PAID INC
Form 10-Q
August 12, 2016

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, 2016

COMMISSION FILE NUMBER 0-28720

(Exact Name of Registrant as Specified in its Charter)

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

200 Friberg Parkway, Westborough, Massachusetts 01581
(Address of Principal Executive Offices) (Zip Code)

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

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

Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes x 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 (Do not check if a smaller reporting company)	Smaller reporting company T

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes ¨ No x

As of August 12, 2016, the issuer had outstanding 10,989,608 shares of its Common Stock.

PAID, INC.

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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

PAID, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

ASSETS	June 30, 2016 (Unaudited)	December 31, 2015 (Audited)
Current assets:		
Cash and cash equivalents	$ 154,943	$ 123,913
Accounts receivable, net	23,914	26,696
Prepaid expenses and other current assets	26,959	57,394
Advanced royalties, net	-	5,000
Total current assets	205,816	213,003
Property and equipment, net	7,434	8,833
Intangible assets, net	226,824	276,878
Total assets	$ 440,074	$ 498,714
LIABILITIES AND SHAREHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable	$ 99,028	$ 95,441
Note payable	3,014	24,202
Capital leases	-	3,097
Accrued expenses	958,550	1,001,359
Deferred revenues	5,795	6,768
Total liabilities	1,066,387	1,130,867
Shareholders' deficit		
Common stock, $0.001 par value, 11,000,000 shares authorized; 10,989,608 shares and 8,932,466 shares issued and outstanding at June 30, 2016 and December 31, 2015, respectively	10,991	8,932
Additional paid-in capital	54,633,631	54,418,160
Accumulated deficit	(55,270,935)	(55,059,245)
Total shareholders' deficit	(626,313)	(632,153)
Total liabilities and shareholders' deficit	$ 440,074	$ 498,714

See accompanying notes to condensed consolidated financial statements

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PAID, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Revenues	$ 129,984	$ 51,608	$ 263,763	$ 93,402
Cost of revenues	5,381	10,639	12,208	19,794
Gross profit	124,603	40,969	251,555	73,608
Operating expenses	294,997	223,855	561,329	514,685
Loss from operations	(107,394)	(182,886)	(309,774)	(441,077)
Other income (expense):				
Interest expense	(193)	(206)	(450)	(486)
Other income	4,488	-	57,988	-
Unrealized gain (loss) on stock price guarantee	(33,672)	(20,845)	41,353	30,465
Total other income (expense), net	(29,377)	(21,051)	(98,891)	29,979
Loss before provision for income taxes	(199,771)	(203,937)	(210,883)	(411,098)
Provision for income taxes	-	-	807	956
Net loss	$ (199,771)	$ (203,937)	$ (211,690)	$ (412,054)
Net loss per share – basic and diluted	$ (0.02)	$ (0.03)	$ (0.02)	$ (0.06)
Weighted average number of common shares outstanding - basic and diluted	10,989,608	6,875,481	10,331,838	6,851,293

See accompanying notes to condensed consolidated financial statements

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

	2016	2015
Cash flows from operating activities:		
Net loss	$ (611,690)	$ (412,054)
Adjustments to reconcile net loss to cash and cash equivalents used in operating activities:		
Depreciation and amortization	51,453	8,728
Share-based compensation	37,530	100,666
Unrealized gain on stock price guarantee	(41,353)	(30,465)
Changes in assets and liabilities:		
Accounts receivable	2,782	(5,398)
Prepaid expenses and other current assets	30,435	16,921
Advanced royalties	5,000	-
Deposits and other assets	-	7,370
Accounts payable	3,587	(100,218)
Accrued expenses	(1,456)	(637)
Deferred revenues	(973)	634
Net cash and cash equivalents used in operating activities	(124,685)	(414,453)
Cash flows from financing activities:		
Payments on capital leases	(3,097)	(7,752)
Payments on note payable	(21,188)	-
Proceeds from the exercise of common stock warrants	180,000	195,000
Net cash and cash equivalents provided by financing activities	155,715	187,248
Net change in cash and cash equivalents	31,030	(227,205)
Cash and cash equivalents, beginning of period	123,913	651,318
Cash and cash equivalents, end of period	$ 154,943	$ 424,113
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Income taxes paid	$ 806	$ 956
Interest paid	$ 450	$ 486
SUPPLEMENTAL DISCLOSURE OF NON-CASH FINANCING ACTIVITIES		
Issuance of previously subscribed common stock	$ -	$ 25,000

See accompanying notes to condensed consolidated financial statements

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PAID, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
June 30, 2016

Note 1. Organization and Significant Accounting Policies

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

BeerRun Software is a brewery management and Alcohol and Tobacco Tax and Trade Bureau tax reporting software. Small craft brewers utilize the product to manage brewery schedules, inventory, packaging, sales and purchasing. Tax reporting can be processed with a single click and is fully customizable by state or providence. The software is designed to integrate with QuickBooks accounting platforms by using our powerful sync engine. We currently offer two versions of the software BeerRun and BeerRun Light which excludes some of the enhanced features of BeerRun without disrupting the core functionality of the software. Additional features include Brewpad and Kegmaster and can be added on to the base product. Craft brewing is on the rise in the United States and we feel that there is a large potential to grow this portion of our business.

SpiritRun is a product of BeerRun and is designed specifically for distilleries. This product was recently released and we feel that there with additional marketing and visibility in the distillery industry SpiritRun has the right core resources to be a valuable tool in distilleries around the United States.

General Presentation and Basis of Consolidated Financial Statements

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”), and to the rules and regulations of the Securities and Exchange Commission ("SEC") regarding interim financial reporting. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements and should be read in conjunction with the Company's audited consolidated financial statements and notes thereto included in the Annual Report on Form 10-K for the year ended December 31, 2015 that was filed on March 30, 2016.

In the opinion of management, the Company has prepared the accompanying unaudited condensed consolidated financial statements on the same basis as its audited consolidated financial statements, and these unaudited condensed consolidated financial statements include all adjustments, consisting of normal recurring adjustments necessary for a fair presentation of the results of the interim periods presented. The operating results for the interim periods presented are not necessarily indicative of the results expected for the full year 2016.

On October 7, 2015, the board of directors agreed to effectuate a reverse split of the Company’s common stock. The process was completed with FINRA on November 13, 2015. As a result of the split every fifty shares of common stock outstanding prior to the reverse split were consolidated into one share, reducing the number of common shares outstanding on the effective date from 446,623,300 to 8,932,466. All share and per share information on this Form 10-Q has been retroactively adjusted to reflect the reverse stock split.

Going Concern and Management's Plan

The accompanying unaudited condensed consolidated financial statements have been prepared on a going concern basis which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The Company has continued to incur losses, although it has taken significant steps to reduce them.   For the six months ended June 30, 2016, the Company reported a net loss of $211,690. The Company has an accumulated deficit of $55,270,935 at June 30, 2016 and used $124,685of cash and cash equivalents in operations for the six months ended June 30, 2016. These factors raise substantial doubt about the Company’s ability to continue as a going concern.

Management feels that AuctionInc, BeerRun and SpiritRun will be a beneficial portion of our business and provide more opportunity for growth. The costs of doing business have been and will be significantly reduced in hopes of eliminating the net loss and providing positive cash flow from operations.

Although there can be no assurances, the Company believes that the above management plan will be sufficient to meet the Company's working capital requirements through the end of 2016.

Principles of Consolidation

The consolidated financial statements include the accounts of PAID, Inc. and its wholly owned subsidiary PAID Run, LLC. All intercompany accounts and transactions have been eliminated.

Use of Estimates

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

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Fair Value Measurements

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

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

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

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

At June 30, 2016 and December 31, 2015, the Company's financial instruments include cash and cash equivalents, accounts receivable, accounts payable, capital leases, note payable and accrued expenses. The carrying amount of cash and cash equivalents, accounts receivable, accounts payable, capital leases, note payable and accrued expenses approximate fair value due to the short-term maturities of these instruments.

Cash and Cash Equivalents

The Company considers all highly liquid temporary cash investments with an initial maturity of three months or less to be cash equivalents.

Concentration of Credit Risk

The Company maintains cash balances at financial institutions that are insured by the Federal Deposit Insurance Corporation ("FDIC") up to $250,000. At June 30, 2016, the Company had no amounts in these accounts in excess of the FDIC limit. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk related to these deposits. Management believes that it has invested in high credit quality institutions for which the Company has not experienced any loss in its accounts and believes it is not exposed to any significant credit risk related to these accounts.

The Company extends credit based on an evaluation of the customer's financial condition, generally without requiring collateral. Exposure to losses on receivables is principally dependent on each customer's financial condition. The Company monitors its exposure for credit losses and maintains allowances for anticipated losses. Although the Company expects to collect amounts due, actual collections may differ from the estimated amounts. At both June 30, 2016 and December 31, 2015, the Company has recorded an allowance for doubtful accounts of $40,609.

For the six months ended June 30, 2016, and June 30, 2015 no revenues from any one individual client accounted for more than 10% of total revenues. These revenues were generated primarily from the sales of our line of AuctionInc products, brewery management software and merchandising and fulfillment services.

Advanced Royalties

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

Property and Equipment

Property and equipment are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of 3 to 5 years. Any leasehold improvements are depreciated at the lesser of the useful life of the asset or the lease term. Equipment purchased under capital leases is amortized on a straight-line basis over the estimated useful life of the asset or the term of the lease, whichever is shorter.

Intangible Assets

Intangible assets consist of patents, client lists and brewery and distillery management software which are being amortized on a straight-line basis over their estimated useful life. Currently there are intangible assets that are being amortized over 3 and 17 years.

Long-Lived Assets

The Company reviews the carrying values of its long-lived assets for possible impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the expected future cash flow from the use of the asset and its eventual disposition is less than the carrying amount of the asset, an impairment loss is recognized and measured using the fair value of the related asset. No impairment charges were incurred during the six months ended June 30, 2016 and 2015. There can be no assurance, however, that market conditions will not change or demand for the Company's services will continue, which could result in impairment of long-lived assets in the future.

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Revenue Recognition

The Company generates revenue principally from sales of shipping calculator subscriptions, brewery management software subscriptions, and entertainment services.

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

For shipping calculator revenues and brewery management software revenues the Company recognizes subscription revenue on a monthly basis. Shipping calculator customers' renewal dates are based on their date of installation and registration of the shipping calculator line of products. The payments for shipping calculator services are made via credit card for the month preceding the service and are recorded as deferred revenues until the service has been provided. Brewery management software subscribers are billed on a calendar month at the first of the month with payments processed via credit card for the month following.

Entertainment services revenues include web development and design, creative services, marketing services and general business consulting services. For contracts that are of a short duration and fixed price, revenue is recognized when there are no significant obligations and upon acceptance by the customer of the completed project. Revenues on longer-term fixed price contracts are recognized using the percentage-of-completion method. Services that are performed on a time and material basis are recognized as the related services are performed.

Cost of Revenues

Cost of revenues includes web hosting, data storage, and commissions.

Operating Expenses

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

Advertising

Advertising costs are charged to expense as incurred. For the three months ending June 30, 2016 and 2015 advertising expense totaled $2,708 and $6,878, and for six months ended June 30, 2016 and 2015, advertising expense totaled $6,874 and $13,102, respectively. These expenses are included in operating expenses in the accompanying condensed consolidated statements of operations.

Share-Based Compensation

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

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

Share-based compensation expense recognized during a period is based on the value of the portion of share-based payment awards that is ultimately expected to vest and is amortized under the straight-line attribution method. As share-based compensation expense recognized in the accompanying condensed consolidated statements of operations for the six months ended June 30, 2016 and 2015 is based on awards ultimately expected to vest, it has been reduced for estimated forfeitures. The estimated fair value method requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. The Company estimates forfeitures based on historical experience. Changes to the estimated forfeiture rate are accounted for as a cumulative effect of change in the period the change occurred.

Since the Company has a net operating loss carry-forward as of June 30, 2016 and 2015, no excess tax benefits for tax deductions related to share-based awards were recognized from stock options exercised in the six months ended June 30, 2016 and 2015 that would have resulted in a reclassification from cash flows from operating activities to cash flows from financing activities.

Income Taxes

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

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

The Company's policy is to recognize interest and/or penalties related to income tax matters in income tax expense. The Company had $0 accrued for interest and penalties on the Company's accompanying condensed consolidated balance sheets at June 30, 2016 and December 31, 2015.

The Company is subject to taxation in the U.S. and various state jurisdictions. The Company's tax years for 2012 and forward for federal and 2011 and forward for state purposes are subject to examination by the U.S., Massachusetts and New Jersey tax authorities due to the carry-forward of unutilized net operating losses. The Company does not foresee material changes to its gross uncertain income tax position liability within the next twelve months.

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Earnings (Loss) Per Common Share

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

For the three months ended June 30, 2016 and 2015 and the six months ended June 30, 2016 and 2015, there were approximately 292,000 and 28,000 and 282,000 and 51,000, respectively, dilutive shares that were excluded from the diluted earnings (loss) per share as their effect would have been antidilutive for the period then ended.

Segment Reporting

The Company reports information about segments of its business in its annual consolidated financial statements and reports selected segment information in its quarterly reports issued to shareholders. The Company also reports on its entity-wide disclosures about the products and services it provides and reports revenues and its major customers. The Company's three reportable segments are managed separately based on fundamental differences in their operations. At June 30, 2016, the Company operated in the following three reportable segments (see below):

a. Entertainment services,
b. Shipping calculator services, and
c. Brewery management software.

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

The following table compares total revenue for the periods indicated.

	Three Months Ended		Six Months Ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Entertainment services	$ 4,659	$ 10,188	$ 10,662	$ 14,645
Shipping calculator services	44,262	41,420	89,721	78,757
Brewery management software	81,063	-	163,380	-
Total revenue	$ 129,984	$ 51,608	$ 263,763	$ 93,402

The following table compares total loss from operations for the periods indicated.

	Three Months Ended		Six Months Ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Entertainment services	$ 4,005	$ 7,453	$ 8,567	$ 10,506
Shipping calculator services	(179,590)	(190,339)	(331,974)	(451,583)
Brewery management software	5,191	-		