PAID INC
Form 10QSB
May 13, 2005

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, 2005

COMMISSION FILE NUMBER 0-28720

PAID, INC.
(Exact Name of Small Business Issuer as specified in its Charter)

DELAWARE	73-1479833
(State or other jurisdiction of Incorporation or organization)	(I.R.S. Employer Identification No.)

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

(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 |X| No |_|

As of May 10, 2005, the issuer had outstanding 178,778,629 shares of its Common Stock, par value $.001 per share.

Transitional Small Business Disclosure Format

Yes |_| No |X|

Paid, Inc.
and Subsidiary
Form 10-QSB
For the Three Months ended March 31, 2005

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

PAID, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS

ASSETS	March 31, 2005 (Unaudited)	December 31, 2004 (Audited)
Current assets:		
Cash and cash equivalents	$ 30,321	$ 43,558
Accounts receivable	34,355	45,739
Inventories, net	607,050	624,082
Prepaid expenses	40,486	125,180
Due from employees	58,681	55,656
Other current assets	9,073	9,073

Total current assets	779,966	903,288
Property and equipment, net	227,587	172,706
Other intangible assets, net	493,619	688,872
Total assets	$ 1,501,172	$ 1,764,866
LIABILITIES AND SHAREHOLDERS' DEFICIT		
Current liabilities:		
Notes payable	$ 130,000	$ 290,000
Accounts payable	218,456	164,829
Accrued expenses	1,043,350	991,196
Total current liabilities	1,391,806	1,446,025
Convertible debt	2,176,191	2,398,021
Shareholders' deficit:		
Common stock, $.001 par value, 350,000,000 shares authorized; 176,254,836 and 173,320,731 shares issued and outstanding at March 31, 2005 and December 31, 2004, respectively	176,255	173,321
Additional paid-in capital	22,139,690	21,166,334
Accumulated deficit	(24,362,770)	(23,383,835
Unearned compensation	(20,000)	(35,000
Total shareholders' deficit	(2,066,825)	(2,079,180
Total liabilities and shareholders' deficit	$ 1,501,172	$ 1,764,866

See accompanying notes to consolidated financial statements

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

	2005	2004
Revenues	$ 859,653	$ 385,982
Cost of revenues	527,509	200,914

Gross profit	332,144	185,068
Operating expenses:		
Selling, general, and administrative expenses	1,105,390	760,132
Web site development costs	111,901	147,603
Total operating expenses	1,217,291	907,735
Loss from operations	(885,147)	(722,667)
Other income (expense):		
Interest expense	(93,789)	(128,238)
Other income	1	44
Total other expense, net	(93,788)	(128,194)
Loss before income taxes	(978,935)	(850,861)
Provision for income taxes	--	--
Net loss	$ (978,935)	$ (850,861)
Loss per share (basic and diluted)	$ (0.01)	$ (0.01)
Weighted average shares	174,303,402	159,978,229

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)

	2005	2004
Operating activities:		
Net loss	$(978,935)	$(850,861)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation and amortization	229,551	293,409
Amortization of unearned compensation	15,000	--
Beneficial conversion feature	30,062	80,131
Common stock issued in payment of		

professional and consulting fees	282,222	283,639
Issuance of common stock pursuant to exercise of stock options granted to employees for services	94,430	31,734
Common stock issued in payment of interest	8,000	--
Changes in assets and liabilities:		
Accounts receivable	11,384	(8,362)
Inventories	17,032	33,081
Prepaid expenses and other current assets	81,669	(45,135)
Accounts payable	53,627	(133,022)
Accrued expenses	52,154	109,125
Net cash used in operating activities	(103,804)	(206,261)
Investing activities:		
Property and equipment additions	(89,179)	(359)
Financing activities:		
Net proceeds from notes payable	--	(15,000)
Proceeds from sale of warrants	50,000	--
Proceeds from sale of common stock	30,000	--
Proceeds from convertible debt	--	65,926
Proceeds from assignment of call options	99,610	164,500
Proceeds from exercise of stock options	136	176
Net cash provided by financing activities	179,746	215,602
Net increase (decrease) in cash and cash equivalents	(13,237)	8,982
Cash and cash equivalents, beginning	43,558	104,397
Cash and cash equivalents, ending	$ 30,321	$ 113,379

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Cash paid during the year for:		
Income taxes	$ --	$ --
Interest	$ --	$ 1,125

See accompanying notes to consolidated financial statements

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PAID, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDER'S DEFICIT
FOR THE THREE MONTHS ENDED MARCH 31, 2005
(Unaudited)

	Common stock Shares	Common stock Amount	Additional Paid-in Capital	Accumul defic
Balance, December 31, 2004	173,320,731	$ 173,321	$ 21,166,334	$(23,383
Common stock issued puruant to exercise of stock options granted to employees for services	365,260	365	94,065	
Common stock issued in payment of professional and consulting fees	1,432,511	1,433	280,789	
Common stock issued in payment of interest on note payable	38,095	38	7,962	
Common stock issued in payment of note payable	761,905	762	159,238	
Issuance of common stock	200,000	200	29,800	
Stock options exercised	136,364	136		
Common stock to be issued for payment of convertible debt	--	--	251,892	
Amortization of unearned compensation	--	--	--	
Proceeds from sale of warrants	--	--	50,000	
Proceeds from assignment of call options	--	--	99,610	
Net loss	--	--	--	(978
Balance, March 31, 2005	176,254,866	$ 176,255	$ 22,139,690	$(24,362

See accompanying notes to consolidated financial statements

PAID, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2005 AND 2004

Note 1. Organization and Summary of Significant Accounting Policies

Line of business

Paid Inc. and subsidiary (the "Company") provides services to celebrities and sports figures, including hosting and management of official web sites and fan-club services. The Company sponsors autograph signing events and other sports marketing services for sports clientele. The Company also operates and maintains an internet portal dedicated to collectibles in a variety of categories. The Company conducts online auctions of its own merchandise and items posted under consignment arrangements by third party sellers, and provides products and services related to online auction management, and e-commerce and web site development, including technology that streamlines back-office and shipping processes for online auctions and e-commerce.

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 statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations of 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, 2004, 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.

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 March 31, 2005 and December 31, 2004 the Company has provided for reserves totaling $305,000 and $300,000, respectively.

Revenue Recognition

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

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

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

Advertising Costs

Advertising costs totaling approximately $43,000 in 2005 and $26,000 in 2004 are charged to expense when incurred.

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 16,666,667 as of March 31, 2005 and 12,413,286 as of March 31, 2004. The number of common shares that would be included in the calculation of outstanding options 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 27,465,054 shares and 25,066,000 shares at March 31, 2005 and 2004, 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 and Software Development Costs

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, 2005 the Company capitalized approximately $87,000 of website development costs. There was no such capitalization during the three months ended March 31, 2004.

Note 2. Notes and Loan Payable

At March 31, 2005 and December 31, 2004 the Company was obligated on short-term demand notes payable to a related party totaling $130,000 bearing interest at 8%. Interest expense charged to operations in connection with these related party notes totaled approximately $2,600 for each of the three months ended March 31, 2005 and 2004.

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In addition, at December 31, 2004 the Company was obligated on a short-term note payable, bearing interest at 18%, and due on March 1, 2005. In addition the Company issued 125,000 unregistered shares of stock valued at $17,500 as an origination fee which was amortized over the life of the note. This note and all related accrued interest was repaid through the issuance of 800,000 shares of common stock on March 1, 2005.

Note 3. Accrued Expenses

Accrued expenses are comprised of the following:

	March 31, 2005	December 31, 2004
Interest	$ 176,611	$ 129,635
Payroll	140,664	141,818
Professional & Consulting fees	361,166	378,210
Consignments	172,782	173,626
Due to K Sports	62,500	62,500
Commissions	40,000	40,000
Other	89,627	65,407
	$1,043,350	$ 991,196

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. All remaining call options were assigned during January 2005.

During the three months ended March 31, 2005 and 2004 the Company assigned options to purchase 394,565 and 275,000 shares of stock from CSEI to certain individuals in exchange for $99,611 and $164,500 which was added to the paid in capital of the Company.

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 60,000,000 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, 2005 the Company granted options for 1,697,771 shares at various dates aggregating $344,652 under this plan. During the three months ended March 31, 2004 the Company granted options for 1,160,951 shares at various dates aggregating $315,373 under this plan. All options granted during these periods were exercised.

During the three months ended March 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. If exercised, the $50,000 will be applied as partial payment of the exercise price. If the Warrants are not exercised within one year the Deposit will be forfeited. The Deposit has been recorded as an addition to Paid in Capital.

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The Company applies Accounting Principles Board Opinion No. 25 and related interpretations in accounting for its stock option plans. Accordingly, compensation cost has been recognized only to the extent described above. Had compensation cost for the Company's stock option plan been determined based on the fair value at the grant dates for awards under the plan consistent with the method prescribed by FASB Statement No. 123, the Company's net income and earnings per share would have been adjusted to the pro forma amounts indicated below:

	Three Months Ended March 31,	
	2005	2004
Net loss		
As reported	$(978,935)	$(850,861)
Stock based compensation cost, as reported (net of tax)	15,000	--
Stock based compensation cost that would have been included in the determination of net net income had the fair value method been applied (net of tax)	(15,000)	(67,650)
Pro forma	$(978,935)	$(918,511)
Loss per share (basic and diluted) as reported	$ (.01)	$ (.01)
Proforma loss per share (basic And diluted), as adjusted	$ (.01)	$ (.01)

Note 5. Income Taxes

There was no provision for income taxes for the three months ended March 31, 2005 and 2004 due to the Company's net operating loss and its valuation reserve against deferred income taxes.

The difference between the provision for income taxes from 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.

At March 31, 2005, the Company has federal and state net operating loss carry forwards of approximately $19,600,000 available to offset future taxable income. The state carry-forwards will expire intermittently through 2010, while the federal carry forwards will expire intermittently through 2025.

Note 6. Convertible Debt Financing

As of March 31, 2005 the Company has outstanding $2,250,000 of convertible debt, which is presented net of unamortized beneficial conversion discounts of $73,809.

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. (the "Buyer"). The Series A Note, as most recently modified on May 21, 2002, provided for the extensions of the maturity date until March 31, 2005. 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 that were issued on April 19, 2005 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 on October 31, 2003, whereby it issued an 8% convertible note in the amount of $2,250,000, due November 7, 2005 (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 is being charged to interest expense over the term of the related note. The beneficial conversion feature that was charged to interest expense totaled $30,062 and $80,131 for the three months ended March 31, 2005 and 2004, respectively. The total beneficial conversion discount related to this note has been recorded as an increase in additional paid in capital and the unamortized portion as a reduction in the related note. In addition, the Company entered into a Registration Rights Agreement whereby the Company agreed to file a Registration Statement with the Securities and Exchange Commission (SEC) within sixty (60) days of a request from the Buyer (Filing Date), covering the common stock to be issued upon conversion of the Series B Note. If this Registration Statement is not declared effective by the SEC within sixty (60) days of the filing date the conversion percentage shall decrease by two percent (2%) for each month that the Registration Statement is not declared effective. The modified Series B Note requires that principal and interest be payable in shares of common stock, or cash, at the discretion of the Company, and provides that any fees or expenses related to any registration of the common stock will be borne equally by the Company and the Buyer.

Note 7. Related party transactions

During the three months ended March 31, 2004 the Company purchased approximately

$40,000 of memorabilia for sale from Steven Rotman, the father of Richard and Greg Rotman. There were no such purchases during the three months ended March 31, 2005.

Note 8. Issuance of Common Stock

During the three months ended March 31, 2005 the Company issued 1,432,511 shares of common stock in connection with the payment of approximately $282,000 of professional and consulting fees.

During the three months ended March 31, 2004 the Company issued 1,017,137 shares of common stock in connection with the payment of approximately $284,000 of professional and consulting fees.

Note 9. Subsequent Event

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 has delivered 2,000,000 shares of the Company's common stock into escrow, with a fair market value of $600,000 and has granted the Company an option to purchase the shares for $.001 per share. The option is assignable by the Company and expires one year from the date of grant.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

Overview

Our new celebrity services offer famous people 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 innovative products and services are utilized in online auction management, e-commerce and web site development. AuctionInc. provides auction management tools and services to sellers and buyers. The technology is based on our patent-pending process that streamlines back-office and shipping processes for online auctions and e-commerce. Our autograph signing events, working in conjunction with our new sports agent marketing services, known as K Sports, have created more services and opportunities for our sports clientele. Rotman Auction leverages the relationships from celebrity services and K Sports to sell products through distribution and retail outlets. We purchase and sell collectibles and memorabilia through our Rotman Auction brand. Rotman Auction is an eBay Platinum Powerseller that sells thousands of items each week on eBay and provides consignment services, authentication and public and private autograph events. We also build and maintain large database-driven portals across a broad array of industries, including CollectingChannel.com, which is home to our online appraisal service, Ask the Appraiser.

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, 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, 2005 with those for the three months ended March 31, 2004. 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. For the three months ended March 31, 2005, revenues were $859,700, 54% of which is attributable to sales of the Company's own product, including products obtained through live autograph signings, and fees from buyers and sellers through the Rotman Auction operations. Gross sales of the Company's own product were $467,100. Fan club membership and related merchandise sales revenues were $268,000, 31% of gross revenues, Sports marketing revenues were $121,100, 14% of gross revenues, and advertising and web hosting fees were $3,500 or less than 1% of gross revenues during the three months ended March 31, 2005.

The Company's 2005 revenues represent an increase of $473,700, or 123%, from the three months ended March 31, 2004, in which revenues were $386,000. For the three months ended March 31, 2004, sales of Company

owned product through the Rotman Auction operations were $383,100, or 99% of gross sales, and advertising and web hosting fees were $2,900, or 1% of gross revenues.

The reason for the increase in revenues was higher sales of Company owned product of approximately $84,000 from the same period in 2004 and $389,100 of revenues from our recently established sports marketing and fan club membership services. Gross profit from Company owned product sales for the year ended March

31, 2005 was approximately $90,800, $91,400 less than in 2004. Since gross margin percentages on Company owned product dropped from 48% to 19%, and sales of Company owned product were $84,000 higher in the three months ended March 31, 2005, the Company produced $92,400 fewer gross margin dollars in 2005. The increase in sales is attributable to listing higher priced goods in 2005 than in 2004. The drop in gross profit margin is attributable to a continuing decline in traffic on eBay, resulting in less competitive bidding. In addition, during the fourth quarter of 2004 the Company acquired the operating assets of K Sports & Entertainment LLC ("K Sports"), a sports marketing business and entered into a contract to host and manage the fan club website for a major performing artist. Revenues from these two sources accounted for $389,100 of revenues in 2005.

Operating Expenses. Total operating expenses for the three months ended March 31, 2005 were $1,217,300, compared to $907,700 for the corresponding period in 2004, an increase of $309,600. Sales, general and administrative ("SG&A") expenses for the three months ended March 31, 2005 were $1,105,400, compared to $760,100 for the three months ended March 31, 2004. The increase of $345,300 in SG&A costs includes increases in payroll of $150,000, advertising of $16,500, professional fees of $118,800, and other costs of $90,800 offset by a decrease in depreciation and amortization of $31,000 as older assets become fully depreciated and amortized. The additional payroll and other costs are attributable to additional personnel, professional fees, travel, and shipping and postage related to the integration and development of K Sports and fan club services. Costs associated with planning, maintaining and operating our web sites for the three months ended March 31, 2005 decreased $35,700 from 2004. This decrease is due primarily to lower depreciation as certain website development costs became fully depreciated in 2005.

Interest Expense. For the three months ended March 31, 2005, the Company incurred interest charges of approximately $93,800 principally associated with one convertible note, compared to interest charges of $128,200 for the corresponding period in 2004. The decrease of $34,500 is attributable to lower amortization of beneficial conversion features in 2005 offset by interest on short term debt.

Net Loss. The Company realized a net loss for the three months ended March 31, 2005 of $979,000, or $.01 per share, as compared to a loss of $850,900, or $.01 per share for the three months ended March 31, 2004.

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

Assets

At March 31, 2005, total assets of the Company were $1,501,200, compared to $1,764,900 at December 31, 2004. The decrease was primarily due to depreciation and amortization totaling $229,600.

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, 2005 compared to March 31, 2004, is as follows:

	2005	2004
Net loss	$(978,900)	$(850,900)
Depreciation and amortization	229,600	293,400

Amortization of unearned compensation	15,000	--
Amortization of beneficial conversion discount and debt discount	30,100	80,100
Common stock issued in payment of services	376,500	315,400
Common stock issued in payment of interest	8,000	--
Changes in current assets and liabilities	215,900	(44,300)
Net cash used in operating activities	$(103,800)	$(206,300)

Working Capital and Liquidity

The Company had cash and cash equivalents of $30,300 at March 31, 2005, compared to $43,600 at December 31, 2004. The Company had a $612,800 deficit in working capital at March 31, 2005, compared to a working capital deficit of $542,700 at December 31, 2004. At March 31, 2005 current liabilities were $1,391,800 compared to $1,446,000 at December 31, 2004. During the three months ended March 31, 2005 current liabilities decreased primarily due retirement of short-term debt offset by an increase in accounts payable and routine accruals.

As discussed in greater detail in Note 6 to the Financial Statements, the Company has outstanding convertible debt held by Augustine Fund, L.P. The Series A Note, in the original principal amount of $3,000,000, has completely retired as of March 31, 2005 through the conversion of principal into common stock. The Series B Note has a principal amount outstanding as of March 31, 2005 of $2,250,000.

The Company's independent auditors have issued a going concern opinion on the Company's consolidated financial statements for the year ended December 31, 2004. The Company needs an infusion of $600,000 to $800,000 of additional capital to fund anticipated operating costs over the next 12 months. Management anticipates growth in revenues and gross profits from its celebrity services products and websites; including memberships, fan experiences, ticketing, appearances, and merchandise sales. In addition, the Company hosts a suite of management tools and enhanced shipping calculator solutions for small ecommerce enterprises. These services, coupled with sales of movie posters, both from inventory and on consignment, and web hosting are expected to increase revenues and result in higher gross profit. Subject to the discussion below, Management believes that the Company has sufficient commitments to fund operations during the next 12 months. These commitments include call options for approximately 2,000,000 shares of Company common stock valued at approximately $600,000. Finally, Management believes that it has identified several potential funding sources for additional financing. Management believes that these plans should result in obtaining sufficient operating cash through the next 12 months. However, there can be no assurance that the above mentioned potential financing can be completed on terms reasonably acceptable to the Company.

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, 2004.

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, the collectibles community not accepting the services the Company offers, 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, 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) During the first quarter of 2005, the Company received conversion requests from Augustine Fund, L.P. for $251,892 of the March 23, 2000 convertible note, representing the remaining balance on the $3,000,000 convertible note, into 1,412,942 shares of common stock of the Company. The shares were issued on April 19, 2005 at prices ranging from $.149 to $.213 per share. The shares are freely tradable pursuant to Rule 144 of the Securities Act of 1933. Augustine Fund, L.P. is an accredited investor that represented that it acquired the convertible note for

its own account. The issuance of the securities is exempt from registration under Section 4(2) of the Securities Act of 1933 and Regulation D promulgated thereunder. The Company did not issue any shares of its common stock to Augustine Fund, L.P., for interest due pursuant to the 8% convertible note in the principal amount of $2,250,000 issued by the Company to the Augustine Fund, L.P. on November 7, 2001.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

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

None.

ITEM 5. OTHER INFORMATION

On May 9, 2005, the Company entered into a Settlement Agreement and Mutual Release with Leslie Rotman ("Seller"). Seller, Rotman Collectibles, Inc., and the Company had entered into an Agreement and Plan of Merger (the "Merger Agreement") on October 23, 2001, pursuant to which Rotman Collectibles, Inc., a Massachusetts corporation, was merged into the Company's Delaware subsidiary, now named Rotman Collectibles, Inc. on November 7, 2001. Seller is the mother of Gregory Rotman, President of the Company, and Richard Rotman, CFO/Vice President/Secretary of the Company. As consideration for the merger, Seller was issued a 6% Convertible Promissory Note equal to $1,000,000. The note was paid in full through the issuance of stock during the first quarter of 2002. Prior to entering into the Merger Agreement, the Company had engaged an appraiser to appraise the assets of Rotman Collectibles, which consisted primarily of movie posters. The appraised value exceeded $2,000,000. Based on its current sales projections, the Company does not expect to obtain revenues equal to the appraised value. To settle any possible differences or disputes between the value paid and the value received, Seller has delivered 2,000,000 shares of the Company's common stock into escrow, with a fair market value of $600,000, based on a closing bid price of the Company's common stock of $.30 as of Friday, May 6, 2005, and has granted the Company an option to purchase the shares for $.001 per share, which option is assignable by the Company in whole or in part. The Settlement Agreement and Mutual Release, dated May 9, 2005, is attached hereto as Exhibit 10.1. The Escrow Agreement, dated May 9, 2005, is attached hereto as Exhibit 10.2. This information is provided in lieu of a Form 8-K filing with respect to Item 1.01, which would otherwise be required to be filed with respect to this information as of May 13, 2005, which is the date of this filing.

ITEM 6. EXHIBITS

10.1	Settlement Agreement and Mutual Release by and between Leslie Rotman and the Company, dated May 9, 2005.
10.2	Escrow Agreement, by and among Leslie Rotman, the

	Company, and Olde Monmouth Stock Transfer Co., Inc., as Escrow Agent, dated May 9, 2005.
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

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 13, 2005

PAID, INC.
Registrant

/s/ Gregory Rotman

Gregory Rotman, President

/s/ Richard Rotman

Richard Rotman, Chief Financial Officer, Vice President and Secretary

LIST OF EXHIBITS

Exhibit No.	Description
10.1	Settlement Agreement and Mutual Release by and between Leslie Rotman and the Company, dated May 9, 2005.
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