels for Company owned product and, in turn, terminating sales on eBay, in an effort to reduce related overhead.

Operating Expenses. Total operating expenses for the six months ended June 30, 2006 were \$2,033,700 compared to \$2,300,600 for the corresponding period in 2005, a decrease of \$266,900.

Sales, general and administrative ("SG&A") expenses for the six months ended June 30, 2006 were \$1,780,500, compared to \$2,012,800 for the six months ended June 30, 2005. The decrease of \$232,400 in SG&A costs includes decreases in payroll and related costs of \$83,500, depreciation and amortization of \$421,900 as certain assets became fully depreciated during 2006 and 2005, offset by increases in professional fees of \$49,100 travel of \$37,900, credit card commissions of \$46,900, postage and shipping costs of \$46,300, and rents of



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\$8,000. The travel, credit card commissions and postage and shipping increases are all principally attributable to tours of performing artists.

Costs associated with planning, maintaining and operating our web sites for the six months ended June 30, 2006 decreased by \$34,500 from 2005. This decrease is due primarily to a decrease in consulting costs of \$157,000 offset by increases in depreciation and amortization of \$39,800. In addition, during the six months ended June 30, 2006 the Company capitalized \$49,500 of website development costs, while during the comparable 2005 period the Company capitalized \$119,000.

Interest Expense. For the six months ended June 30, 2006, the Company incurred approximately \$8,800 of interest charges compared to interest charges of \$172,300 for the corresponding period in 2005, a decrease of \$163,600. \$60,000 of the decrease is attributable to a settlement with Augustine Fund with respect to amounts owed, \$60,500 to lower amortization of beneficial conversion features and the balance to lower balances of interest-bearing debt in 2006.

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Other income. Other income for the six months ended June 30, 2006 includes \$575,000 of realized and unrealized appreciation in the fair value of call options received in the 2005 settlement with Leslie Rotman. For the six months ended June 30, 2005 other income includes \$470,500 of gain associated with the settlement with Leslie Rotman, offset by \$145,500 of realized and unrealized depreciation in the fair value of the call options.

Net Loss. The Company realized a net loss for the six months ended June 30, 2006 of \$227,500 compared to a net loss of \$1,441,000 for the six months ended June 30, 2005. The 2006 loss represented less than \$.01 per share, while the 2005 loss represented \$.01 per share.

### Assets

At June 30, 2006, total assets of the Company were \$3,469,200 compared to \$4,229,600 at December 31, 2005. The decrease was primarily due lower cash and deferred expenses of \$1,185,000 associated with the conclusion of entertainment events held during the first two quarters of 2006. The Company also reports \$1,308,100 lower related liabilities, in the form of deferred revenues and customer refunds payable, at June 30, 2006 than at December 31, 2005.

### 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, 2006 and 2005 is as follows:

|   | 2006<br>---- | 2005<br>----   |
|---|--------------|----------------|
| Net loss  | \$ (227,500) | \$ (1,441,000) |
| Depreciation and amortization                                       | 76,200       | 458,300        |
| Amortization of unearned compensation                               | --           | 30,000         |
| Amortization of beneficial conversion discount<br>and debt discount | --           | 60,500         |
| Common stock issued in payment of services                          | 671,300      | 967,600        |
| Common stock issued in payment of interest                          | 137,800      | 8,000          |
| Receipt of call options, net of related (gains) losses              | (575,300)    | (325,000)      |

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|   |              |              |
|---|--------------|--------------|
| Net current assets and liabilities associated with<br>advance ticketing | (751,800)    | --           |
| Changes in current assets and liabilities                               | (234,300)    | 45,600       |
| Net cash used in operating activities                                   | \$ (903,600) | \$ (196,000) |
|   | =====        | =====        |

### Working Capital and Liquidity

The Company had cash and cash equivalents of \$873,900 at June 30, 2006, compared to \$1,503,000 at December 31, 2005. The Company had \$753,800 of working capital at June 30, 2006 compared to \$152,300 at December 31, 2005. At June 30, 2006 current liabilities were \$2,445,700 compared to \$3,787,700 at December 31, 2005. Current liabilities decreased at June 30, 2006 compared to December 31, 2005 primarily due to the decrease in deferred revenues of \$1,340,600 and an increase in customer refunds payable of \$32,500 associated with the suspension of a major performing artist's tour late in the first quarter of 2006 and fewer scheduled future events for other artists.

The Company's independent auditors have issued a going concern opinion on the Company's consolidated financial statements for the year ended December 31, 2005. The Company may need an

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infusion of additional capital to fund anticipated operating costs over the next 12 months. Management anticipates growth in revenues and gross profits in 2006 from its celebrity services products and websites, and similar services to other entities; including memberships, fan experiences and ticketing, appearances, website development and hosting, and merchandise sales from both existing and new clients. In addition, pending receipt of the formal written notice of allowance of the Company's patent application, the Company will pursue a variety of possible revenue streams from its "AuctionInc" platform and patent which hosts a suite of management tools and enhanced shipping calculator solutions for small ecommerce enterprises. Subject to the discussion below, management believes that the Company has sufficient cash commitments to fund operations during the next 12 months. These commitments include call options for approximately 1,275,000 shares of common stock, which, once assigned by the Company, can generate between \$132,000 and \$815,700 (based solely upon the 52 week high and low closing prices of the Company's common stock) of cash. However, there can be no assurance that assignment of the call options can be concluded on reasonably acceptable terms. If assignments are not made, management may need to seek alternative sources of capital to support operations.

### Forward Looking Statements

This Quarterly Report on Form 10-QSB contains certain forward-looking statements (within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934) regarding the Company and its business, financial condition, results of operations and prospects. Words such as "expects," "anticipates," "intends," "plans," "believes," "seeks," "estimates" and similar expressions or variations of such words are intended to identify forward-looking statements in this report. Additionally, statements concerning future matters such as the development of new services, technology enhancements, purchase of equipment, credit arrangements, possible changes in legislation and other statements regarding matters that are not historical are forward-looking statements.

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Although forward-looking statements in this quarterly report reflect the good faith judgment of the Company's management, such statements can only be based on facts and factors currently known by the Company. Consequently, forward-looking statements are inherently subject to risks, contingencies and uncertainties, and actual results and outcomes may differ materially from results and outcomes discussed in this report. Although the Company believes that its plans, intentions and expectations reflected in these forward-looking statements are reasonable, the Company can give no assurance that its plans, intentions or expectations will be achieved. For a more complete discussion of these risk factors, see Exhibit 99, "Risk Factors", in the Company's Form 10-KSB for the fiscal year ended December 31, 2005.

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

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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.

## PART II - OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

None.

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

(a) In the second quarter of 2006, the Company paid off the remaining

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\$1,150,000 of debt outstanding on its 8% convertible note issued by the Company in the original principal amount of \$2,250,000 to the Augustine Fund, L.P. on November 7, 2001. During the second quarter of 2006, the Company issued 9,020,230 shares of its common stock to Augustine Fund, L.P., for principal and interest on this convertible note. 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.

Also in the second quarter of 2006, the Company paid to Crescent Fund, LLC, 1,111,110 shares, at \$.096 per share, of unregistered common stock as payment for corporate services to be provided by Crescent Fund, LLC. Crescent Fund, LLC is an accredited investor that acquired the shares for its own account. The issuance of the common stock 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.

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### ITEM 5. OTHER INFORMATION

None.

### ITEM 6. EXHIBITS

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

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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: August 14, 2006

PAID, INC.  
Registrant

/s/ Gregory Rotman

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Gregory Rotman, President

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/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.<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 |

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