PAID INC
Form 10-Q
August 05, 2011
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 June 30, 2011

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.)

4 Brussels Street, Worcester, Massachusetts 01610
(Address of Principal Executive Offices) (Zip Code)

(508) 791-6710
(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 T No o

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 o

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	o	Accelerated Filer	T
Non-accelerated filer (Do not check if a smaller reporting company)	o	Smaller reporting company	o

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

As of August 3, 2011, the issuer had outstanding 291,404,461 shares of its Common Stock, par value $.001 per share.

PAID, INC.
FORM 10-Q
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2011

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

PAID, INC.
BALANCE SHEETS

ASSETS	June 30, 2011 (Unaudited)	December 31, 2010 (Audited)
Current assets:		
Cash and cash equivalents	$479,252	$747,245
Accounts receivable, net	197,643	303,941
Inventories, net	998,567	1,052,524
Prepaid expenses and other current assets	233,636	112,592
Prepaid royalties	1,016,820	959,712
Total current assets	2,925,918	3,176,014
Property and equipment, net	95,885	71,767
Intangible asset, net	7,537	8,007
Total assets	$3,029,340	$3,255,788
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$333,683	$292,493
Capital leases - current portion	13,650	6,510
Accrued expenses	497,999	469,953
Deferred revenues	442,825	164,627
Total current liabilities	1,288,157	933,583
Long-term liabilities:		
Capital leases - net of current	28,580	10,307
Commitments and contingencies (note 7)		
Shareholders' equity:		
Common stock, $.001 par value, 350,000,000 shares authorized; 291,035,893 and 286,449,511 shares issued and outstanding at June 30, 2011 and December 31, 2010, respectively	291,036	286,450
Additional paid-in capital	46,089,576	44,861,127
Accumulated deficit	(44,668,009)	(42,835,679)
Total shareholders' equity	1,712,603	2,311,898
Total liabilities and shareholders' equity	$3,029,340	$3,255,788

See accompanying notes to financial statements

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PAID, INC.
STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
Revenues	$1,674,507	$1,194,461	$2,385,830	$2,272,545
Cost of revenues	983,014	664,235	1,392,960	1,241,782
Gross profit	691,493	530,226	992,870	1,030,763
Operating expenses	1,502,151	1,335,375	2,823,974	2,619,023
Loss from operations	(810,658)	(805,149)	(1,831,104)	(1,588,260)
Other income (expense):				
Interest expense	(791)	—	(1,233)	—
Other income	—	9	7	50
Total other income (expense), net	(791)	9	(1,226)	50
Loss before income taxes	(811,449)	(805,140)	(1,832,330)	(1,588,210)
Provision for income taxes	—	—	—	—
Net loss	$(811,449)	$(805,140)	$(1,832,330)	$(1,588,210)
Loss per share - basic	$—	$—	$(0.01)	$(0.01)
Weighted average shares - basic and diluted	289,434,362	273,501,440	288,710,776	271,720,065

See accompanying notes to financial statements

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

	2011	2010
Operating activities:		
Net loss	$(1,832,330)	$(1,588,210)
Adjustments to reconcile net loss to net cash provided by (used in) by operating activities:		
Depreciation and amortization	18,164	12,644
Share based compensation	226,000	226,000
Fair value of stock options awarded to professionals and consultants in payment of fees for services provided	843,374	1,359,281
Fair value of stock options awarded to employees in payment of compensation	162,699	139,534
Services received in consideration of payment of stock subscription receivable	—	60,000
Changes in assets and liabilities:		
Accounts receivable	106,298	177,705
Inventories	53,957	(52,728)
Prepaid expense and other current assets	(121,044)	(1,276,363)
Prepaid royalties	(57,108)	168,569
Accounts payable	41,190	168,292
Accrued expenses	28,046	(38,765)
Deferred revenue	278,198	2,574,914
Net cash provided by (used in) operating activities	(252,556)	1,930,873
Investing activities:		
Property and equipment additions	(11,391)	(24,374)
Financing activities:		
Payments on capital leases	(5,008)	—
Proceeds from the exercise of stock options	962	123,000
Net cash provided by (used in) financing activities	(4,046)	123,000
Net increase (decrease) in cash and cash equivalents	(267,993)	2,029,499
Cash and cash equivalents, beginning	747,245	730,433
Cash and cash equivalents, ending	$479,252	$2,759,932
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the period for:		
Income taxes	$—	$—
Interest	$1,233	$—
SUPPLEMENTAL DISCLOSURES OF NON-CASH INFORMATION		
Acquisition of property and equipment under capital lease	$30,421	$—

See accompanying notes to financial statements

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PAID, INC.
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE SIX MONTHS ENDED JUNE 30, 2011
(Unaudited)

	Common stock		Additional Paid-in Capital	Accumulated Deficit	Total
	Shares	Amount			
Balance, December 31, 2010	286,449,511	$286,450	$44,861,127	$(42,835,679)	$2,311,898
Issuance of common stock pursuant to exercise of stock options granted to employees for services	525,778	526	162,173	—	162,699
Issuance of common stock pursuant to exercise of stock options granted to professionals and consultants	3,098,324	3,098	840,276	—	843,374
Share based compensation related to issuance of incentive stock options	—	—	226,000	—	226,000
Options exercised	962,280	962	—	—	962
Net loss	—	—	—	(1,832,330)	(1,832,330)
Balance, June 30, 2011	291,035,893	$291,036	$46,089,576	$(44,668,009)	$1,712,603

See accompanying notes to financial statements

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PAID, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 and 2010

Note 1. Organization and Significant Accounting Policies

The primary focus of PAID, Inc. (the “Company”) is to provide 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, 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

The Company has prepared the financial statements pursuant 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 year ended December 31, 2010 that was filed on March 11, 2011.

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 2011.

Fair Value of Financial Instruments

Cash and cash equivalents, accounts receivable, accounts payable and accrued expenses - The carrying amount of these financial instruments approximates fair value because of the short-term nature of these instruments.

Management's Plan

The Company has continued to incur significant losses. For the six months ended June 30, 2011, the Company reported a net loss of $1,832,300, and for the years ended December 31, 2010, and 2009, the Company reported losses of $3,306,800, and $3,484,000, respectively. The Company has an accumulated deficit of $44,668,000 at June 30, 2011.

Management continues to refine its business model and believes that it is in a position to take advantage of growth opportunities within the music related industries. Management believes that revenues and gross profits for 2011, which are highly dependent on touring activities, will be consistent with prior years. The Company continues to develop new business which will have a positive impact on future revenues and gross profits. Management believes that with the development of new business, the recoupment of prepaid royalties and an increase in inventory turns, that there will be sufficient resources to generate positive cash flow. In addition, management continues to explore opportunities and has organized additional resources to monetize 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 2011.

Use of estimates

In preparing 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 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.

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Cash and cash equivalents

The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

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.

On a periodic basis management reviews inventories on hand to ascertain if any is slow moving or obsolete. In connection with this review, at June 30, 2011 and December 31, 2010 the Company provided for reserves totaling $497,900 and $609,000, respectively.

Prepaid royalties

The Company accounts for prepaid royalties in accordance with FASB ASC 928, "Financial Reporting in the Record and Music Industry". Artist royalty advances are deferred when paid and expensed based on the completion of performances, shows or other activities. Certain stock advances contain guaranties related to the proceeds from the sale of the stock, and are accounted for at fair value on the date of issuance.

Revenue recognition

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

Fan experiences sales generally 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 FASB ASC 605, "Revenue," 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 ratably over the term of the related membership, generally one year.

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 Comp