

PAID INC
Form 10-Q
November 14, 2013

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the quarterly period ended September 30, 2013
COMMISSION FILE NUMBER 0-28720**

(Exact Name of Registrant as Specified in its Charter)

DELAWARE **73-1479833**
(State or Other Jurisdiction of Incorporation or Organization) (I.R.S. Employer Identification No.)

40 Washington Street, Westborough, Massachusetts 01581
(Address of Principal Executive Offices) (Zip Code)

(617) 861-6050
(Registrant's Telephone Number, Including Area Code)

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

Yes ☒ No ☐

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

Yes ☒ No ☐

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

| | | | |
|-------------------------|--------------------------|---------------------------|-------------------------------------|
| Large accelerated filer | <input type="checkbox"/> | Accelerated Filer | <input type="checkbox"/> |
| Non-accelerated filer | <input type="checkbox"/> | Smaller reporting company | <input checked="" type="checkbox"/> |

(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 November 14, 2013, the issuer had outstanding 328,874,050 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**

| | September 30, 2013 (Unaudited) | December 31, 2012 (Audited) |
|---|--------------------------------------|-----------------------------------|
| ASSETS | | |
| Current assets: | | |
| Cash | \$ 668,500 | \$ 1,433,000 |
| Investments | 151,100 | 142,800 |
| Accounts receivable, net | 427,800 | 348,800 |
| Inventories | 23,700 | 420,700 |
| Prepaid expenses and other current assets | 511,600 | 310,200 |
| Advanced royalties | 316,100 | 329,800 |
| Total current assets | 2,098,800 | 2,985,300 |
| Property and equipment, net | 151,500 | 212,900 |
| Intangible asset, net | 5,400 | 6,100 |
| Prepaid facility costs | 850,500 | 1,027,200 |
| Total assets | \$ 3,106,200 | \$ 4,231,500 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 355,200 | \$ 728,000 |
| Capital leases - current portion | 23,800 | 26,300 |
| Accrued expenses | 920,400 | 1,512,800 |
| Deferred revenues | 91,200 | 230,500 |
| Total current liabilities | 1,390,600 | 2,497,600 |
| Long-term liabilities: | | |
| Capital leases - net of current | 30,700 | 48,600 |
| Total Liabilities | 1,421,300 | 2,546,200 |
| Commitments and contingencies | | |
| Shareholders' equity: | | |
| Common stock, \$0.001 par value, 350,000,000 shares authorized; 328,874,050 shares issued and outstanding at September 30, 2013 and December 31, 2012 | 328,900 | 328,900 |
| Additional paid-in capital | 52,618,700 | 52,376,500 |
| Accumulated other comprehensive loss | (86,500) | - |
| Accumulated deficit | (51,112,200) | (50,956,100) |
| Stock subscription receivable | (64,000) | (64,000) |
| Total shareholders' equity | 1,684,900 | 1,685,300 |

| | | | | |
|--|----|-----------|----|-----------|
| Total liabilities and shareholders' equity | \$ | 3,106,200 | \$ | 4,231,500 |
|--|----|-----------|----|-----------|

See accompanying notes to condensed financial statements

PAID, INC.
CONDENSED STATEMENTS OF OPERATIONS
(Unaudited)

| | Three Months Ended | | Nine Months Ended | |
|---|-----------------------|-----------------------|-----------------------|-----------------------|
| | September 30, 2013 | September 30, 2012 | September 30, 2013 | September 30, 2012 |
| Revenues | \$ 1,110,800 | \$ 7,093,500 | \$ 3,111,800 | \$ 10,661,100 |
| Cost of revenues | 686,100 | 5,696,200 | 2,029,300 | 8,125,500 |
| Gross profit | 424,700 | 1,397,300 | 1,082,500 | 2,535,600 |
| Operating expenses | 457,800 | 1,662,100 | 1,639,500 | 5,183,900 |
| Loss from operations | (33,100) | (264,800) | (557,000) | (2,648,300) |
| Other income (expense): | | | | |
| Interest expense | (800) | (1,300) | (2,500) | (4,800) |
| Other income | - | 11,000 | - | 11,000 |
| Unrealized gain (loss) on investments | - | 27,100 | 94,800 | (24,400) |
| Unrealized gain (loss) on stock price guarantee | 160,400 | (683,300) | 308,600 | (919,500) |
| Total other income (expense), net | 159,600 | (646,500) | 400,900 | (937,700) |
| Income (loss) before income taxes | 126,500 | (911,300) | (156,100) | (3,586,000) |
| Provision for income taxes | | | | |
| Net income (loss) | 126,500 | (911,300) | (156,100) | (3,586,000) |
| Net unrealized loss on investments | (86,500) | - | (86,500) | - |
| Total comprehensive income (loss) | \$ 40,000 | \$ (911,300) | \$ (242,600) | \$ (3,586,000) |
| Earnings (loss) per share | | | | |
| Basic | \$ 0.00 | \$ (0.00) | \$ (0.00) | \$ (0.01) |
| Diluted | \$ 0.00 | \$ (0.00) | \$ (0.00) | \$ (0.01) |
| Weighted average shares outstanding | | | | |
| Basic | 328,874,050 | 325,699,374 | 328,874,050 | 317,962,401 |
| Diluted | 336,848,737 | 325,699,374 | 328,874,050 | 317,962,401 |

See accompanying notes to condensed financial statements

PAID, INC.
CONDENSED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30,
(Unaudited)

| | 2013 | 2012 |
|---|--------------|----------------|
| Operating activities: | | |
| Net loss | \$ (156,100) | \$ (3,586,000) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation and amortization | 57,800 | 56,000 |
| Loss on disposal of assets | 4,300 | - |
| Unrealized (gain) loss on investment | (94,800) | 24,400 |
| Share-based compensation | 242,200 | 532,500 |
| Change in fair value of stock price guarantee | (308,600) | 919,500 |
| Amortization of prepaid facility costs | 176,700 | 287,400 |
| Fair value of stock options awarded to professionals and consultants in payment of fees for services provided | - | 2,126,800 |
| Fair value of stock options awarded to employees in payment of compensation | - | 40,000 |
| Changes in assets and liabilities: | | |
| Accounts receivable | (79,000) | (726,100) |
| Inventories | 397,000 | (134,600) |
| Prepaid expense and other current assets | (201,400) | 203,100 |
| Advanced royalties | 13,700 | (144,000) |
| Accounts payable | (372,800) | 165,300 |
| Accrued expenses | (283,800) | (91,200) |
| Deferred revenue | (139,300) | 43,300 |
| Net cash used in operating activities | (744,100) | (283,600) |
| Investing activities: | | |
| Property and equipment additions | - | (136,400) |
| Net cash used in investing activities | - | (136,400) |
| Financing activities: | | |
| Payments on capital leases | (20,400) | (14,600) |
| Proceeds from assignment of call options | - | 1,000 |
| Net cash used in financing activities | (20,400) | (13,600) |
| Net decrease in cash | (764,500) | (433,600) |
| Cash, beginning of period | 1,433,000 | 996,000 |
| Cash, end of period | \$ 668,500 | \$ 562,400 |

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Cash paid during the period for:

| | | |
|--------------|----------|----------|
| Income taxes | \$ | \$ |
| Interest | \$ 2,500 | \$ 4,800 |

SUPPLEMENTAL DISCLOSURE OF NON-CASH INFORMATION

| | | |
|---|------|-----------|
| Acquisition of property and equipment under capital lease | \$ - | \$ 61,600 |
|---|------|-----------|

See accompanying notes to condensed financial statements

PAID, INC.
NOTES TO CONDENSED FINANCIAL STATEMENTS
September 30, 2013 and 2012

Note 1. Organization and Significant Accounting Policies

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

General Presentation and Basis of Financial Statements

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

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

Going Concern and Management's Plan

The accompanying 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 nine months ended September 30, 2013, the Company reported a net loss of \$156,100 and for the year ended December 31, 2012, the Company reported a loss of \$4,146,200. The Company has an accumulated deficit of \$51,112,200 at September 30, 2013 and used \$744,100 of cash in operations for the nine months ended September 30, 2013. These factors raise substantial doubt about the Company's ability to continue as a going concern.

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

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

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

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

Use of Estimates

The preparation of 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 receivable, the realizability of inventories, the fair value of investments in marketable securities, the recoverability of long-lived assets, valuation of deferred tax assets and liabilities and the estimated fair value of the royalty and advance guarantees, stock options, warrants and shares issued for non-cash consideration. Actual results could materially differ from those estimates.

Investments

As of July 1, 2013, the Company reclassified its investments from trading securities to available for sale securities. Management determines the appropriate classification of its investments in debt and equity securities at the time of purchase and reevaluates such determinations at each balance sheet date. Marketable debt and equity securities that are bought and held principally for the purpose of selling them in the near term are classified as trading securities and are reported at fair value, with unrealized gains and losses recognized as earnings. Debt securities are classified as held for maturity when the Company has the positive intent and ability to hold the securities to maturity. Held to maturity securities are recorded as either short term or long term on the balance sheet based on contractual maturity dates and are stated at cost. Securities not classified as held to maturity or as trading, are classified as available-for-sale, and are carried at fair market value, with the unrealized gains and losses, net of tax, included in the determination of comprehensive income (loss) and reported in shareholders' equity.

Accounts Receivable

Accounts receivable, are carried at original invoice amount less an estimate for doubtful receivables based on a review of all outstanding amounts on a monthly basis. Accounts receivable are presented net of an allowance for doubtful collections of \$53,300 at September 30, 2013 and December 31, 2012. In determining this allowance, objective evidence that a single receivable is uncollectible as well as a historical pattern of collections of accounts receivable that indicates the entire face amount of a portfolio of accounts receivable may not be collectible is considered at each balance sheet date. Accounts are written off when significantly past due after exhaustive efforts at collection.

Inventories

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

Management periodically reviews inventories on hand to ascertain if any are slow moving or obsolete. In connection with this review, lower of cost or market write-downs are considered permanent adjustments to the cost basis of the excess or obsolete inventories.

Advanced Royalties

In accordance with GAAP, advanced royalties, which consist of artist royalty advances, are deferred when paid and expensed based on the completion of performances, shows or other activities. Certain royalty agreements contain guarantees by the Company on the amount of proceeds the holder will receive from the sale of the Company's common stock, and the liability is accounted for at fair value on the date of issuance.

Property and Equipment

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

Intangible Assets

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

Asset Impairment

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

Fair Value of Financial Instruments

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

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

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

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

The fair value of the Company's cash, accounts receivable, investments, accounts payable, accrued expenses, and capital leases are approximately the same as their carrying amounts.

Income Taxes

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period the enactment occurs. Deferred taxation is provided in full in respect of taxation deferred by timing differences between the treatment of certain items for taxation and accounting purposes. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized. The Company's practice is to recognize interest and/or penalties related to income tax matters in income tax expense. The Company had no accrual for interest or penalties on the Company's condensed balance sheets at September 30, 2013 and December 31, 2012, and has not recognized interest and/or penalties in the condensed statements of operations for the three and nine months ended September 30, 2013 and 2012.

Revenue Recognition

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

Fan experience sales generally include tickets and related experiences at concerts and other events conducted by performing artists associated with these fan experience revenues, are deferred until the related event has been concluded, at which time the revenues and related direct costs are recognized.

Fan club membership fees are recognized ratably over the term of the related membership, generally one year.

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

Client services revenues include web development and design, creative services, film and video services, marketing services and general business consulting services. For contracts that are of a short duration and fixed price, revenue is recognized when there are no significant obligations and upon acceptance by the customer of the completed project. 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, event tickets, ticketing and venue fees, shipping and handling fees associated with e-commerce sales, merchandise and royalties paid to clients.

Selling and Administration Expenses

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

Advertising Costs

Advertising costs, totaling \$2,300 and \$4,000 for the nine months ended September 30, 2013 and 2012, respectively, are included in operating expenses in the accompanying consolidated statements of operations and are charged to expense when incurred.

Share-Based Compensation

For valuing stock option awards, the Company has elected to use the Black-Scholes Merton option pricing valuation model ("Black-Scholes"). For the expected term, the Company uses a simple average of the vesting period and the contractual term of the option. Volatility is a measure of the amount by which the Company's stock price is expected to fluctuate during the expected term of the option. For volatility the Company considers its own volatility as applicable for valuing its options and warrants. Forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. The risk-free interest rate is based on the relevant U.S. Treasury Bill Rate at the time of each grant. The dividend yield represents the dividend rate expected to be paid, over the option's expected term; the Company currently has no plans to pay dividends.

Concentrations

The Company's financial instruments that are exposed to concentrations of credit risk consist primarily of cash. The Company maintains cash balances at financial institutions that are insured by the Federal Deposit Insurance Corporation ("FDIC") up to \$250,000. At September 30, 2013, the Company had balances of approximately \$151,000 in these accounts in excess of the FDIC insurance limits. The Company places its cash in stable high credit quality institutions, and management believes that the risk of loss is negligible.

For the nine months ended September 30, 2013 and 2012, revenues from a limited number of clients accounted for approximately 63% and 72%, respectively, of total revenues.

Earnings (Loss) Per Common Share

Basic earnings (loss) per share represents income (loss) available to common stockholders 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 warrants, 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 and nine months ended September 30, 2013, there were approximately 653,000 and 6,030,000 potentially dilutive shares, respectively, that were excluded from the diluted earnings (loss) per share as their effect would have been antidilutive for the periods then ended.

Reclassifications

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

Note 2. Accrued Expenses

Accrued expenses are comprised of the following:

| | September 30, 2013 | December 31, 2012 (audited) |
|-----------------------------------|-----------------------|-----------------------------------|
| Payroll and related costs | \$ 5,600 | \$ 18,100 |
| Professional and consulting fees | 10,500 | 77,400 |
| Royalties | 636,900 | 858,300 |
| Stock price guarantee liabilities | 134,600 | 443,200 |
| Other | 132,800 | 115,800 |
| Total | \$ 920,400 | \$ 1,512,800 |

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

During the period ended September 30, 2013, the Company had four stock option plans that include both incentive and non-qualified options to be granted to certain eligible employees, non-employee directors, or consultants of the Company.

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

On October 15, 2012, the Company adopted the 2012 Non-Qualified Stock Option Plan (the "2012 Plan"). The purpose of the 2012 Plan is to provide long-term incentives and rewards to those employees of the Company, and any other individuals, whether directors, consultants or advisors who are in a position to contribute to the long-term success and growth of the Company. The options granted have a 10 year contractual term and vest one hundred percent on the date of grant. There are 1,000,000 shares reserved for future issuance under this plan. Information with respect to stock options granted under this plan during the period ended September 30, 2013 is as follows:

| | Number of shares | Weighted average exercise price per share |
|---|------------------|---|
| Options outstanding at December 31, 2012 | 7,000,000 | \$ 0.043 |
| Granted | 2,000,000 | 0.092 |
| Cancelled or Expired | - | - |
| Exercised | | |
| Options outstanding at September 30, 2013 | 9,000,000 | \$ 0.054 |

2011 Plan

On February 1, 2011, the Company adopted the 2011 Non-Qualified Stock Option Plan (the "2011 Plan"), to replace the 2001 Plan discussed below, 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 \$.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 vest one hundred percent on the date of grant. Information with respect to stock options granted under this plan during the period ended September 30, 2013 is as follows:

| | Number of shares | Weighted average exercise price per share |
|---|---------------------|---|
| Options outstanding at December 31, 2012 | 3,000,000 | \$ 0.145 |
| Granted | 1,500,000 | 0.092 |
| Cancelled or Expired | (1,500,000) | 0.145 |
| Exercised | - | - |
| Options outstanding at September 30, 2013 | 3,000,000 | \$ 0.118 |

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. Information with respect to stock options granted under this plan during the period ended September 30, 2013 is as follows:

| | Number of shares | Weighted average exercise price per share |
|---|---------------------|---|
| Options outstanding at December 31, 2012 | 8,000,000 | \$ 0.095 |
| Granted | - | - |
| Cancelled or Expired | - | - |
| Exercised | - | - |
| Options outstanding at September 30, 2013 | 8,000,000 | \$ 0.095 |

There are currently no shares reserved for issuance under this plan.

2001 Plan

The 2001 Non-Qualified Stock Option Plan (the "2001 Plan") expired on January 31, 2011. The Company adopted the 2001 Plan on February 1, 2001 and filed Registration Statements on Form S-8 to register 120,000,000 shares of its common stock. Under the 2001 Plan, employees and consultants could have elected 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. Information with respect to stock options granted under this plan during the period ended September 30, 2013 is as follows:

| | Number of shares | Weighted average exercise price per share |
|---|---------------------|---|
| Options outstanding at December 31, 2012 | 30,582 | \$ 0.001 |
| Granted | - | - |
| Cancelled or Expired | - | - |
| Exercised | - | - |
| Options outstanding at September 30, 2013 | 30,582 | \$ 0.001 |

Fair value of issuances

The fair value of the Company's option grants under the 2012, 2011, and 2002 Plans were estimated at the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

| | September 30, 2013 | September 30, 2012 | |
|--|-----------------------|-----------------------|---|
| Expected term (based upon historical experience) | 5-6 years | <1 week | |
| Expected volatility | 130.36 | % 118.33 | % |
| Expected dividends | None | None | |
| Risk free interest rate | 0.01 | % 0.06 | % |

The stock volatility for each grant is determined based on a review of the experience of the weighted average of historical daily price changes of the Company's common stock over the expected option term. The expected term was determined using the simplified method for estimating expected option life, which qualify as "plain-vanilla" options; and the risk-free rate is based on the U.S. Treasury yield curve in effect at the time of grant for periods corresponding with the expected life of the option.

| Exercise Prices | Number of Shares | Weighted Average Remaining Contractual Life | Aggregate Intrinsic Value* |
|-----------------|---------------------|--|-------------------------------|
| \$ 0.001 | 30,582 | 1.12 | \$ 3,181 |
| \$ 0.041 | 5,000,000 | 9.05 | \$ 320,000 |
| \$ 0.048 | 2,000,000 | 9.19 | \$ 114,000 |
| \$ 0.065 | 5,000,000 | 8.86 | \$ 200,000 |
| \$ 0.092 | 3,500,000 | 9.64 | \$ 45,500 |
| \$ 0.145 | 4,500,000 | 8.12 | \$ - |
| weighted | 20,030,582 | 8.90 | \$ 682,681 |

*The intrinsic value of a stock option is the amount by which the market value of the underlying stock exceeds the exercise price of the option.

Summary of all stock option plans during the period ended September 30, 2013 is as follows:

| | Number of Shares | Weighted average exercise price per share |
|---|---------------------|---|
| Options outstanding at December 31, 2012 | 18,030,582 | \$ 0.083 |
| Granted | 3,500,000 | \$ 0.092 |
| Cancelled or Expired | (1,500,000) | \$ 0.145 |
| Exercised | - | \$ - |
| Options outstanding at September 30, 2013 | 20,030,582 | \$ 0.080 |

Note 4. Commitments and contingencies

Legal Matters

In the normal course of business, the Company periodically becomes involved in litigation. As of September 30, 2013, 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.

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 leases, the Company has agreed to indemnify its lessors 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 5. 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 condensed statements of operations.

Note 6. Fair Value Disclosures

The following table presents fair values for those assets and liabilities measured at fair value on a recurring basis and the level within the fair value hierarchy in which the measurements fall. No transfers among the levels within the fair value hierarchy occurred during the three and nine months ended September 30, 2013.

| | Fair Value Level | September 30, 2013 | December 31, 2012 (audited) |
|-------------------|---------------------|-----------------------|--------------------------------|
| Investments | 1 | 237,600 | 142,800 |
| Royalty guarantee | 2 | (22,800) | (79,000) |
| Advance guarantee | 2 | (111,800) | (364,200) |

Note 7. Subsequent Events

The Company has amended its lease agreement with Forty Washington LLC, dated December 7, 2011 as amended on June 13, 2012. Under the revised terms, the lease expiration date is changed to November 30, 2013 from March 31, 2017. Due to the early termination of the lease, the Company will forfeit its security deposit of \$83,134 and pay a termination fee of \$166,865, which amount has been previously paid with shares of common stock of the Company.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS 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 10K for the fiscal year ended December 31, 2012 that was filed on April 15, 2013.

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 or services 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.

Overview

The primary focus of PAID, Inc. (the "Company" or "PAID") has been the providing of brand-related services to businesses and celebrity clients in the entertainment, sports and collectible industries. PAID's brand management,

brand marketing, social media marketing, product design and merchandising, fulfillment services, website design, development and hosting, and authentication services are designed to grow each client's customer base in size loyalty and revenue generation. We offer entertainers, celebrity athletes and business entities a comprehensive web-presence and related services by supporting and managing clients' official websites and fan-community services including e-commerce, VIP ticketing, live event fan experiences, user-generated content, and client content publishing distribution.

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

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 April 15, 2013, 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 and nine months ended September 30, 2013 and 2012.

The following discussion compares the Company's results of operations for the three and nine months ended September 30, 2013 with those for the three and nine months ended September 30, 2012. 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

The following table compares total revenue for the periods indicated.

| | Three Months Ended September 30, | | % Change | |
|-------------------------------|----------------------------------|--------------|----------|---|
| | 2013 | 2012 | | |
| Merchandising and fulfillment | \$ 112,000 | \$ 1,515,300 | (93) | % |
| Client services | 12,600 | 58,900 | (79) | % |
| Touring revenues | 986,200 | 5,519,300 | (82) | % |
| Total revenues | \$ 1,110,800 | \$ 7,093,500 | (84) | % |

Revenues decreased 84% in the third quarter primarily from a 93% decrease in merchandising revenues, a 79% decrease in client services revenue, and a 82% decrease in touring revenues.

Merchandising and fulfillment revenues decreased \$1,403,300 or 93% to \$112,000 compared to \$1,515,300 in 2012. This is a direct result of our partnership with MCN.

Client services revenues decreased \$46,300 or 79% to \$12,600 compared to \$58,900 in 2012. The decrease was attributable to the completion of a large website build project in 2012 and a decrease in client services we have provided within the music industry.

Touring revenues decreased \$4,533,100 or 84% to \$986,200, compared to \$5,519,300 in 2012. The Company has generated a consistent touring base and revenues are directly impacted by our client's touring schedules and frequency.

During the third quarter of 2013 there was a limited amount of touring when compared to the third quarter of 2012.

Gross Profit

Gross profit decreased \$972,600 or 70% to \$424,700 compared to \$1,397,300 in 2012. Gross margin increased 18 percentage points to 38% from 20% in the third quarter of 2012. The increase was mainly because of the MCN relationship which allowed the Company to focus on expanding and monetizing its Intellectual Property. It is to be expected that this service line will be less costly to pursue, explaining the increase in gross margin.

Operating Expenses

Total operating expenses in the third quarter 2013 were \$457,800 compared to \$1,662,100 in the third quarter 2012, a decrease of \$1,204,300 or 72%. The decrease is largely due to the relationship with MCN in addition to decreases in payroll, accounting fees and consulting and related costs.

Net Income (Loss)

The Company realized a net income in the third quarter of 2013 of \$126,500 compared to a net loss of \$911,300 for the same period in 2012. The income for the third quarter of 2013 and loss for 2012 each represent \$0.00 and \$0.00 per share.

Revenues

The following table compares total revenue for the periods indicated.

| | Nine months Ended September 30, | | | |
|-------------------------------|---------------------------------|---------------|----------|---|
| | 2013 | 2012 | % Change | |
| Merchandising and fulfillment | \$ 957,400 | \$ 2,840,800 | (66) | % |
| Client services | 46,600 | 337,400 | (86) | % |
| Touring revenues | 2,107,800 | 7,482,900 | (72) | % |
| Total revenues | \$ 3,111,800 | \$ 10,661,100 | (71) | % |

Revenues decreased 71% in the first three quarters primarily from a 86% decrease in client services revenues, a 66% decrease in merchandising and fulfillment, and a 72% decrease in touring revenues.

Merchandising and fulfillment revenues decreased \$1,883,400 or 66% to \$957,400 compared to \$2,840,800 in 2012. This is a direct result of our partnership with MCN.

Client services revenues decreased \$290,800 or 86% to \$46,600 compared to \$337,400 in 2012. The decrease was attributable to the completion of a large website build project in 2012 and a decrease in client services we have provided within the music industry.

Touring revenues decreased \$5,375,100 or 72% to \$2,107,800, compared to \$7,482,900 in 2012. The Company has generated a consistent touring base and revenues are directly impacted by our client's touring schedules and frequency. During the first three quarters of 2013 there was a limited amount of touring.

Gross Profit

Gross profit decreased \$1,453,100 or 57% to \$1,082,500 compared to \$2,535,600 in 2012. Gross margin increased 11 percentage points to 35% from 24% in 2012.

Operating Expenses

Total operating expenses in the first three quarters of 2013 were \$1,639,500 compared to \$5,183,900 in 2012, a decrease of \$3,544,400 or 68%. The decrease is largely due to the relationship with MCN in addition to decreases in payroll, accounting fees and consulting and related costs.

Net Loss

The Company realized a net loss in the first three quarters of 2013 of \$156,100 compared to a net loss of \$3,586,000 for the same period in 2012. The losses for first three quarters of 2013 and 2012 represent \$0.00 and \$0.01 per share, respectively.

Operating Cash Flows

A summarized reconciliation of the Company's net loss to cash used in operating activities for the nine months ended September 30, 2013, and 2012 is as follows:

| | 2013 | 2012 |
|---|--------------|----------------|
| Net loss | \$ (156,100) | \$ (3,586,000) |
| Depreciation and amortization | 57,800 | 56,000 |
| Loss on disposal of assets | 4,300 | - |
| Unrealized (gain) loss on investment | (94,800) | 24,400 |
| Share based compensation | 242,200 | 532,500 |
| Change in fair value of stock price guarantee | (308,600) | 919,500 |
| Amortization of prepaid facility costs | 176,700 | 287,400 |
| Fair value of stock options awarded to professionals and consultants in payment of fees for services provided | - | 2,126,800 |
| Fair value of stock options awarded to employees in payment of compensation | - | 40,000 |
| Deferred revenue | (139,300) | 43,300 |
| Changes in current assets and liabilities | (526,300) | (727,500) |
| Net cash used in operating activities | \$ (744,100) | \$ (283,600) |

Working Capital and Liquidity

The Company had cash of \$668,500 at September 30, 2013, compared to \$1,433,000 at December 31, 2012. The Company had \$708,200 of working capital at September 30, 2013, an increase of \$220,500, compared to \$487,700 at December 31, 2012. The decrease in cash on hand is attributable to the use of cash to fund operating activities for the nine months ended September 30, 2013.

As discussed in Note 1 of the accompanying condensed financial statements, there exists substantial doubt regarding the Company's ability to continue as a going concern. 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.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable for smaller reporting companies.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

The Company's management, including the President 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 and Chief Financial Officer concluded that, as of September 30, 2013, 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 officers, 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, 2012.

Changes in Internal Control Over Financial Reporting

There was no change in our internal control over financial reporting during the quarter ended September 30, 2013 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 September 30, 2013, in the opinion of management, the Company had no material pending litigation other than ordinary litigation incidental to the business.

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, 2012.

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.

ITEM 5. OTHER INFORMATION

The Company has amended its lease agreement with Forty Washington LLC, dated December 7, 2011 as amended on June 13, 2012. Under the revised terms, the lease expiration date is changed to November 30, 2013 from March 31, 2017. Due to the early termination of the lease, the Company will forfeit its security deposit of \$83,134 and pay a termination fee of \$166,865, which amount has been previously paid with shares of common stock of the Company.

ITEM 6. EXHIBITS

- 10.1 Second Amendment to Lease Agreement by and between the Company and Forty Washington LLC.
- 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
- 32.1 and 32.2 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)

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: November 14, 2013

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 |
|---------------|--|
| 10.1 | Second Amendment to Lease Agreement by and between the Company and Forty Washington LLC. |
| 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 |
| 32.1 and 32.2 | 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) |