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PAID INC
Form 10QSB
May 15, 2006

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

FORM 10-QSB

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

For the quarterly period ended March 31, 2006

COMMISSION FILE NUMBER 0-28720

PAID, INC.

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

DELAWARE

(State or other jurisdiction of
Incorporation or organization)

73-1479833

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

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

(508) 791-6710

(Issuer's Telephone Number, Including Area Code)

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

Yes No

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

As of May 9, 2006, the issuer had outstanding 203,862,080 shares of its Common Stock, par value \$.001 per share.

Transitional Small Business Disclosure Format

Yes No

Paid, Inc.
and Subsidiary
Form 10-QSB
For the Three Months ended March 31, 2006

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

PAID, INC. AND SUBSIDIARY CONSOLIDATED BALANCE SHEETS

| | March 31, 2006 ---- | December 31, 2005 ---- |
|--|---------------------------|------------------------------|
| | (Unaudited) | (Audited) |

ASSETS

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| | | |
|--|--------------|--------------|
| Current assets: | | |
| Cash and cash equivalents | \$ 408,855 | \$ 1,502,987 |
| Accounts receivable | 192,682 | 72,317 |
| Inventories, net | 1,343,778 | 1,364,248 |
| Investment in call options | 276,250 | 300,625 |
| Deferred expenses | 261,349 | 556,250 |
| Prepaid expenses | 60,358 | 67,981 |
| Due from employees | 70,103 | 66,558 |
| Other current assets | 9,073 | 9,073 |
| | ----- | ----- |
| Total current assets | 2,622,448 | 3,940,039 |
| Property and equipment, net | 282,881 | 256,244 |
| Other intangible assets, net | 26,191 | 33,290 |
| | ----- | ----- |
| Total assets | \$ 2,931,520 | \$ 4,229,573 |
| | ===== | ===== |
| LIABILITIES AND SHAREHOLDERS' DEFICIT | | |
| Current liabilities: | | |
| Notes payable | \$ 130,000 | \$ 130,000 |
| Accounts payable | 316,631 | 275,336 |
| Accrued expenses | 1,154,837 | 1,077,081 |
| Customer refunds payable | 748,685 | -- |
| Deferred revenues | 220,654 | 2,305,278 |
| | ----- | ----- |
| Total current liabilities | 2,570,807 | 3,787,695 |
| | ----- | ----- |
| Long term liabilities: | | |
| Convertible debt | 1,150,000 | 1,150,000 |
| | ----- | ----- |
| Shareholders' deficit: | | |
| Common stock, \$.001 par value, 350,000,000 shares authorized; 201,675,377 and 200,405,555 shares issued and outstanding at March 31, 2006 and December 31, 2005, respectively | 201,676 | 200,406 |
| Additional paid-in capital | 25,769,863 | 25,575,959 |
| Accumulated deficit | (26,760,826) | (26,484,487) |
| | ----- | ----- |
| Total shareholders' deficit | (789,287) | (708,122) |
| | ----- | ----- |
| Total liabilities and shareholders' deficit | \$ 2,931,520 | \$ 4,229,573 |
| | ===== | ===== |

See accompanying notes to consolidated financial statements

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(Unaudited)

| | 2006 ---- | 2005 ---- |
|---|--------------|--------------|
| Revenues | \$ 2,806,841 | \$ 859,653 |
| Cost of revenues | 1,951,495 | 527,509 |
| | ----- | ----- |
| Gross profit | 855,346 | 332,144 |
| | ----- | ----- |
| Operating expenses: | | |
| Selling, general, and administrative expenses | 946,230 | 1,105,390 |
| Website development costs | 134,400 | 111,901 |
| | ----- | ----- |
| Total operating expenses | 1,080,630 | 1,217,291 |
| | ----- | ----- |
| Loss from operations | (225,284) | (885,147) |
| | ----- | ----- |
| Other income (expense): | | |
| Interest expense | (26,683) | (93,789) |
| Loss on call options | (24,375) | -- |
| Other income | 3 | 1 |
| | ----- | ----- |
| Total other expense, net | (51,055) | (93,788) |
| | ----- | ----- |
| Loss before income taxes | (276,339) | (978,935) |
| Provision for income taxes | -- | -- |
| | ----- | ----- |
| Net loss | \$ (276,339) | \$ (978,935) |
| | ===== | ===== |
| Loss per share (basic and diluted) | \$ (0.00) | \$ (0.01) |
| | ===== | ===== |
| Weighted average shares | 198,844,439 | 174,303,402 |
| | ===== | ===== |

See accompanying notes to consolidated financial statements

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PAID, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31,
(Unaudited)

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| | 2006 ---- | 2005 ---- |
|--|--------------|--------------|
| Operating activities: | | |
| Net loss | \$ (276,339) | \$ (978,935) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation and amortization | 36,917 | 229,551 |
| Amortization of unearned compensation | -- | 15,000 |
| Beneficial conversion feature | -- | 30,062 |
| Loss on call options | 24,375 | -- |
| Common stock issued in payment of professional and consulting fees | 148,828 | 282,222 |
| Issuance of common stock pursuant to exercise of stock options granted to employees for services | 46,346 | 94,430 |
| Common stock issued in payment of interest | -- | 8,000 |
| Changes in assets and liabilities: | | |
| Accounts receivable | (120,365) | 11,384 |
| Inventories | 20,470 | 17,032 |
| Deferred expenses | 294,901 | -- |
| Prepaid expense and other current assets | 4,079 | 81,669 |
| Accounts payable | 41,295 | 53,627 |
| Accrued expenses | 77,757 | 52,154 |
| Customer refunds payable | 748,685 | -- |
| Deferred revenue | (2,084,624) | -- |
| | ----- | ----- |
| Net cash used in operating activities | (1,037,675) | (103,804) |
| | ----- | ----- |
| Investing activities: | | |
| Property and equipment additions | (56,457) | (89,179) |
| | ----- | ----- |
| Financing activities: | | |
| Proceeds from sale of warrants | -- | 50,000 |
| Proceeds from sale of common stock | -- | 30,000 |
| Proceeds from assignment of call options | -- | 99,610 |
| Proceeds from exercise of stock options | -- | 136 |
| | ----- | ----- |
| Net cash provided by financing activities | -- | 179,746 |
| | ----- | ----- |
| Net decrease in cash and cash equivalents | (1,094,132) | (13,237) |
| Cash and cash equivalents, beginning | 1,502,987 | 43,558 |
| | ----- | ----- |
| Cash and cash equivalents, ending | \$ 408,855 | \$ 30,321 |
| | ===== | ===== |

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Cash paid during the period for:

| | | |
|--------------|----------|-------|
| Income taxes | \$ -- | \$ -- |
| | ===== | ===== |
| Interest | \$ 2,473 | \$ -- |
| | ===== | ===== |

See accompanying notes to consolidated financial statements

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PAID, INC. AND SUBSIDIARY
 CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' DEFICIT
 FOR THE THREE MONTHS ENDED MARCH 31, 2006
 (Unaudited)

| | Common stock | | Additional Paid-in Capital |
|--|--------------|------------|----------------------------------|
| | Shares | Amount | |
| Balance, December 31, 2005 | 200,405,555 | \$ 200,406 | \$ 25,575,95 |
| Issuance of common stock pursuant to exercise of stock options granted to employees for services | 262,226 | 262 | 46,08 |
| Common stock issued in payment of professional and consulting fees | 1,007,596 | 1,008 | 147,82 |
| Net loss | -- | -- | - |
| Balance, March 31, 2006 | 201,675,377 | \$ 201,676 | \$ 25,769,86 |

See accompanying notes to consolidated financial statements

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PAID, INC. AND SUBSIDIARY
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 MARCH 31, 2006 AND 2005

Note 1. Organization

Paid, Inc. and subsidiary (the "Company") provides businesses and clients with marketing, management, merchandising, auction management, website hosting, and authentication and consignment services for the entertainment, sports and collectibles industries. The Company also provides other services for celebrities and sports personalities including autograph signings, appearances, marketing opportunities and event ticketing. The Company continues to sell sports collectibles and merchandise through a variety of outlets, including online auctions and wholesale and distribution outlets.

General

The financial statements included in this report have been prepared by the Company pursuant to the rules and regulations of the United States Securities and Exchange Commission for interim financial reporting and include all adjustments (consisting only of normal recurring adjustments which are, in the opinion of management, necessary for a fair presentation). These financial statements have not been audited.

Certain information and footnote disclosures normally included in financial

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

Principles of consolidation

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

Inventories

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

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

Investment in call options

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

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the balance sheet date. Any realized or unrealized gains or losses are recorded in other income (expense).

Revenue Recognition

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

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

Fan club membership fees are recognized when the member joins and all direct costs associated with the membership have been incurred.

For sales of merchandise owned and warehoused by the Company, the Company is

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

For sales of merchandise under consignment-type arrangements, the Company takes physical possession of the merchandise, but is not obligated to, and does not take title or ownership of merchandise. When an auction is completed, consigned merchandise that has been sold is shipped upon receipt of payment. The Company recognizes the net commission and service revenues relating to the consigned merchandise upon receipt of the gross sales proceeds and shipment of the merchandise. The Company then releases the net sales proceeds to the Consignor, discharging all obligations of the Company with respect to the transaction.

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

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

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

Advertising Costs

Advertising costs totaling approximately \$33,400 in 2006 and \$43,000 in 2005, are charged to expense when incurred.

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Earnings Per Common Share

Basic earnings per share represents income available to common stockholders divided by the weighted-average number of common shares outstanding during the period. Diluted earnings per share reflects additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. Potential common shares that may be issued by the Company relate to convertible debt and outstanding stock options and warrants. The number of common shares that would be issued upon conversion of the convertible debt would have been 9,274,194 as of March 31, 2006 and 16,666,667 as of March 31, 2005. The number of common shares that would be included in the calculation of outstanding options and warrants is determined using the treasury stock method. The assumed conversion of outstanding dilutive stock options and warrants would increase the shares outstanding but would not require an adjustment of income as a result of the conversion. Stock options and warrants applicable to 27,165,054 shares and 27,465,054 shares at March 31, 2006 and 2005, respectively, have been excluded from the computation of diluted earnings per share, as have the common shares that would be issued upon conversion of the convertible debt, because they were antidilutive. Diluted earnings per share have not been presented as a result of the Company's net loss for each period.

Website Development Costs

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The Company accounts for website development costs in accordance with the provisions of EITF 00-2, "Accounting for Web Site Development Costs" ("EITF 00-2"), which requires that costs incurred in planning, maintaining, and operating stages that do not add functionality to the site be charged to operations as incurred. External costs incurred in the site application and infrastructure development stage and graphic development are capitalized. Such capitalized costs are included in "Property and equipment." During the three months ended March 31, 2006 the Company capitalized approximately \$49,500 of website development costs. During the three months ended March 31, 2005 the Company capitalized approximately \$87,000 of website development costs.

Share based Compensation

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

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

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At the date of adoption, there were no unvested options outstanding and no options were granted during the quarter ended March 31, 2006. Consequently, there was no share-based compensation expense recorded during the quarter ended March 31, 2006.

The Company did not recognize compensation expense for employee stock option grants for the three months ended March 31, 2005, since the Company had previously adopted the provisions of SFAS 123, through disclosure only. The following illustrates the effects on net income and earnings per share for the three months ended March 31, 2005 as if the Company had applied the fair value recognition provisions of SFAS 123 to share-based employee awards.

| | |
|--|--------------|
| Net loss as reported | \$ (978,935) |
| Share based compensation as recorded (net of any related income tax effects) | 15,000 |
| Share based compensation expense determined Under the fair value method (net of any | |

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| | |
|-----------------------------|--------------|
| Related income tax effects) | (15,000) |
| | ----- |
| Proforma net income | \$ (978,935) |
| | ===== |

Note 2. Notes Payable

At March 31, 2006 and December 31, 2005, the Company was obligated on short-term notes payable totaling \$130,000, of which \$80,000 was to a related party. The related party notes bear interest at 8%, while the remainder bear interest at 10%. All of this short-term debt was due on demand. Interest expense charged to operations during the three months ended March 31, 2006 and 2005 in connection with the related party notes totaled \$1,600 and \$2,600, respectively.

Note 3. Accrued Expenses

Accrued expenses are comprised of the following:

| | March 31, 2006 | December 31, 2005 |
|----------------------------------|-------------------|----------------------|
| | ---- | ---- |
| Interest | \$ 196,700 | \$ 172,490 |
| Payroll and related costs | 213,819 | 204,280 |
| Professional and Consulting fees | 171,725 | 134,411 |
| Consignments | 172,782 | 172,782 |
| Due to K Sports | 62,500 | 62,500 |
| Commissions | 300,000 | 300,000 |
| Other | 37,311 | 30,618 |
| | ----- | ----- |
| | \$ 1,154,837 | \$ 1,077,081 |
| | ===== | ===== |

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Note 4. Common Stock

Call Option Agreements

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

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

On May 9, 2005, the Company entered into a Settlement Agreement and Mutual Release with Leslie Rotman ("Seller") to settle all outstanding disputes regarding the value paid and the value received in the 2001 transaction in which Seller, Rotman Collectibles, Inc., and the Company entered into an Agreement and Plan of Merger (the "Merger Agreement"), pursuant to which Rotman Collectibles, Inc., a Massachusetts corporation, was merged into the Company's Delaware subsidiary, now named Rotman Collectibles, Inc. Seller is the mother of Gregory Rotman, President of the Company, and Richard Rotman, CFO/Vice President/Secretary of the Company. To settle any possible differences or disputes between the value paid and the value received, Seller delivered 2,000,000 shares of the Company's common stock into escrow, with a fair market value of \$600,000 based on the closing bid price of \$.30 on May 6, 2005 (as set forth in the Settlement Agreement and Mutual Release) and granted the Company an

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option to purchase the shares for \$.001 per share. The options are assignable by the Company and were modified on March 31, 2006 to expire two years from the date of grant. At March 31, 2006, 1,625,000 call options remain outstanding.

Stock Options and Warrants

On February 1, 2001 the Company adopted the 2001 Non-Qualified Stock Option Plan (the "2001 Plan") and has filed Registration Statements on Form S-8 to register 70,000,000 shares of its common stock. Under the 2001 Plan, employees and consultants may elect to receive their gross compensation in the form of options, exercisable at \$.001 per share, to acquire the number of shares of the Company's common stock equal to their gross compensation divided by the fair value of the stock on the date of grant.

During the three months ended March 31, 2006 the Company granted options for 1,269,822 shares at various dates aggregating \$193,904 under this plan. During the three months ended March 31, 2005 the Company granted options for 1,697,771 shares at various dates aggregating \$344,652 under this plan. All options granted during these periods were exercised.

Share-based Incentive Plan

At March 31, 2006, the Company had stock option plans that include both incentive stock options and non-statutory stock options to be granted to certain eligible employees, non-employee directors, or consultants of the Company. The maximum number of shares currently reserved for issuance is 31,000,000 shares. The options granted have ten-year contractual terms and vest either immediately or annually over a five-year term.

At March 31, 2006, there were 5,874,000 shares available for future grants under the above stock option plans. The weighted average exercise price of options outstanding was \$0.045 at March 31, 2006.

The following table presents the average price and contractual life information about options outstanding and exercisable at March 31, 2006:

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| Exercise Price ----- | Number of Outstanding Shares ----- | Weighted Average Remaining Contractual Life (years) ----- | Options Currently Exercisable ----- |
|-------------------------|--|---|---|
| \$.81 | 9,000 | 3.50 | 9,000 |
| 1.62 | 57,000 | 3.25 | 57,000 |
| .001 | 99,054 | 8.75 | 99,054 |
| .041 | 25,000,000 | 6.75 | 25,000,000 |

The aggregated intrinsic value of options outstanding and vested at March 31, 2006 was \$3,241,740.

Note 5. Income Taxes

There was no provision for income taxes for the three months ended March 31, 2006 and 2005 due to the Company's net operating loss and its valuation reserve against deferred income taxes.

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

The tax effects of temporary differences and carry forwards that give rise to deferred taxes are as follows:

At March 31, 2006, the Company has federal and state net operating loss carry forwards of approximately \$20,000,000 and \$16,000,000, respectively, available to offset future taxable income. The state carry-forwards will expire intermittently through 2011, while the federal carry forwards will expire intermittently through 2026.

Note 6. Convertible Debt Financing

As of March 31, 2006 the Company has outstanding \$1,150,000 of convertible debt.

On March 23, 2000, the Company entered into a Securities Purchase Agreement (the "Agreement"), whereby the Company sold an 8% convertible note in the amount of \$3,000,000 (the "Series A Note"), due in shares of common stock on March 31, 2002 to Augustine Fund, L.P. ("Buyer"). As of March 31, 2005 this note has been paid in full through a series of conversions to common stock. During the three months ended March 31, 2005 the Company received conversion requests for the remaining \$251,892 balance into 1,412,942 common shares at prices ranging from \$.149 to \$.213 per share. During 2004, 2003, and 2002 \$2,748,108, had been converted into 25,314,096 shares of the Company's common stock at conversion prices ranging from \$.028 to \$.375 per share.

The Company entered into a second Loan Agreement, most recently modified in October 2005, whereby it issued an 8% convertible note in the amount of \$2,250,000, due November 7, 2006 (the "Series B Note") to Buyer. The Series B Note is convertible into common stock at a conversion price equal to the lesser of: (1) \$.25 per share, or (2) seventy-three percent (73%) of the average of the closing bid price for the common stock for the five (5) trading days immediately preceding the conversion date. Based upon advances through March 31, 2005 totaling \$2,250,000, had the Buyer converted the Series B Note at issuance, Buyer would have received \$3,082,193 in aggregate value of the Company's common stock upon conversion of the convertible note. As a result, in accordance with EITF 00-27, the intrinsic value of the beneficial conversion feature of \$832,193 was charged to interest expense over the original two

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year term of the related note. The entire beneficial conversion feature was charged to operations as of December 31, 2005. The beneficial conversion feature that was charged to interest expense during the three months ended March 31, 2005 totaled \$30,062. The total beneficial conversion discount related to this note was recorded as an increase in additional paid in capital and the unamortized portion as a reduction in the related note.

Note 7. Concentrations

For the three months ended March 31, 2006 approximately 94% of the Company's revenue was derived from the sale of fan experiences and merchandise related to a major performing artist that was touring. The tour concluded in late March 2006.

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

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Overview

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

Critical Accounting Policies

Our significant accounting policies are more fully described in Note 1 to our financial statements. However, certain of our accounting policies are particularly important to the portrayal of our financial position and results of operations and require the application of significant judgment by our management; as a result, they are subject to an inherent degree of uncertainty. In applying these policies, our management makes estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosures. Those estimates and judgments are based upon our historical experience, the terms of existing contracts, our observance of trends in the industry, information that we obtain from our customers and outside sources, and on various other assumptions that we believe to be reasonable and appropriate under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. Our critical accounting policies include:

Inventories: Inventories are stated at the lower of average cost or market on a first-in, first-out method. On a periodic basis we review inventories on hand to ascertain if any is slow moving or obsolete. In connection with this review, we establish reserves based upon management's experience and assessment of current product demand.

Property and Equipment and Intangible Assets: Property and equipment and intangible assets are stated at cost. Depreciation and amortization are computed over estimated useful lives that are reviewed periodically. In connection with this review we consider changes in the economic environment,

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technological advances, and management's assessment of future revenue potential and a review of the estimated useful lives of the various assets.

Results of Operations

The following discussion compares the Company's results of operations for the three months ended March 31, 2006 with those for the three months ended March 31, 2005. The Company's financial statements and notes thereto included elsewhere in this quarterly report contain detailed information that should be

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referred to in conjunction with the following discussion.

Revenues. For the three months ended March 31, 2006, revenues were \$2,806,800, 94% of which was attributable to sales of fan club memberships, merchandise, and fan experiences related to the tour of a major performing artist which ended in March 2006. Sales of the Company's own product and fees from buyers and sellers through the Rotman Auction operations represented 2% of revenues, and sports marketing revenues represented 3% of revenues. Gross sales of the Company's own product were \$48,800. Fan experience, Fan club membership and related merchandise sales revenues were \$2,645,400, and sports marketing revenues were \$89,100. Advertising and web hosting fees were \$23,500, less than 1% of gross revenues, during the three months ended March 31, 2006. Management anticipates continued increases from fan club memberships, merchandise, and fan experiences from tours, products and services related to several other performing artists during the remainder of 2006.

The Company's first quarter 2006 revenues represent an increase of approximately \$1,947,200, or 225%, from the first quarter of 2005, in which revenue was \$859,700. For the three months ended March 31, 2005, sales of the Company's product were \$467,100, or 54% of gross sales, fan club membership and related merchandise sales revenues were \$268,000, 31% of gross revenues, sports marketing revenues were \$121,100, or 14% of gross revenues, and advertising and web hosting fees were \$3,500, or less than 1% of gross revenues.

The reason for the increase in revenues was a \$2,377,400 increase related to the tour by a major performing artist which concluded during the first quarter of 2006, offset by lower revenues related to sports marketing services of \$32,000 and lower sales of Company owned product of approximately \$418,300 from the same period in 2005. Gross profit from Company owned product sales for the three months ended March 31, 2006 was approximately \$11,300, \$98,100 less than in 2005. Since gross margin percentages on Company owned product were substantially the same in both 2006 and 2005 and sales of Company owned product were \$418,300 lower in the three months ended March 31, 2006, the Company produced \$98,100 lower gross margin dollars in 2006. The decrease in sales and gross profit margin is attributable to a management decision late in 2005 to streamline sales channels for Company owned product and, in turn, terminating sales on eBAY, in an effort to reduce related overhead.

Operating Expenses. Total operating expenses for the three months ended March 31, 2006 were \$1,080,600, compared to \$1,217,300 for the corresponding period in 2005, a decrease of \$136,700.

Sales, general and administrative ("SG&A") expenses for the three months ended March 31, 2006 were \$946,200, compared to \$1,105,400 for the three months ended March 31, 2005. The decrease of \$159,200 in SG&A costs includes decreases in payroll and related costs of \$51,800, depreciation and amortization of \$210,400 as certain assets became fully depreciated during 2006 and 2005, and professional fees of \$75,900, offset by increases in travel of \$41,300, credit card commissions of \$27,400, and postage and shipping costs of \$41,900. The travel, credit card commissions and postage and shipping increases are all principally attributable to the tour of a major performing artist.

Costs associated with planning, maintaining and operating our web sites for the three months ended March 31, 2006 increased by \$22,500 from 2005. This increase is due primarily to an increase in

depreciation and amortization of \$17,800. In addition, during the three months ended March 31, 2006 the Company capitalized \$49,500 of website development

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costs, while during the comparable 2005 period the Company capitalized \$87,000.

Interest Expense. For the three months ended March 31, 2006, the Company incurred interest charges of approximately \$26,700 principally associated with convertible debt, compared to interest charges of \$93,800 for the corresponding period in 2005, a decrease of \$67,100. \$36,900 of the decrease is attributable to lower balances of interest-bearing debt in 2006 and \$30,100 to lower amortization of beneficial conversion features.

Net Loss. The Company realized a net loss for the three months ended March 31, 2006 of \$276,300 compared to a loss of \$978,900 for the three months ended March 31, 2005. Losses in both years represented less than \$.01 per share.

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

Assets

At March 31, 2006, total assets of the Company were \$2,931,500 compared to \$4,229,600 at December 31, 2005. The decrease was primarily due lower cash and deferred expenses of \$1,389,000 associated with the conclusion of entertainment events held during the first quarter of 2006. The Company also reports a \$1,335,900 lower related liabilities, in the form of deferred revenues and customer refunds payable, at March 31, 2006 than at December 31, 2005.

Operating Cash Flows

A summarized reconciliation of the Company's net losses to cash used in operating activities for the three months ended March 31, 2006 and 2005 is as follows:

| | 2006 | 2005 |
|---|----------------|--------------|
| | ---- | ---- |
| Net loss | \$ (276,300) | \$ (978,900) |
| Depreciation and amortization | | |
| Amortization of beneficial conversion | 36,900 | 229,600 |
| Discount and debt discount | 30,100 | |
| Common stock issued in payment of services | 195,200 | 376,700 |
| Net current assets and liabilities associated with advance ticketing | (1,041,000) | -- |
| Call Options | 24,400 | -- |
| Changes in current assets and liabilities | (23,100) | 238,700 |
| | -- | -- |
| Net cash used in operating activities | \$ (1,037,700) | \$ (103,800) |
| | ===== | ===== |

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Working Capital and Liquidity

The Company had cash and cash equivalents of \$408,900 at March 31, 2006, compared to \$1,503,000 at December 31, 2005. The Company had \$51,600 of working capital at March 31, 2006 compared to \$152,300 at December 31, 2005. At March 31, 2006 current liabilities were \$2,570,800 compared to \$3,787,700 at December 31, 2005. Current liabilities decreased at March 31, 2006 compared to December 31, 2005 primarily due to the decrease in deferred revenues of \$2,084,600 and an

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increase in customer refunds payable of \$748,700 associated with the cancellation of a major performing artist's tour late in the first quarter of 2006 and fewer scheduled future events for other artists.

As discussed in greater detail in Note 6 to the Financial Statements, the Company has outstanding a convertible note held by Augustine Fund, L.P. The Series B Note has a principal amount outstanding as of March 31, 2006 of \$1,150,000.

The Company's independent auditors have issued a going concern opinion on the Company's consolidated financial statements for the year ended December 31, 2005. The Company may need an infusion of additional capital to fund anticipated operating costs over the next 12 months. Management anticipates growth in revenues and gross profits in 2006 from its celebrity services products and websites, and similar services to other entities; including memberships, fan experiences and ticketing, appearances, website development and hosting, and merchandise sales from both existing and new clients. In addition, "AuctionInc" which hosts a suite of management tools and enhanced shipping calculator solutions for small ecommerce enterprises, sales of movie posters, both from inventory and on consignment, 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 commitments to fund operations during the next 12 months. These commitments include call options for approximately 1,625,000 shares of common stock, which, once assigned by the Company, can generate between \$168,000 and \$527,000 (based solely upon the 52 week high and low closing prices of the Company's common stock) of cash. However, there can be no assurance that assignment of the call options can be concluded on reasonably acceptable terms. If assignments are not made, management may need to seek alternative sources of capital to support operations.

Forward Looking Statements

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

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

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For example, the Company's ability to achieve positive cash flow and to become

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profitable may be adversely affected as a result of a number of factors that could thwart its efforts. These factors include the Company's inability to successfully implement the Company's business and revenue model, tour or event cancellations, higher costs than anticipated, the Company's inability to sell its products and services to a sufficient number of customers, the introduction of competing products by others, the Company's failure to attract sufficient interest in and traffic to its sites, the Company's inability to complete development of its sites, the failure of the Company's operating systems, and the Company's inability to increase its revenues as rapidly as anticipated. If the Company is not profitable in the future, it will not be able to continue its business operations.

ITEM 3. CONTROLS AND PROCEDURES

The Company's management, including the President of the Company and the Chief Financial Officer of the Company, has evaluated the effectiveness of the Company's "disclosure controls and procedures," as such term is defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Based upon their evaluation, the principal executive officer and principal financial officer concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures were effective for the purpose of ensuring that the information required to be disclosed in the reports that the Company files or submits under the Exchange Act with the Securities and Exchange Commission is recorded, processed, summarized and reported within the time period specified by the Securities and Exchange Commission's rules and forms, and is accumulated and communicated to the Company's management, including its principal executive and financial officers, as appropriate to allow timely decisions regarding required disclosure.

There were no significant changes in the Company's internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None.

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

(a) As of March 31, 2006 the Company has outstanding \$1,150,000 of debt outstanding on its 8% convertible note issued by the Company in the original principal amount of \$2,250,000 to the Augustine Fund, L.P. on November 7, 2001. For the three months ended March 31, 2006, the Company did not issue any shares of its common stock to Augustine Fund, L.P., for principal or interest on this convertible note.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

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ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

- 10.1 Amendment No. 1 to Settlement Agreement and Mutual Release, between the Company and Leslie Rotman, dated March 31, 2006.
- 31.1 CEO Certification required under Section 302 of Sarbanes-Oxley Act of 2002
- 31.2 CFO Certification required under Section 302 of Sarbanes-Oxley Act of 2002
- 32 CEO and CFO Certification required under Section 906 of Sarbanes-Oxley Act of 2002

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In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: May 15, 2006

PAID, INC.
Registrant

/s/ Gregory Rotman

Gregory Rotman, President

/s/ Richard Rotman

Richard Rotman, Chief Financial Officer,
Vice President and Secretary

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LIST OF EXHIBITS

| Exhibit No. ----- | Description ----- |
|----------------------|--|
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