

PAID INC  
Form 10-Q  
May 15, 2015

**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, 2015**

**COMMISSION FILE NUMBER 0-28720**

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

**DELAWARE**

(State or Other Jurisdiction of Incorporation or Organization)

**73-1479833**

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

**200 Friberg Parkway, Westborough, Massachusetts 01581**

(Address of Principal Executive Offices) (Zip Code)

**(617) 861-6050**

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(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, 2015, the issuer had outstanding 343,774,050 shares of its Common Stock, par value \$0.001 per share.

**PAID, INC.**

**FORM 10-Q**

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

|   | March 31,<br>2015<br>(Unaudited) | December 31,<br>2014<br>(Audited) |
|---|----------------------------------|-----------------------------------|
| <b>ASSETS</b>                               |                                  |                                   |
| Current assets:                             |                                  |                                   |
| Cash and cash equivalents                   | \$553,575                        | \$651,318                         |
| Accounts receivable, net                    | 91,649                           | 91,574                            |
| Other receivables, net                      | 120,338                          | 120,338                           |
| Inventories                                 | 1,305                            | 1,305                             |
| Prepaid expenses and other current assets   | 34,740                           | 42,567                            |
| Advanced royalties, net                     | 82,905                           | 82,905                            |
| Total current assets                        | 884,512                          | 990,007                           |
| Property and equipment, net                 | 13,964                           | 18,489                            |
| Intangible asset, net                       | 4,007                            | 4,242                             |
| Deposits and other assets                   | 19,702                           | 23,387                            |
| Total assets                                | \$922,185                        | \$1,036,125                       |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b> |                                  |                                   |
| Current liabilities:                        |                                  |                                   |
| Accounts payable                            | \$121,171                        | \$215,707                         |
| Capital leases – current portion            | 13,891                           | 15,223                            |
| Accrued expenses                            | 621,805                          | 674,019                           |
| Deferred revenues                           | 6,992                            | 7,102                             |
| Total current liabilities                   | 763,859                          | 912,051                           |
| Long-term liabilities:                      |                                  |                                   |
| Capital leases – net of current portion     | 131                              | 3,095                             |
| Total liabilities                           | 763,990                          | 915,146                           |
| Commitments and contingencies               |                                  |                                   |
| Shareholders' equity:                       | 343,774                          | 339,374                           |

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Common stock, \$0.001 par value, 550,000,000 shares authorized; 343,774,050 and 339,374,050 shares issued and outstanding at March 31, 2015 and December 31, 2014, respectively

|  |              |               |
|--|--------------|---------------|
| Common stock subscribed but not issued     | -            | 25,000        |
| Additional paid-in capital                 | 53,772,286   | 53,506,353    |
| Accumulated deficit                        | (53,957,865) | (53,749,748 ) |
| Total shareholders' equity                 | 158,195      | 120,979       |
| <br>                                       |              |               |
| Total liabilities and shareholders' equity | \$922,185    | \$ 1,036,125  |

See accompanying notes to condensed financial statements

**PAID, INC.****CONDENSED STATEMENTS OF COMPREHENSIVE LOSS****(Unaudited)**

|  | Three Months Ended |                   |
|--|--------------------|-------------------|
|  | March 31,<br>2015  | March 31,<br>2014 |
| Revenues   | \$41,794           | \$509,405         |
| Cost of revenues   | 9,155              | 369,668           |
| Gross profit   | 32,639             | 139,737           |
| Operating expenses   | 290,830            | 298,655           |
| Loss from operations   | (258,191 )         | (158,918 )        |
| Other income (expense):  |                    |                   |
| Interest income (expense), net   | (280 )             | 2,338             |
| Other income   | -                  | 1,802             |
| Realized gain on investments in available-<br>-for-sale securities       | -                  | 3,748             |
| Write down of other receivables  | -                  | (55,618 )         |
| Gain on settlement of liabilities  | -                  | 34,759            |
| Unrealized gain on stock price guarantee                                 | 51,310             | -                 |
| Total other income (expense), net  | 51,030             | (12,971 )         |
| Loss before provision for income taxes                                   | (207,161 )         | (171,889 )        |
| Provision for income taxes   | 956                | 1,206             |
| Net loss   | \$(208,117 )       | \$(173,095 )      |
| Loss per share – basic and diluted                                       | \$(0.00 )          | \$(0.00 )         |
| Weighted average number of common shares outstanding - basic and diluted | 341,341,828        | 328,874,050       |
| Net loss   | \$(208,117 )       | \$(173,095 )      |
| Unrealized gain on investments in available-for-sale securities          | -                  | 2,800             |
| Total comprehensive loss   | \$(208,117 )       | \$(170,295 )      |

See accompanying notes to condensed financial statements

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

|  | 2015        | 2014        |
|--|-------------|-------------|
| Cash flows from operating activities:  |             |             |
| Net loss   | \$(208,117) | \$(173,095) |
| Adjustments to reconcile net loss to cash and cash equivalents used in operating activities: |             |             |
| Depreciation and amortization  | 4,760       | 8,659       |
| Realized loss on investments in available-for-sale securities                                | -           | (3,748 )    |
| Write down of other receivables  | -           | 55,618      |
| Gain on settlement of liabilities  | -           | (34,759 )   |
| Share-based compensation   | 50,333      | 12,668      |
| Unrealized gain on stock price guarantee   | (51,310 )   | -           |
| Changes in assets and liabilities:   |             |             |
| Accounts receivable  | (75 )       | 128,417     |
| Other receivables  | -           | 214,759     |
| Inventories  | -           | (14,761 )   |
| Prepaid expenses and other current assets  | 7,827       | (59,632 )   |
| Advanced royalties   | -           | (2,041 )    |
| Deposits and other assets  | 3,685       | -           |
| Accounts payable   | (94,536 )   | (307,269)   |
| Accrued expenses   | (904 )      | 91,457      |
| Deferred revenues  | (110 )      | 38,734      |
| Net cash used in operating activities  | (288,447)   | (44,993 )   |
| Cash flows from investing activities:  |             |             |
| Proceeds from sale of investments in available-for-sale securities                           | -           | 87,482      |
| Net cash provided by investing activities  | -           | 87,482      |
| Cash flows from financing activities:  |             |             |
| Payments on capital leases   | (4,296 )    | (9,981 )    |
| Proceeds from issuance of common stock   | 195,000     | -           |
| Net cash provided by (used in) financing activities  | 190,704     | (9,981 )    |
| Net change in cash and cash equivalents  | (97,743 )   | 32,508      |
| Cash and cash equivalents, beginning of period   | 651,318     | 463,285     |
| Cash and cash equivalents, end of period   | \$553,575   | \$495,793   |
| <b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>                                     |             |             |
| Income taxes paid  | \$-         | \$-         |
| Interest paid  | \$280       | \$596       |
| <b>SUPPLEMENTAL DISCLOSURE OF NON-CASH INFORMATION</b>                                       |             |             |



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|   |          |         |
|---|----------|---------|
| Unrealized gain on investments in available-for-sale securities | \$-      | \$2,800 |
| Issuance of previously subscribed common stock                  | \$25,000 | \$-     |

See accompanying notes to condensed financial statements

**PAID, INC.**

**NOTES TO CONDENSED FINANCIAL STATEMENTS (Unaudited)**

**March 31, 2015**

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

PAID, Inc. (“PAID” the “Company”, “we”, “us”, “our”) has developed AuctionInc, which is a suite of online shipping tools assisting e-commerce businesses with shipping solutions, inventory management, and auction processing. The product has tools to assist with other aspects of the fulfillment process, but the main purpose of this product is to provide accurate shipping and packaging algorithms that provide customers with the best possible shipping solutions.

The Company has five United States patents issued by the United States Patent and Trademark Office (USPTO) and one pending patent application. The Company intends to license its intellectual property on commercially reasonable terms to licensees in order to generate revenue for the Company. As part of this revenue generation effort, the Company commenced on December 20, 2013 patent infringement litigation against eBay, Inc. (Paid, Inc. v. eBay, Inc.; CV No. 4:13-cv-40151-TSH) in the United States District Court for the District of Massachusetts Central Division. The Company’s goal is to develop a robust licensing program utilizing its intellectual property assets.

Previously, the Company's primary focus was to provide brand-related services to businesses, celebrity clients in the entertainment industry as well as charitable organizations. PAID's brand management, brand marketing, social media marketing, product design and merchandising, website design, development and hosting services were designed to grow each client's customer base in size, loyalty and revenue generation. We offered entertainers and business entities comprehensive web-presence and related services supporting and managing clients' official websites and fan-community services including e-commerce, VIP ticketing, live event fan experiences, user-generated content, client content publishing and distribution, fan forums, social network management, social media marketing, customer data capture, management and analysis.

*General Presentation and Basis of Financial Statements*

The accompanying unaudited condensed 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 GAAP for complete financial statements and should be read in conjunction with the Company's audited financial statements and notes thereto included in the Annual Report on Form

10-K for the year ended December 31, 2014 that was filed on March 30, 2015.

In the opinion of Management, the Company has prepared the accompanying unaudited condensed financial statements on the same basis as its audited financial statements, and these unaudited condensed financial statements include all adjustments, consisting 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 2015.

*Going Concern and Management's Plan*

The accompanying unaudited condensed financial statements have been prepared on a going concern basis which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The Company has continued to incur losses, although it has taken significant steps to reduce them. For the three months ended March 31, 2015, the Company reported a net loss of \$208,117. The Company has an accumulated deficit of \$53,957,865 at March 31, 2015 and used \$288,447 of cash and cash equivalents in operations for the three months ended March 31, 2015. These factors raise substantial doubt about the Company's ability to continue as a going concern.

Management has reduced the Company's losses in the music and entertainment area and focused the Company on its growing patent portfolio and its shipping calculator products. The Company has concluded its relationships within the music industry and is focusing all of its attention towards growing the AuctionInc business. We believe these changes to our business model will lead to improved efficiency, increased margins and a reduction of our operating costs. Going forward the primary focus of PAID is to expand upon and license its intellectual property as well as the sale of our AuctionInc line of shipping calculator products. AuctionInc has recently added several new integrations with e-Commerce platform providers in order to broaden its line of shipping calculator products and increase revenues.

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 2015.

#### *Use of Estimates*

The preparation of the condensed financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant estimates made by the Company's management include, but are not limited to the collectability of accounts receivables and other receivables, the valuation of inventories, the recoverability of long-lived assets, the valuation of deferred tax assets and liabilities and the estimated fair value of the royalty and advance guarantees and share-based transactions. Actual results could materially differ from those estimates.

#### *Fair Value Measurements*

The Company measures the fair value of certain of its financial assets on a recurring basis. A fair value hierarchy is used to rank the quality and reliability of the information used to determine fair values. Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – Inputs other than Level 1 that are observable, either directly or indirectly, such as unadjusted quoted prices for similar assets and liabilities, unadjusted quoted prices in the markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities;  
and

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

At March 31, 2015 and December 31, 2014, the Company's financial instruments include cash and cash equivalents, accounts receivable, other receivables, accounts payable, capital leases, and accrued expenses. The carrying amount of cash and cash equivalents, accounts receivable, other receivables, accounts payable, capital leases, and accrued expenses approximates fair value due to the short-term maturities of these instruments.

#### *Cash and Cash Equivalents*

The Company considers all highly liquid temporary cash investments with an initial maturity of three months or less to be cash equivalents. Management believes that the carrying amounts of cash equivalents approximate their fair value because of the short maturity period.

### *Concentration of Credit Risk*

The Company maintains cash balances at financial institutions that are insured by the Federal Deposit Insurance Corporation ("FDIC") up to \$250,000. At March 31, 2015, the Company had amounts in these accounts in excess of the FDIC limit. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk related to these deposits. Management believes that it has invested in high credit quality institutions for which the Company has not experienced any loss in its accounts and believes it is not exposed to any significant credit risk related to these accounts.

The Company extends credit based on an evaluation of the customer's financial condition, generally without requiring collateral. Exposure to losses on receivables is principally dependent on each customer's financial condition. The Company monitors its exposure for credit losses and maintains allowances for anticipated losses. Although the Company expects to collect amounts due, actual collections may differ from the estimated amounts. At both March 31, 2015 and December 31, 2014, the Company has recorded an allowance for doubtful accounts of \$38,609, respectively.

For the three months ended March 31, 2015, no revenues from an individual client accounted for more than 10% of total revenues. For the three months ended March 31, 2014, revenues from one client accounted for approximately 86% of total revenues. These revenues were generated from the sales of our line of AuctionInc products, tour merchandise, VIP services, and merchandising and fulfillment services.

### *Investments in Marketable Securities*

The Company accounted for its investments in marketable securities in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 320. The Company determined the appropriate classification of its investments at the time of purchase and reevaluated such designation at each balance sheet date.

The Company classified its investments as available-for-sale securities. Available-for-sale securities are stated at fair value, generally based on market quotes, to the extent they are available. Unrealized gains and losses, net of applicable deferred taxes, are recorded as a component of accumulated other comprehensive income (loss) and reported in shareholders' equity (deficit). Realized gains and losses and declines in value judged to be other than temporary are determined based on the specific identification method and are reported in earnings in the statements of comprehensive income (loss). As of December 31, 2014, the Company liquidated its available-for-sale securities.

*Other Receivables*

Other receivables consist of shares of our common stock held by the Company's landlord, Carruth Capital which are available-for-sale. As of March 31, 2015 and December 31, 2014, 2,528,091 shares were held by Carruth Capital and were valued at \$120,338, respectively, based on the market price of our common stock. The Company records an impairment of these shares when the market price decreases in the accompanying condensed consolidated statements of comprehensive income (loss). For three months ended March 31, 2015 and 2014, the write down of other receivables was \$0 and \$55,618, respectively.

*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.

At each balance sheet date, the Company evaluates its ending inventory quantities on hand and on order and records a provision for excess quantities and obsolescence. Among other factors, the Company considers historical demand and forecasted demand in relation to the inventory on hand, competitiveness of product offerings, market conditions and product life cycles when determining obsolescence and net realizable value. In addition, the Company considers changes in the market value of components in determining the net realizable value of its inventory. Provisions are made to reduce excess or obsolete inventories to their estimated net realizable values. Once established, write-downs are considered permanent adjustments to the cost basis of the excess or obsolete inventories.

#### *Advanced Royalties*

Advanced royalties represent amounts the Company has advanced to certain clients and are recoupable against future royalties earned by the clients. Advances are issued in either cash or shares of the Company's common stock and advanced amounts are calculated based on the clients' projected earning potential over a fixed period of time. Advances made by issuing stock or common stock options are recorded at their fair value on the date of issue. If the shares do not reach the required price per share, the Company has the option of issuing additional shares or making cash payment of the difference between the sales price and the fair value of the stock. The Company records a liability for the difference between the fair value of the stock and the guaranteed sales price amount. The change in fair value of the stock price guarantee is recorded in the accompanying condensed statements of comprehensive loss.

#### *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. Any leasehold improvements are depreciated at the lesser of the useful life of the asset or the lease term. Equipment purchased under capital leases is amortized on a straight-line basis over the estimated useful life of the asset or the term of the lease, whichever is shorter.

#### *Intangible Assets*

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

#### *Long-Lived Assets*



The Company reviews the carrying values of its long-lived assets for possible impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the expected future cash flow from the use of the asset and its eventual disposition is less than the carrying amount of the asset, an impairment loss is recognized and measured using the fair value of the related asset. No impairment charges were incurred during the three months ended March 31, 2015 and 2014. There can be no assurance, however, that market conditions will not change or demand for the Company's services will continue, which could result in impairment of long-lived assets in the future.

### *Revenue Recognition*

The Company generates revenue principally from sales of shopping cart and shipping calculator subscriptions, and other client services.

The Company recognizes revenues in accordance with the FASB ASC Topic 605. Accordingly, the Company recognizes revenues when there is persuasive evidence that an arrangement exists, product delivery and acceptance have occurred, the sales price is fixed or determinable, and collectability of the resulting receivable is reasonably assured.

For shipping calculator revenues the Company recognizes subscription revenue on a monthly basis. Customers' renewal dates are based on their date of installation and registration of the shipping calculator line of products. Payments are made via credit card for the month following the service.

Fan experience 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, 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 Company with respect to the transaction. During 2013 the Company moved its merchandising operations to Music City Networks (“MCN”) in Nashville, TN. Under our agreement with MCN revenues are recognized by means of a profit split calculation, payable as a commission due to the Company.

Client services revenues include web development and design, creative 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 performed on a time and material basis are recognized as the related services are performed.

#### *Cost of Revenues*

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

#### *Operating Expenses*

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

#### *Advertising*

Advertising costs are charged to expense as incurred. For the three months ended March 31, 2015 and 2014, advertising expense totaled \$6,224 and \$940, respectively. These expenses are included in operating expenses in the accompanying condensed statements of comprehensive loss.

#### *Share-Based Compensation*

The Company grants options to purchase the Company's common stock to employees, directors and consultants under stock option plans. The benefits provided under these plans are share-based payments that the Company accounts for using the fair value method.

The fair value of each option award is estimated on the date of grant using a Black-Scholes-Merton option pricing model ("Black-Scholes model") that uses assumptions regarding a number of complex and subjective variables. These variables include, but are not limited to, expected stock price volatility, actual and projected employee stock option exercise behaviors, risk-free interest rate and expected dividends. Expected volatilities are based on the historical volatility of the Company's common stock and other factors. The expected terms of options granted are based on analyses of historical employee termination rates and option exercises. The risk-free interest rate is based on the U.S. Treasury yield in effect at the time of the grant. Since the Company does not expect to pay dividends on common stock in the foreseeable future, it estimated the dividend yield to be 0%.

Share-based compensation expense recognized during a period is based on the value of the portion of share-based payment awards that is ultimately expected to vest and is amortized under the straight-line attribution method. As share-based compensation expense recognized in the accompanying condensed statements of comprehensive loss for the three months ended March 31, 2015 and 2014 is based on awards ultimately expected to vest, it has been reduced for estimated forfeitures. The fair value method requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. The Company estimates forfeitures based on historical experience. Changes to the estimated forfeiture rate are accounted for as a cumulative effect of change in the period the change occurred.

Since the Company has a net operating loss carry-forward as of March 31, 2015 and 2014, no excess tax benefits for tax deductions related to share-based awards were recognized from stock options exercised in the three months ended March 31, 2015 and 2014 that would have resulted in a reclassification from cash flows from operating activities to cash flows from financing activities.

#### *Income Taxes*

The Company accounts for income taxes and the related accounts under the liability method. Deferred tax assets and liabilities are determined based on the differences between the financial statement carrying amounts and the income tax bases of assets and liabilities. A valuation allowance is applied against any net deferred tax asset if, based on available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. Therefore, the Company has recorded a full valuation allowance against the net deferred tax assets. The Company's income tax provision consists of state minimum taxes.

The Company recognizes any uncertain income tax positions on income tax returns at the largest amount that is more-likely-than-not to be sustained upon audit by the relevant taxing authority. An uncertain income tax position will not be recognized if it has less than a 50% likelihood of being sustained.

The Company's policy is to recognize interest and/or penalties related to income tax matters in income tax expense. The Company had \$0 accrued for interest and penalties on the Company's accompanying condensed balance sheets at March 31, 2015 and December 31, 2014.

#### *Earnings (Loss) Per Common Share*

Basic earnings (loss) per share represent income (loss) available to common shareholders divided by the weighted-average number of common shares outstanding during the period. Diluted earnings (loss) 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 (loss) that would result from the assumed issuance. The potential common shares that may be issued by the Company relate to outstanding stock options and have been excluded from the computation of diluted earnings (loss) per share because they would reduce the reported loss per share and therefore have an anti-dilutive effect.

For the three months ended March 31, 2015 and 2014, there were approximately 3,535,000 and 11,962,000, respectively, potentially dilutive shares using the treasury stock method that were excluded from the diluted earnings (loss) per share as their effect would have been antidilutive for the period then ended.

### *Segment Reporting*

The Company reports information about segments of its business in its annual financial statements and reports selected segment information in its quarterly reports. The Company also reports on its entity-wide disclosures about the products and services it provides and reports revenues and its major customers. The Company's two reportable segments, entertainment services and shipping calculator services, are managed separately based on fundamental differences in their operations. For the three months ended March 31, 2015, total revenues from shipping calculator services was \$37,337 and total operating loss from operations was (\$261,244). For the three months ended March 31, 2014, total revenues from entertainment services and shipping calculator services was \$458,463 and \$38,656, respectively, and total operating gain (loss) from operations was (\$170,109) and \$1,853, respectively.

The Company evaluates performance and allocates resources based upon operating income. The accounting policies of the reportable segments are the same as those described in this summary of significant accounting policies. The Company's chief operating decision maker is the President, Chief Executive Officer and Chief Financial Officer.

#### *Recent Accounting Pronouncements*

In May 2014, the FASB issued Accounting Standards Update ("ASU") No. 2014-09, "Revenue from Contracts with Customers". ASU 2014-09 supersedes the revenue recognition requirements in FASB Topic 605, "Revenue Recognition". The ASU implements a five-step process for customer contract revenue recognition that focuses on transfer of control, as opposed to transfer of risk and rewards. The amendment also requires enhanced disclosures regarding the nature, amount, timing and uncertainty of revenues and cash flows from contracts with customers. Other major provisions include the capitalization and amortization of certain contract costs, ensuring the time value of money is considered in the transaction price, and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. Entities can transition to the standard either retrospectively or as a cumulative-effect adjustment as of the date of adoption. In April 2015, the FASB proposed deferring the effective date by one year to December 15, 2017 for annual reporting periods beginning after that date. The FASB also proposed permitting early adoption of the standard, but not before the original effective date for reporting periods beginning after December 15, 2016. The Company has not selected a transition method and management is currently assessing the impact the adoption of ASU 2014-09 will have on our condensed financial statements.

In August 2014, the FASB issued ASU 2014-15, "Presentation of Financial Statements-Going Concern". Currently, there is no guidance in U.S. GAAP about management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern or to provide related footnote disclosures. The amendments require management to assess an entity's ability to continue as a going concern by incorporating and expanding upon certain principles that are currently in U.S. auditing standards. Specifically, the amendments (1) provide a definition of the term substantial doubt, (2) require an evaluation every reporting period including interim periods, (3) provide principles for considering the mitigating effect of management's plans, (4) require certain disclosures when substantial doubt is alleviated as a result of consideration of management's plans, (5) require an express statement and other disclosures when substantial doubt is not alleviated, and (6) require an assessment for a period of one year after the date that the financial statements are issued (or available to be issued). The amendments in this ASU are effective for the reporting periods beginning after December 15, 2016 and early application is permitted. Management is currently assessing the impact the adoption of ASU 2014-15 will have on our condensed financial statements.

#### *Reclassifications*

Certain reclassifications have been made to the prior period financial statement presentation to conform to the current year financial statement presentation. The reclassifications did not have any effect on reported net losses for any period presented.



**Note 2. Accrued Expenses**

Accrued expenses are comprised of the following:

|                           | March 31,<br>2015<br>(unaudited) | December 31,<br>2014<br>(audited) |
|---------------------------|----------------------------------|-----------------------------------|
| Payroll and related costs | \$ 1,115                         | \$ 2,019                          |
| Royalties                 | 80,572                           | 80,572                            |
| Stock price guarantee     | 503,422                          | 554,732                           |
| Other                     | 36,696                           | 36,696                            |
| Total                     | \$ 621,805                       | \$ 674,019                        |

**Note 3. Commitments and Contingencies***Stock Price Guarantee*

In connection with the Company's advance royalties with a client, the Company guaranteed that shares of common stock would sell for at least \$0.12 per share. If the shares are not at the required \$0.12 per share when they are sold, the Company has the option of issuing additional shares at their fair value or making a cash payment for the difference between the guaranteed price per share and the fair value of the stock. As of March 31, 2015 and December 31, 2014, the stock price guarantee was \$503,422 and \$554,732, respectively, as the Company's stock price was below \$0.12 per share at March 31, 2015 and December 31, 2014, although any required payment would be disputed by the Company. For the three months ended March 31, 2015, the Company recorded an unrealized gain on stock price guarantee of \$51,310.

*Legal Matters*

In the normal course of business, the Company periodically becomes involved in litigation. As of March 31, 2015, in the opinion of management, the Company had no pending litigation that would have a material adverse effect on the Company's financial position, results of operations, or cash flows.



The Company commenced on December 20, 2013 patent infringement litigation against eBay, Inc. (Paid, Inc. v. eBay, Inc.; CV No. 4:13-cv-40151-TSH) in the United States District Court for the District of Massachusetts Central Division. On June 30, 2014, PAID and eBay filed a joint motion to stay the district court litigation pending completion of eBay, Inc.'s petitions for covered business review that were filed with the Patent and Trial and Appeal Board ("PTAB"). On September 30, 2014, the PTAB announced that it had granted petitions filed by eBay, Inc. for covered business method review of PAID's United States Patent Nos. 8,635,150, 8,521,642, 8,352,357, and 7,930,237, entitled "Method and System for Improved Online Auction."

#### *Indemnities and Guarantees*

The Company has made certain indemnities and guarantees, under which it may be required to make payments to a guaranteed or indemnified party, in relation to certain actions or transactions. The Company indemnifies its directors, officers, employees and agents, as permitted under the laws of the State of Delaware. In connection with its facility lease, the Company has agreed to indemnify its lessor for certain claims arising from the use of the facilities. The duration of the guarantees and indemnities varies, and is generally tied to the life of the agreement. These guarantees and indemnities do not provide for any limitation of the maximum potential future payments the Company could be obligated to make. Historically, the Company has not been obligated nor incurred any payments for these obligations and, therefore, no liabilities have been recorded for these indemnities and guarantees in the accompanying condensed balance sheets.

#### **Note 4. Common Stock**

##### **Common Stock**

During the period ended March 31, 2015, the Company sold 3,900,000 shares of common stock for proceeds of \$195,000.

##### **Subscribed and Issued Shares**

During the year ended December 31, 2014, the Company sold 500,000 shares of common stock that had not been issued to a shareholder and accordingly, the unissued shares had been reflected as common stock subscribed but not issued in the amount of \$25,000 in the accompanying condensed balance sheet as of December 31, 2014. In February 2015, the Company issued the 500,000 shares to the new shareholder.

##### **Share-based Incentive Plans**

During the period ended March 31, 2015, the Company had three 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. There were no stock options granted, exercised, canceled or expired during the three months ended March 31, 2015.

##### **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. At March 31, 2015, there are 6,000,000 shares reserved for issuance under this plan.

***2011 Plan***

On February 1, 2011, the Company adopted the 2011 Non-Qualified Stock Option Plan (the "2011 Plan"), and has filed Registration Statements on Form S-8 to register 30,000,000 shares of its common stock. Under the 2011 Plan, employees and consultants may elect to receive their gross compensation in the form of options, exercisable at \$0.001 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. The options granted have a 10 year contractual term and have vesting periods that range from one hundred percent on the date of grant to one third immediately, one third vesting in 18 months and the final on third vesting in 36 months from the date of the grant. At March 31, 2015, there are no shares reserved for issuance under this plan.

***2002 Plan***

The 2002 Stock Option Plan ("2002 Plan") provides for the award of qualified and non-qualified options for up to 30,000,000 shares. The options granted have a ten-year contractual term and have a vesting schedule of either immediately, two years, or four years from the date of grant. At March 31, 2015, there are currently no shares reserved for issuance under this plan.

**Note 5. Subsequent Events**

The Company has evaluated subsequent events through the filing date of this Form 10-Q, and have determined that no subsequent events have occurred that would require recognition in the condensed financial statements or disclosure in the notes thereto.

**ITEM MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS**  
**2. OF OPERATIONS.**

**Forward Looking Statements**

This Quarterly Report on Form 10-Q 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", "could", "may", "should", "will", "would", and similar expressions or variations of such words are intended to identify forward-looking statements in this report. Additionally, statements concerning future matters such as the development of new services, technology enhancements, purchase of equipment, credit arrangements, possible changes in legislation and other statements regarding matters that are not historical are forward-looking statements.

Although forward-looking statements in this quarterly report reflect the good faith judgment of the Company's management, such statements can only be based on facts and factors currently known by the Company. Consequently, forward-looking statements are inherently subject to risks, contingencies and uncertainties, and actual results and outcomes may differ materially from results and outcomes discussed in this report. Although the Company believes that its plans, intentions and expectations reflected in these forward-looking statements are reasonable, the Company can give no assurance that its plans, intentions or expectations will be achieved. For a more complete discussion of these risk factors, see Item 1A, "Risk Factors", in the Company's Form 10-K for the fiscal year ended December 31, 2014 that was filed on March 30, 2015.

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, 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.

Except as required by applicable laws, we do not intend to publish updates or revisions of any forward-looking statements we make to reflect new information, future events or otherwise. Readers are urged to review carefully and to consider the various disclosures made by the Company in this Annual Report, which attempts to advise interested parties of the risks and factors that may affect our business, financial condition, results of operations and prospects.

## Overview

The AuctionInc system was originally designed to assist and improve just the Company's sales, but management realized that there was a need for an order management system for individuals and businesses that sell on the Internet, specifically at auctions and sites with multiple sellers. In 2000 the Company's technology team focused its attention on the core fundamental piece of the system called the Shipping Calculator. The Company recognized the potential importance of the calculator and filed for a patent before launching it to the public in April 2002. The Company obtained its first patent on the shipping calculator in January 2008, the second patent in April 2011, the third patent in January 2013, the fourth patent in August 2013 and a fifth patent in January 2014. One additional patent is pending. The product is modular based and we continue to develop new tools and products for its customers. We feel that our patents are very valuable and we hope to license them at a fair price to generate revenue for the Company. In addition to this strategy we also have ongoing litigation (Paid vs. eBay) in the U.S. District Court of Massachusetts. Our goal is to develop a robust licensing program to generate revenues for the company.

Previously, the Company's primary focus was to provide brand-related services to businesses and celebrity clients in the entertainment industry as well as charitable organizations. PAID's brand management, brand marketing, social media marketing, product design and merchandising, website design, development and hosting services were designed to grow each client's customer base in size, loyalty and revenue generation. We offered entertainers and business entities comprehensive web-presence and related services supporting and managing clients' official websites and fan-community services including e-commerce, VIP ticketing, live event fan experiences, user-generated content, client content publishing and distribution, fan forums, social network management, social media marketing, customer data capture, management and analysis. PAID's brand support services also included design and production of print and promotion marketing materials for client branded products and events. In addition to sourcing, designing and marketing, PAID sold merchandise for celebrities and businesses, through official website stores and other web-based outlets as well as on-tour and retail outlets. Our celebrity services proprietary content management system and our use of both off-the-shelf best of class and proprietary software applications provided an opportunity for our clients to offer a Direct-To-Consumer solution enabling more information, merchandise and experiences directly to their customers and communities while optimizing our ability to capture customer data and build robust customer data-bases for them. We provided business management tools for online retailers, through AuctionInc, which is home to our patented shipping calculator and automated auction checkout and order processing system. This system provides the fundamental structure for our celebrity web hosting and development services, and for individuals seeking a professional and interactive presence on the Internet.

#### *Significant Accounting Policies*

Our significant accounting policies are more fully described in Note 3 to our financial statements included in our Form 10-K filed on March 30, 2015, as updated and amended in Note 1 of the Notes to Condensed Financial Statements included herein. However, certain of our accounting policies, most notably with respect to revenue recognition, 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.

#### *Results of Operations*

#### ***Comparison of the three months ended March 31, 2015 and 2014.***

The following discussion compares the Company's results of operations for the three months ended March 31, 2015 with those for the three months ended March 31, 2014. The Company's condensed 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*

The following table compares total revenue for the periods indicated.

|                               | Three months Ended March 31, |            |          |
|-------------------------------|------------------------------|------------|----------|
|                               | 2015                         | 2014       | % Change |
| Merchandising and fulfillment | \$ 4,245                     | \$ 30,333  | (86 )%   |
| Client services               | 212                          | 5,033      | (96 )%   |
| Shipping calculator services  | 37,337                       | 38,656     | (3 )%    |
| Touring revenues              | -                            | 435,383    | (100 )%  |
| Total revenues                | \$ 41,794                    | \$ 509,405 | (92 )%   |

Revenues decreased 92% in the first quarter primarily from the decreased client base and the withdrawal from the celebrity service industry.

Merchandising and fulfillment revenues decreased \$26,088 or 86% to \$4,245 in the first quarter of 2015 compared to \$30,333 in 2014. This is a direct result of our withdrawal from the celebrity services industry.

Client services revenues decreased \$4,821 or 96% to \$212 in the first quarter of 2015 compared to \$5,033 in 2014. The decrease was attributable to the change in our business plan as it relates to the services we have provided within the music industry.

Touring revenues decreased \$435,383 or 100% to \$0 in the first quarter of 2015 compared to \$435,383 in 2014. Due to our exit from the celebrity services industry there are no revenues recognized during the first quarter of 2015 when compared to the first quarter of 2014.

#### *Gross Profit*

Gross profit decreased \$107,098 or 77% in the first quarter of 2015 to \$32,639 compared to \$139,737 in 2014. Gross margin increased 51 percentage points to 78% from 27% in the first quarter of 2014. The increase in gross margin was mainly due to the increase in the ratio of revenues with regard to AuctionInc, which has a higher gross profit calculation. Going forward, the Company will continue to focus on expanding and licensing its intellectual property. It is to be expected that this service line will be less costly to pursue.

#### *Operating Expenses*

Total operating expenses in the first quarter 2015 were \$290,830 compared to \$298,655 in the first quarter 2014, a decrease of \$7,825 or 3%. The decrease is due to the largely due the withdrawal from the celebrity service relationships and decreases in payroll, accounting fees, consulting and related costs.

#### *Net Income (Loss)*

The Company realized a net loss in the first quarter of 2015 of (\$208,117) compared to a net loss of (\$173,095) for the same period in 2014. The loss and income for the first quarter of 2015 and 2014 each represent \$0.00 per share.



**Operating Cash Flows**

A summarized reconciliation of the Company's net loss to cash and cash equivalents used in operating activities for the three months ended March 31, 2015 and 2014 is as follows:

|   | 2015        | 2014        |
|---|-------------|-------------|
| Net loss  | \$(208,117) | \$(173,095) |
| Depreciation and amortization                                 | 4,760       | 8,659       |
| Realized loss on investments in available-for-sale securities | -           | (3,748 )    |
| Write down of other receivables                               | -           | 55,618      |
| Gain on settlement of liabilities                             | -           | (34,759 )   |
| Share-based compensation                                      | 50,333      | 12,668      |
| Unrealized gain on stock price guarantee                      | (51,310 )   | -           |
| Changes in current assets and liabilities                     | (84,113 )   | 89,664      |
| Net cash used in operating activities                         | \$(288,447) | \$(44,993 ) |

## **Working Capital and Liquidity**

The Company had cash and cash equivalents of \$553,575 at March 31, 2015, compared to \$651,318 at December 31, 2014. The Company had a working capital of \$120,653 at March 31, 2015, an increase of \$42,697 compared to \$77,956 at December 31, 2014. The decrease in cash and cash equivalents on hand is attributable to the decrease in revenues generated from the celebrity services.

The Company may need an infusion of additional capital to fund anticipated operating costs over the next 12 months. Management believes that the Company has adequate cash resources to fund operations during the next 12 months. In addition, management continues to explore opportunities and has organized additional resources to monetize its patents. However, there can be no assurance that anticipated growth in new business will occur, and that the Company will be successful in monetizing its patents. Management continues to seek alternative sources of capital to support operations.

## **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

As a smaller reporting company, the Company is not required to provide the information for this Item 3.

## **ITEM 4. CONTROLS AND PROCEDURES**

### **Evaluation of Disclosure Controls and Procedures**

The Company's management, including the President and Chief Executive Officer of the Company, as its principal executive officer, and the Chief Financial Officer of the Company, as its principal financial officer, have 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 this evaluation, the President, Chief Executive Officer and Chief Financial Officer concluded that, as of March 31, 2015, the Company's disclosure controls and procedures were not effective, due to material weaknesses in internal control over financial reporting, 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 officer, as appropriate to allow timely decisions regarding required disclosure.

The Company has identified five material weaknesses in internal control over financial reporting as described in the Company's Form 10-K for the year ended December 31, 2014.

### **Changes in Internal Control over Financial Reporting**

There was no change in our internal control over financial reporting during the quarter ended March 31, 2015 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## **PART II - OTHER INFORMATION**

### **ITEM 1. LEGAL PROCEEDINGS**

In the normal course of business, the Company periodically becomes involved in litigation. As of March 31, 2015, in the opinion of Management, the Company had no material pending litigation other than ordinary litigation incidental to the business.

The Company commenced on December 20, 2013 patent infringement litigation against eBay, Inc. (Paid, Inc. v. eBay, Inc.; CV No. 4:13-cv-40151-TSH) in the United States District Court for the District of Massachusetts Central Division. On June 30, 2014, PAID and eBay filed a joint motion to stay the district court litigation pending completion of eBay's petitions for covered business review that were filed with the Patent and Trial and Appeal Board ("PTAB"). On September 30, 2014 the PTAB announced that it had granted petitions filed by eBay for covered business method review of PAID's United States Patent Nos. 8,635,150, 8,521,642, 8,352,357, and 7,930,237, entitled "Method and System for Improved Online Auction."

**ITEM 1A. RISK FACTORS**

There are no material changes for the risk factors previously disclosed on Form 10-K for the year ended December 31, 2014.

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

In the first quarter of 2015, the Company entered into a Common Stock Purchase Agreement (the "Purchase Agreement") with three investors (collectively, the "Investors") relating to the issuance and sale of the Company's common stock in a private placement. The Company sold an aggregate of 3,900,000 shares of common stock (the "Shares") at \$0.05 per share, for an aggregate purchase price of \$195,000. The purchases occurred on January 21, 2015 for 500,000 shares, January 27, 2015, for 500,000 shares, February 3, 2015, for 1,000,000 shares, February 9, 2015, for 100,000 shares, February 10, 2015 for 400,000 shares, February 17, 2015, for 400,000 shares, and February 24, 2015, for 1,000,000 shares. The Company plans to use the net proceeds from the sale of the Shares for sales and marketing, research and development, and general corporate purposes. The Shares were issued in reliance upon the exemptions from registration under the Securities Act of 1933, as amended, provided by Section 4(2) and Rule 506 of Regulation D promulgated thereunder. The Shares were issued directly by the Company and do not involve a public offering or general solicitation. The Investors in the private placement are "Accredited Investors" as that term is defined in Rule 501 of Regulation D and are acquiring the Shares for investment only and not with a present view toward, or for resale in connection with, the public sale or distribution thereof.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not Applicable.

**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
- 101.INS XBRL Instance Document (furnished herewith)
- 101.SCHXBRL Taxonomy Extension Schema (furnished herewith)
- 101.CALXBRL Taxonomy Extension Calculation Linkbase (furnished herewith)
- 101.DEF XBRL Taxonomy Extension Definition Linkbase (furnished herewith)
- 101.LABXBRL Taxonomy Extension Label Linkbase (furnished herewith)
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase (furnished herewith)

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## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

PAID, INC.  
Registrant

Date: May 15,  
2015

By: /s/ W. Austin Lewis, IV

W. Austin Lewis, IV, President, CEO and CFO (Principal Executive, Financial and Accounting Officer)

## LIST OF EXHIBITS

| Exhibit No. | Description  |
|-------------|--|
| 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 |
| 101.INS     | XBRL Instance Document (furnished herewith)  |
| 101.SCH     | XBRL Taxonomy Extension Schema (furnished herewith)                                |
| 101.CAL     | XBRL Taxonomy Extension Calculation Linkbase (furnished herewith)                  |
| 101.DEF     | XBRL Taxonomy Extension Definition Linkbase (furnished herewith)                   |
| 101.LAB     | XBRL Taxonomy Extension Label Linkbase (furnished herewith)                        |
| 101.PRE     | XBRL Taxonomy Extension Presentation Linkbase (furnished herewith)                 |