

Edgar Filing: PAID INC - Form 10-Q

PAID INC  
Form 10-Q  
August 11, 2008

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

FORM 10-Q

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

For the quarterly period ended June 30, 2008

COMMISSION FILE NUMBER 0-28720

PAID, INC.  
(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.)

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

(508) 791-6710  
(Registrant's Telephone Number, Including Area Code)

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

Yes  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 August 5, 2008, the issuer had outstanding 239,557,727 shares of its Common Stock, par value \$.001 per share.

Paid, Inc.  
and Subsidiary  
Form 10-Q  
For the Three and Six Months ended June 30, 2008

TABLE OF CONTENTS

# Edgar Filing: PAID INC - Form 10-Q

## Part I - Financial Information

### Item 1. Financial Statements

Consolidated Balance Sheets June 30, 2008 (unaudited) and December 31, 2007.....	3
Consolidated Statements of Operations Three and Six months ended June 30, 2008 and 2007 (unaudited).....	4
Consolidated Statements of Cash Flows Six months ended June 30, 2008 and 2007 (unaudited).....	5
Consolidated Statements of Changes in Shareholders' Equity Six months ended June 30, 2008 (unaudited).....	6
Notes to Consolidated Financial Statements Six months ended June 30, 2008 and 2007.....	7-16

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk.....	21
---	----

Item 4. Controls and Procedures.....	21
--------------------------------------	----

## Part II - Other Information

Item 1. Legal Proceedings.....	22
Item 1A. Risk Factors.....	23
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds .....	23
Item 3. Defaults Upon Senior Securities.....	23
Item 4. Submission of Matters to a Vote of Security Holders.....	23
Item 5. Other Information .....	23
Item 6. Exhibits .....	23
Signatures.....	24

- 2 -

## PART I - FINANCIAL INFORMATION

### ITEM 1. FINANCIAL STATEMENTS

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

Edgar Filing: PAID INC - Form 10-Q

ASSETS	June 30, 2008 ---- (unaudited)	December 31, 2007 ---- (audited)
Current assets:		
Cash and cash equivalents	\$ 157,182	\$ 264,811
Accounts receivable	228,792	--
Inventories, net	1,243,570	1,195,689
Prepaid expenses and other current assets	238,794	185,553
Due from employees	42,583	39,362
	-----	-----
Total current assets	1,910,921	1,685,415
Property and equipment, net	42,881	74,338
Intangible asset, net	10,358	10,828
	-----	-----
Total assets	\$ 1,964,160 =====	\$ 1,770,581 =====
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Loans payable	\$ 425,747	\$ --
Accounts payable	375,185	272,476
Accrued expenses	517,054	380,276
Deferred revenues	128,298	109,500
	-----	-----
Total current liabilities	1,446,284	762,252
	-----	-----
Commitments and contingencies		
Shareholders' equity:		
Common stock, \$.001 par value, 350,000,000 shares authorized; 238,766,648 and 234,636,742 shares issued and outstanding at June 30, 2008 and December 31, 2007, respectively	238,767	234,637
Additional paid-in capital	33,413,984	32,083,880
Accumulated deficit	(33,134,875)	(31,310,188)
	-----	-----
Total shareholders' equity	517,876	1,008,329
	-----	-----
Total liabilities and shareholders' equity	\$ 1,964,160 =====	\$ 1,770,581 =====

See accompanying notes to consolidated financial statements

Edgar Filing: PAID INC - Form 10-Q

	Three months ended June 30, 2008	Three months ended June 30, 2007
	-----	-----
Revenues	\$ 725,456	\$ 843,945
Cost of revenues	360,352	516,780
	-----	-----
Gross profit	365,104	327,165
	-----	-----
Operating expenses:		
Selling, general, and administrative expenses	1,129,536	650,503
Web site development costs	172,158	95,683
	-----	-----
Total operating expenses	1,301,694	746,186
	-----	-----
Loss from operations	(936,590)	(419,021)
	-----	-----
Other income (expense):		
Interest expense	(27,146)	(2,076)
Other income	196	3,909
	-----	-----
Total other income (expense), net	(26,950)	1,833
	-----	-----
Loss before income taxes	(963,540)	(417,188)
Provision for income taxes	--	--
	-----	-----
Net income (loss)	(963,540)	\$ (417,188)
	=====	=====
Loss per share - basic and diluted	\$ (0.00)	\$ (0.00)
	=====	=====
Weighted average shares - basic and diluted	237,507,225	225,722,300
	=====	=====

See accompanying notes to consolidated financial statements

- 4 -

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

Edgar Filing: PAID INC - Form 10-Q

	2008 ----	2007 ----
Operating activities:		
Net loss	\$ (1,824,687)	\$ (1,334,437)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	43,293	65,722
Bad Debt	--	250
Share based compensation	227,000	--
Amortization of debt discount	14,146	--
Intrinsic value of stock options awarded to professionals and consultants in payment of fees for services provided	829,314	702,399
Intrinsic value of stock options awarded to employees in payment of compensation	35,307	145,230
Changes in assets and liabilities:		
Accounts receivable	(228,792)	(26,003)
Inventories, net	(47,881)	(12,946)
Deferred expenses	(1,650)	(112,339)
Prepaid expense and other current assets	(54,812)	(142,364)
Accounts payable	102,709	(45,651)
Accrued expenses	136,778	(134,115)
Deferred revenue	18,798	453,767
	-----	-----
Net cash used in operating activities	(750,477)	(440,487)
	-----	-----
Investing activities:		
Property and equipment additions	(11,366)	(3,247)
	-----	-----
Financing activities:		
Net proceeds (repayments) of notes and loans payable	500,000	(18,000)
Proceeds from assignment of call options	123,464	15,538
Proceeds from exercise of stock options	30,750	--
Proceeds from sale of common stock	--	763,400
	-----	-----
Net cash provided by financing activities	654,214	760,938
	-----	-----
Net (decrease) increase in cash and cash equivalents	(107,629)	317,204
Cash and cash equivalents, beginning	264,811	138,326
	-----	-----
Cash and cash equivalents, ending	\$ 157,182	\$ 455,530
	=====	=====

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Cash paid during the period for:

Income taxes	\$ 2,453	\$ --
	=====	=====
Interest	\$ --	\$ 1,121
	=====	=====

Edgar Filing: PAID INC - Form 10-Q

See accompanying notes to consolidated financial statements

- 5 -

PAID, INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY  
FOR THE SIX MONTHS ENDED JUNE 30, 2008  
(Unaudited)

	Common stock		Additional Paid-in Capital
	Shares	Amount	
Balance, December 31, 2007	234,636,742	\$234,637	\$32,083,8
Issuance of common stock pursuant to exercise of stock options granted to employees for services	146,479	146	35,1
Issuance of common stock pursuant to exercise of stock options granted to professionals and consultants	3,233,427	3,234	826,0
Proceeds from assignment of call options	--	--	123,4
Options exercised	750,000	750	30,0
Issuance of warrants in conjunction with loans payable	--	--	88,3
Share based compensation related to issuance of incentive stock options	--	--	227,0
Net loss	--	--	
Balance, June 30, 2008	238,766,648	\$238,767	\$33,413,9

See accompanying notes to consolidated financial statements

- 6 -

PAID, INC. AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2008 AND 2007

Note 1. Organization and Significant Accounting Policies

Paid, Inc. and subsidiary (the "Company") provides businesses and clients with marketing, management, merchandising, auction management, website hosting, and authentication and consignment services for the entertainment, sports and collectible industries. The Company offers celebrities, musical artists and athletes official web sites and fan-club services including e-commerce, VIP ticketing, fan club management, fan experiences, storefronts, articles, polls, message boards, contests, biographies and custom features. The Company also sells merchandise for celebrities, through official fan websites, on tour or at

## Edgar Filing: PAID INC - Form 10-Q

retail.

### General

The Company has prepared the consolidated financial statements pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) regarding interim financial reporting. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements and should be read in conjunction with the Company's audited financial statements included in the Annual Report on Form 10-KSB for the year ended December 31, 2007.

In the opinion of management, the Company has prepared the accompanying consolidated 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 2008.

### Liquidity

The Company's independent registered public accounting firm has issued a going concern opinion on the Company's consolidated financial statements for the year ended December 31, 2007. The Company may need an infusion of additional capital to fund anticipated operating costs over the next 12 months. Management anticipates growth in revenues and gross profits for the remainder of 2008 from its celebrity services products and websites, and similar services to other entities; including memberships, fan experiences and ticketing, appearances, website development and hosting, and merchandise sales from both existing and new clients. In addition, our suite of management tools and patented shipping calculator solutions for small ecommerce enterprises, and web hosting are expected to increase revenues and result in higher total gross profit. Subject to the discussion below, management believes that the Company has sufficient cash resources to fund operations during the next 12 months. These resources include call options, expiring on May 9, 2009, for approximately 435,000 shares of common stock, which, once assigned by the Company, can generate between \$72,000 and \$231,000 (based solely upon the 52 week high and low closing prices of the Company's common stock) of cash. In addition, in April 2008 the Company entered into a financing agreement for up to \$2,500,000 of additional financing and management is exploring opportunities to monetize its recently issued patent. However, there can be no assurance that all of the financing will be received, that assignment of the call options can be concluded on reasonably acceptable terms, or that the Company will be successful in monetizing its patent. Finally, management is seeking alternative sources of capital to support operations.

- 7 -

### Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Paid, Inc. and its wholly-owned subsidiary, Rotman Collectibles, Inc. On December 27, 2007 Rotman Collectibles was merged into Paid, Inc. All inter-company balances and transactions have been eliminated.

### Inventories

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

## Edgar Filing: PAID INC - Form 10-Q

purchase contains multiple copies of the same item, they are stated at average cost.

On a periodic basis management reviews inventories on hand to ascertain if any is slow moving or obsolete. In connection with this review, at both June 30, 2008 and December 31, 2007 the Company provided for reserves totaling \$325,000.

### Website Development Costs

The Company accounts for website development costs in accordance with the provisions of EITF 00-2, "Accounting for Web Site Development Costs", which requires that costs incurred in planning, maintaining, and operating stages that do not add functionality to the site be charged to operations as incurred. External costs incurred in the site application and infrastructure development stage and graphic development are capitalized. Such capitalized costs are included in "Property and equipment."

### Revenue Recognition

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

Fan experiences sales include experiences at concerts and other events conducted by performing artists and/or tickets. Revenues associated with these fan experiences are reported gross following the criteria of EITF 99-19, "Reporting Revenue Gross as a Principal versus Net as an Agent", and are deferred until the related event has been concluded, at which time the revenues and related direct costs are recognized.

Fan club membership fees are recognized 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.

The Company provides web hosting services in conjunction with two types of arrangements - cash and receipt of publicly recognized autographs on merchandise. Revenue is recognized on a monthly basis as the services are provided under both arrangements. The amounts of revenues related to arrangements settled in other than cash are determined based upon management's estimate of the fair value of the service provided or the fair value of the autographs received, depending upon which measure is most reliable.

- 8 -

### Advertising Costs

Advertising costs, totaling approximately \$27,000 in 2008 and \$31,000 in 2007, are charged to expense when incurred.

### Shipping and Handling Fees and Costs

All amounts billed to customers in sales transactions related to shipping and handling represent revenues earned and are reported as revenues. Costs incurred by the Company for shipping and handling totaling \$41,500 and \$57,000 in 2008

## Edgar Filing: PAID INC - Form 10-Q

and 2007, respectively, are reported as a component of selling, general and administrative expenses.

### Segment Reporting

The Company has determined that it has only one discreet operating segment consisting of activities surrounding the sale of fan experiences, fan club memberships, and merchandise associated with its relationships with performing artists and publicly recognized people.

### Concentrations

The Company's financial instruments that are exposed to concentrations of credit risk consist primarily of cash and cash equivalents. The Company places its cash and cash equivalents with high credit quality institutions.

Approximately 75% of the Company's revenues for the six months ended June 30, 2008 were generated from fan experiences and sales of merchandise related to two performing artists, Aerosmith and Return to Forever while approximately 84% of the Company's revenues for the six months ended June 30, 2007 were generated from fan experiences and sales of merchandise related to one performing artist, Aerosmith.

### Share Based Compensation

The Company accounts for share-based compensation in accordance with the provisions of Statement of Financial Accounting Standards (SFAS) 123(R), Share-Based Payment. Under the provisions of SFAS 123(R), share-based compensation cost is measured at the grant date, based on the fair value of the award, and is recognized as an expense over the employee's requisite service period (generally the vesting period of the equity grant).

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

### Earnings Per Common Share

Basic earnings per share represents income available to common stockholders divided by the weighted-average number of common shares outstanding during the period. Diluted earnings per share reflects additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. Potential

- 9 -

common shares that may be issued by the Company relate to outstanding stock options and warrants. The number of common shares that would be included in the calculation of outstanding options and warrants is determined using the treasury stock method. The assumed conversion of outstanding dilutive stock options and warrants would increase the shares outstanding but would not require an adjustment of income as a result of the conversion. Stock options and warrants

## Edgar Filing: PAID INC - Form 10-Q

applicable to 30,886,054 shares and 27,136,054 shares at June 30, 2008 and 2007, respectively, have been excluded from the computation of diluted earnings per share because they were antidilutive. Diluted earnings per share have not been presented as a result of the Company's net loss for each year.

### Fair Value Measurements

On January 1, 2008 the Company adopted the provisions of SFAS No. 157, "Fair Value Measurements," ("SFAS 157"). SFAS 157 defines fair value, establishes a framework for measuring fair value in accordance with Generally Accepted Accounting Principles, and expands disclosures about fair value measurements. The Statement codifies the definition of fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The standard clarifies the principle that fair value should be based on the assumptions market participants would use when pricing the asset or liability and establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. Adoption of SFAS 157 had no material impact on the Company's financial statements for the six months ended June 30, 2008.

On January 1, 2008 the Company adopted the provisions of SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities," ("SFAS 159"). SFAS 159 allows an entity the irrevocable option to elect fair value for the initial and subsequent measurement for certain financial assets and liabilities on a contract-by-contract basis. Subsequent changes in fair value of these financial assets and liabilities would be recognized in earnings when they occur. SFAS 159 further establishes certain additional disclosure requirements. Adoption of SFAS 157 had no material impact on the company's financial statements for the six months ended June 30, 2008.

### Recent Accounting Pronouncements

In December 2007, the FASB issued SFAS No. 141(R), "Business Combinations", which replaces SFAS No. 141. SFAS No. 141(R) establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any non-controlling interest in the acquiree and the goodwill acquired. The Statement also establishes disclosure requirements which will enable users to evaluate the nature and financial effects of the business combination. SFAS 141(R) is effective for calendar year companies on January 1, 2009. The adoption of SFAS 141(R) will have an impact on accounting for business combinations once adopted, but the effect is dependent upon acquisitions at that time.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements - an amendment of Accounting Research Bulletin No. 51", which establishes accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent, the amount of consolidated net income attributable to the parent and to the noncontrolling interest, changes in a parent's ownership interest and the valuation of retained non-controlling equity investments when a subsidiary is deconsolidated. The Statement also establishes reporting requirements that provide sufficient disclosures that clearly identify and distinguish between the interests of the parent and the interests of the non-controlling owners. SFAS 160 is effective for calendar year companies on January 1, 2009. The Company has not determined the effect that the application of SFAS 160 will have on its consolidated financial statements.

In December 2007, the SEC issued Staff Accounting Bulletin 110. SAB 110 expresses the views of the staff regarding the use of a "simplified" method, as discussed in SAB No. 107 ("SAB 107"), in

# Edgar Filing: PAID INC - Form 10-Q

- 10 -

developing an estimate of expected term of "plain vanilla" share options in accordance with Statement of Financial Accounting Standards No. 123 (revised 2004). SAB 110 is not expected to have a significant impact on the consolidated financial statements.

## Note 2. Patent

In January 2008, the United States Patent and Trademark Office issued the Company's patent #7324968 providing the Company with the rights granted to patent holders, including the ability to seek licenses for patent use and to protect the patent from infringement. The Company's patent is for the real-time calculation of shipping costs for items purchased online using a zip code as a destination location indicator. It includes shipping charge calculations across multiple carriers and accounts for additional characteristics of the item being shipped, such as weight, special packaging or handling, and insurance costs.

## Note 3. Accrued Expenses

Accrued expenses are comprised of the following:

	June 30, 2008 ----	December 31, 2007 ----
Interest	\$ 16,879	\$ 3,879
Payroll and related costs	173,662	169,969
Professional and consulting fees	232,769	164,145
Commissions	62,000	13,965
Other	31,744	28,318
	-----	-----
	\$517,054	\$380,276
	=====	=====

## Note 4. Note Payable

On April 29, 2008 the Company entered into an unsecured \$2,500,000 Promissory Note with Lewis Asset Management ("Lender") that is due on April 29, 2009. Amounts outstanding bear interest at 15%, and for each \$100,000 advanced, Lender will receive a warrant for 100,000 shares of the Company's common stock. The warrants are exercisable at \$.25 per share and will expire three years from the date of issue. At June 30, 2008 the balance outstanding under this arrangement was \$500,000 which is presented net of the related unamortized warrant valuation of \$74,253.

The fair value of the warrants was \$88,399 estimated at the date of issue using the Black-Scholes option-pricing model with the following weighted average assumptions:

	2008 ----
Expected term	3 years
Expected volatility	117.00%
Expected dividends	None
Risk free interest rate	3.88%

- 11 -

## Edgar Filing: PAID INC - Form 10-Q

### Note 5. Common Stock

#### Call Option Agreements

In connection with a May 9, 2005 settlement with Leslie Rotman regarding the value paid and the value received in a 2001 transaction the Company received a call option for 2,000,000 shares of the Company's common stock at \$.001 per share. Leslie Rotman is the mother, of Gregory Rotman, President of the Company, and Richard Rotman, CFO/Vice President/Secretary of the Company. The option is assignable by the Company and, as most recently amended, expires on May 9, 2009.

As of June 30, 2008 the Company had assigned options to purchase a total of 1,565,000 shares of stock from Leslie Rotman to certain individuals in exchange for \$567,734. The Company assigned 340,000 and 50,000 during the six months ended June 30, 2008 and 2007 in exchange for \$123,464 and \$15,538, respectively. The proceeds from the assignments of these options were added to additional paid in capital of the Company. At June 30, 2008, 435,000 call options remain outstanding.

#### Warrants

During the year ended December 31, 2005, the Company entered into an Agreement and sold a warrant to purchase common stock ("Warrant") to an investor. The investor paid the Company \$50,000 as a deposit ("Deposit") for the right to acquire up to 2,000,000 shares of unregistered common stock at any time within one year of the Agreement at \$.15 per share. During 2006 the expiration date of the Warrant was extended to June 1, 2008 upon receipt of an additional \$50,000 payment. On June 1, 2008, the expiration date of the warrant was extended to June 30, 2009 pending receipt of an additional \$10,000 deposit. If exercised, all deposits totaling \$110,000 will be applied as partial payment of the exercise price. If the Warrants are not exercised by June 1, 2009 the deposits will be forfeited. The deposits have been recorded in Additional Paid in Capital as received.

#### Share-based Incentive Plans

##### Stock Option Plans

At June 30, 2008, the Company had a number of 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.

The 1999 Plan ("1999 Plan") provides for the award of non-qualified options for up to 1,000,000 shares. The maximum number of shares currently reserved for issuance is 492,000 shares. The options granted have ten-year contractual terms and vested either immediately or annually over a five-year term. There were no options granted under this plan during 2008 and 2007 and at both June 30, 2008 and December 31, 2007 there were 37,000 options outstanding with a weighted average exercise price of \$1.625.

In July 1999, the Company's Board of Directors adopted, subject to stockholders' approval, the 1999 Omnibus Share Plan (the "Omnibus Plan") that provides for both incentive and non-qualified stock options, stock appreciation rights and other awards to directors, officers, and employees of the Company to purchase or receive up to 1,000,000 shares of the Company's stock. A committee of the Board of Directors ("Committee") establishes the option price at the time each option is granted, which price may, in the discretion of the Committee, be less than 100% of the fair market value of the shares on the date of the grant. Any options granted will have a maximum term of ten years and will be exercisable during a period as specified by the Committee. No options have ever been granted under the Omnibus Plan.

## Edgar Filing: PAID INC - Form 10-Q

The 2002 Plan ("2002 Plan") provides for the award of qualified and non-qualified options for up to 30,000,000 shares. As of June 30, 2008 there are no shares currently reserved for issuance. The options

- 12 -

granted have ten-year contractual terms and vested either immediately or over a four-year term. Information with respect to stock options granted under the above plans is as follows:

	Number of shares	Weighted average exercise price per share
Options outstanding at December 31, 2007	24,000,000	\$.041
Granted	5,000,000	\$.415
Exercised	(750,000)	.041
	-----	
Options outstanding at June 30, 2008	28,250,000	\$.107

The grant date fair value of the Company's 2008 option grants was \$1,815,000 estimated at the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

	2008
Expected term (based upon historical experience)	6 years
Expected volatility	120.38%
Expected dividends	None
Risk free interest rate	3.75%

The incremental fair value calculated using the above assumptions over the intrinsic value was determined to be \$1,815,000 which is being amortized over the four year vesting period of the grant resulting in \$227,000 being charged to operations during the six months ended June 30, 2008.

On February 1, 2001 the Company adopted the 2001 Non-Qualified Stock Option Plan (the "2001 Plan") and has filed Registration Statements on Form S-8 to register 90,000,000 shares of its common stock. Under the 2001 Plan, employees and consultants may elect to receive their gross compensation in the form of options, exercisable at \$.001 per share, to acquire the number of shares of the Company's common stock equal to their gross compensation divided by the fair value of the stock on the date of grant. Information with respect to stock options granted under the above plans is as follows:

	Number of shares	Weighted average exercise price per share
Options outstanding at December 31, 2007	99,054	\$ .001
Granted	3,379,906	.001

Edgar Filing: PAID INC - Form 10-Q

Exercised	(3,379,906)		.001
	-----		
Options outstanding at June 30, 2008	99,054	\$	.001
	=====		

A summary of the awards granted under this plan during the six months ended June 30, 2008 and 2007 is as follows:

- 13 -

	Number of Shares	Intrinsic Value
	-----	-----
		2008
		----
Employee payroll	146,479	\$ 35,308
Consulting and professional fees	3,233,427	622,314
	-----	-----
Total	3,379,906	\$657,622
	=====	=====
		2007
		----
Employee payroll	464,348	\$145,230
Consulting and professional fees	3,799,477	712,399
	-----	-----
Total	4,263,825	\$857,629
	=====	=====

At June 30, 2008 the maximum number of shares reserved for issuance was 3,986,900 shares. The options granted have ten-year contractual terms and vest immediately.

The fair value of the Company's 2008 and 2007 option grants was estimated at the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

	2008	2007
	----	----
Expected term (based upon historical experience)		