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PAID INC
Form 10-Q
May 12, 2008

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

FORM 10-Q

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

For the quarterly period ended March 31, 2008

COMMISSION FILE NUMBER 0-28720

PAID, INC.

(Exact Name of Registrant as Specified in its Charter)

DELAWARE

(State or Other Jurisdiction of
Incorporation or Organization)

73-1479833

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

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

(508) 791-6710

(Registrant's Telephone Number, Including Area Code)

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

Yes No

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

Large accelerated filer

Accelerated Filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

As of May 6, 2008, the issuer had outstanding 237,379,330 shares of its Common Stock, par value \$.001 per share.

Paid, Inc.
and Subsidiary
Form 10-Q

For the Three Months ended March 31, 2008

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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PAID, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS

	March 31, 2008	December 31, 2007
	----- (unaudited)	----- (audited)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 87,361	\$ 264,811
Inventories, net	1,215,995	1,195,689
Prepaid expenses and other current assets	214,736	185,553
Due from employees	39,538	39,362
	-----	-----
Total current assets	1,557,630	1,685,415
Property and equipment, net	59,444	74,338
Intangible asset, net	10,593	10,828
	-----	-----
Total assets	\$ 1,627,667	\$ 1,770,581
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Loans payable	\$ 50,000	\$ --
Accounts payable	439,415	272,476
Accrued expenses	361,194	380,276
Deferred revenues	112,433	109,500
	-----	-----
Total current liabilities	963,042	762,252
	-----	-----
Commitments and contingencies		
Shareholders' equity:		
Common stock, \$.001 par value, 350,000,000 shares authorized; 236,109,175 and 234,636,742 shares issued and outstanding at March 31, 2008 and December 31, 2007, respectively	236,109	234,637
Additional paid-in capital	32,599,852	32,083,880
Accumulated deficit	(32,171,336)	(31,310,188)
	-----	-----
Total shareholders' equity	664,625	1,008,329
	-----	-----
Total liabilities and shareholders' equity	\$ 1,627,667	\$ 1,770,581
	=====	=====

See accompanying notes to consolidated financial statements

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

	2008	2007
	-----	-----
Revenues	\$ 253,972	\$ 468,421
Cost of revenues	86,789	187,395
	-----	-----
Gross profit	167,183	281,026
	-----	-----
Operating expenses:		
Selling, general, and administrative expenses	940,683	1,100,112
Web site development costs	88,228	98,295
	-----	-----
Total operating expenses	1,028,911	1,198,407
	-----	-----
Loss from operations	(861,728)	(917,381)
	-----	-----
Other income (expense):		
Interest expense	--	(2,263)
Other income	580	2,394
	-----	-----
Total other income, net	580	131
	-----	-----
Loss before income taxes	(861,148)	(917,250)
Provision for income taxes	--	--
	-----	-----
Net loss	\$ (861,148)	\$ (917,250)
	=====	=====
Loss per share (basic and diluted)	\$ --	\$ --
	=====	=====
Weighted average shares (basic and diluted)	235,012,192	222,498,093
	=====	=====

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,

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(Unaudited)

	2008	2007
	-----	-----
Operating activities:		
Net loss	\$ (861,148)	\$ (917,250)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	23,359	32,787
Share based compensation	113,000	--
Intrinsic value of stock options awarded to professionals and consultants in payment of fees for services provided	278,391	405,926
Intrinsic value of stock options awarded to employees in payment of compensation	2,308	85,038
Changes in assets and liabilities:		
Accounts receivable	--	(15,340)
Inventories, net	(20,306)	(1,269)
Deferred expenses		(5,814)
Prepaid expense and other current assets	(29,359)	(196,691)
Accounts payable	166,939	(92,728)
Accrued expenses	(19,082)	(232,359)
Deferred revenue	2,933	561,051
	-----	-----
Net cash used in operating activities	(342,965)	(376,649)
	-----	-----
Investing activities:		
Property and equipment additions	(8,230)	(2,532)
	-----	-----
Financing activities:		
Net proceeds (repayments) of notes and loans payable	50,000	(18,000)
Proceeds from assignment of call options	103,245	15,538
Proceeds from exercise of stock options	20,500	--
Proceeds from sale of common stock	--	763,400
	-----	-----
Net cash provided by financing activities	173,745	760,938
	-----	-----
Net (decrease) increase in cash and cash equivalents	(177,450)	381,757
Cash and cash equivalents, beginning	264,811	138,326
	-----	-----
Cash and cash equivalents, ending	\$ 87,361	\$ 520,083
	=====	=====

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Cash paid during the period for:

Income taxes	\$ --	\$ --
	=====	=====
Interest	\$ --	\$ 663
	=====	=====

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See accompanying notes to consolidated financial statements

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PAID, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE THREE MONTHS ENDED MARCH 31, 2008
(Unaudited)

	Common stock		Addition Paid- Capit
	Shares	Amount	
Balance, December 31, 2007	234,636,742	\$ 234,637	\$ 32,083
Issuance of common stock pursuant to exercise of stock options granted to employees for services	5,783	6	2
Issuance of common stock pursuant to exercise of stock options granted to professionals and consultants	966,650	966	277
Proceeds from assignment of call options	--	--	103
Options exercised	500,000	500	20
Share based compensation related to issuance of incentive stock options	--	--	113
Net loss	--	--	--
Balance, March 31, 2008	236,109,175	\$ 236,109	\$ 32,599

See accompanying notes to consolidated financial statements

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PAID, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2008 AND 2007

Note 1. Organization and Significant Accounting Policies

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

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retail.

General

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

In the opinion of management, the Company has prepared the accompanying consolidated financial statements on the same basis as its audited financial statements, and these financial statements include all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the results of the interim periods presented. The operating results for the interim periods presented are not necessarily indicative of the results expected for the full year 2008.

Principles of consolidation

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

Inventories

Inventories consist of collectible merchandise for sale and are stated at the lower of average cost or market on a first-in, first-out (FIFO) method. When a 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, 2008 and December 31, 2007 the Company provided for reserves totaling \$325,000.

Website Development Costs

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

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Revenue Recognition

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

Fan experiences sales include tickets and related experiences at concerts and other events conducted by performing artists. Revenues associated with these fan experiences are generally reported gross, rather than net, following the criteria of EITF 99-19, "Reporting Revenue Gross as a Principal versus Net as an

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Agent", and are deferred until the related event has been concluded, at which time the revenues and related direct costs are recognized.

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

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

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

Advertising costs

Advertising costs totaling approximately \$15,300 in 2008 and \$18,700 in 2007, are charged to expense when incurred.

Shipping and Handling fees and costs

All amounts billed to customers in sales transactions related to shipping and handling represent revenues earned and are reported as revenues. Costs incurred by the Company for shipping and handling totaling \$20,300 and \$30,300 in 2008 and 2007, respectively, are reported as a component of selling, general and administrative expenses.

Segment reporting

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

Concentrations

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

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Approximately 74% and 67% of the Company's revenues for the three months ended March 31, 2008 and 2007, respectively, were generated from fan experiences and sales of merchandise related to one performing artist, Aerosmith.

Share Based Compensation

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

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period (generally the vesting period of the equity grant).

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

Earnings Per Common Share

Basic earnings per share represents income available to common stockholders divided by the weighted-average number of common shares outstanding during the period. Diluted earnings per share reflects additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. Potential common shares that may be issued by the Company relate to outstanding stock options and warrants. The number of common shares that would be included in the calculation of outstanding options and warrants is determined using the treasury stock method. The assumed conversion of outstanding dilutive stock options and warrants would increase the shares outstanding but would not require an adjustment of income as a result of the conversion. Stock options and warrants applicable to 30,636,054 shares and 27,280,198 shares at March 31, 2008 and 2007, respectively, have been excluded from the computation of diluted earnings per share because they were antidilutive. Diluted earnings per share have not been presented as a result of the Company's net loss for each year.

Fair value Measurements

On January 1, 2008 the Company adopted the provisions of SFAS No. 157, "Fair Value Measurements," ("SFAS 157"). SFAS 157 defines fair value, establishes a framework for measuring fair value in accordance with Generally Accepted Accounting Principles, and expands disclosures about fair value measurements. The Statement codifies the definition of fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The standard clarifies the principle that fair value should be based on the assumptions market participants would use when pricing the asset or liability and establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. Adoption of SFAS 157 had no material impact on the Company's financial statements for the three months ended March 31, 2008.

On January 1, 2008 the Company adopted the provisions of SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities," ("SFAS 159"). SFAS 159 allows an entity the irrevocable option to elect fair value for the initial and subsequent measurement for certain financial assets and liabilities on a contract-by-contract basis. Subsequent changes in fair value of these financial assets and liabilities would be recognized in earnings when they occur. SFAS 159 further establishes certain

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additional disclosure requirements. Adoption of SFAS 159 had no material impact on the company's financial statements for the three months ended March 31, 2008.

Recent Accounting Pronouncements

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

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

In December 2007, the SEC issued Staff Accounting Bulletin 110. SAB 110 expresses the views of the staff regarding the use of a "simplified" method, as discussed in SAB No. 107 ("SAB 107"), in developing an estimate of expected term of "plain vanilla" share options in accordance with Statement of Financial Accounting Standards No. 123 (revised 2004). SAB 110 is not expected to have a significant impact on the entity consolidated financial statements.

Note 2. Patent

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

Note 3. Accrued Expenses

Accrued expenses are comprised of the following:

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	March 31, 2008	December 31, 2007
	-----	-----
Interest	\$ 3,879	\$ 3,879
Payroll and related costs	175,205	169,969
Professional and consulting fees	116,425	164,145
Commissions	50,066	13,965
Other	15,619	28,318
	-----	-----

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\$ 361,194	\$ 380,276
=====	=====

Note 4. Common Stock

Call Option Agreements

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

As of March 31, 2008 the Company had assigned options to purchase a total of 1,485,000 shares of stock from Leslie Rotman to certain individuals in exchange for \$547,515. The Company assigned 260,000 and 50,000 during the three months ended March 31, 2008 and 2007 in exchange for \$103,245 and \$15,538, respectively. The proceeds from the assignments of these options were added to the paid in capital of the Company. At March 31, 2008, 515,000 call options remain outstanding.

Warrants

During the year ended December 31, 2005, the Company entered into an Agreement and sold a warrant to purchase common stock ("Warrant") to an investor. The investor paid the Company \$50,000 as a deposit ("Deposit") for the right to acquire up to 2,000,000 shares of unregistered common stock at any time within one year of the Agreement at \$.15 per share. During 2006 the expiration date of the Warrant was extended pending receipt of an additional \$50,000 payment which was received during 2007. If exercised, \$100,000 will be applied as partial payment of the exercise price. If the Warrants are not exercised by June 1, 2008 the deposits will be forfeited. The deposits have been recorded in Additional Paid in Capital.

Share-based Incentive Plans

At March 31, 2008, the Company had a number of stock option plans that include both incentive and non-qualified options to be granted to certain eligible employees, non-employee directors, or consultants of the Company.

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

The 2002 Plan ("2002 Plan") provides for the award of qualified and non-qualified options for up to 30,000,000 shares. As of March 31, 2008 there are no shares currently reserved for issuance. The options granted have ten-year contractual terms and vested either immediately or annually over a five-year term. Information with respect to stock options granted under the above plans is as follows:

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Weighted

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	Number of shares -----	average exercise price per share -----
Options outstanding at December 31, 2007	24,000,000	\$.041
Granted	5,000,000	\$.415
Exercised	(500,000)	.041

Options outstanding at March 31, 2008	28,500,000	\$.106
	=====	

The total intrinsic value of options exercised under the 2002 Plan during the three months ended March 31, 2008 was \$113,000.

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

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

The incremental fair value calculated using the above assumptions over the intrinsic value was determined to be \$1,815,000 which is being amortized over the four year vesting period of the grant resulting in \$113,000 being charged to operations during the three months ended March 31, 2008.

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

	Number of shares -----	Weighted average exercise price per share -----
Options outstanding at December 31, 2007	99,054	\$.001
Granted	972,433	.001
Exercised	(972,433)	.001

Options outstanding at March 31, 2008	99,054	\$.001
	=====	

A summary of the awards under this plan during the three months ended March 31, 2008 and 2007 is as follows:

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Number of Shares -----	Intrinsic Value -----
------------------------------	-----------------------------

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		2008

Employee payroll	5,783	\$ 2,308
Consulting and professional fees	966,650	278,393
	-----	-----
Total	972,433	\$ 280,701
	=====	=====
		2007

Employee payroll	276,985	\$ 85,038
Consulting and professional fees	2,480,209	405,927
	-----	-----
Total	2,757,194	\$ 490,965
	=====	=====

At March 31, 2008 the maximum number of shares reserved for issuance was 6,394,373 shares. The options granted have ten-year contractual terms and vest immediately.

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

2008	2007
-----	-----

Expected term (based upon historical experience)

es New Roman" style="font-size:10.0pt;font-variant:normal !important;">REFERENCE ASSET INFORMATION

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We urge you to read the section "Sponsors or Issuers and Reference Asset" on page S-20 in the Prospectus Supplement. Companies with securities registered under the Exchange Act are required to file periodically certain financial and other information specified by the SEC. Information provided to or filed with the SEC electronically can be accessed through a website maintained by the SEC. The address of the SEC's website is <http://www.sec.gov>. Information provided to or filed with the SEC pursuant to the Exchange Act by a company issuing a Reference Asset can be located by reference to the SEC file number provided below.

The summary information below regarding the companies issuing the stock comprising the Reference Assets comes from the issuers' respective SEC filings and has not been independently verified by us. We do not make any representations as to the accuracy or completeness of such information or of any filings made by the issuers of the Reference Assets with the SEC. **Investors are urged to refer to the SEC filings made by the relevant issuer and to other publicly available information (such as the issuer's annual report) to obtain an understanding of the issuer's business and financial prospects. The summary information contained below is not designed to be, and should not be interpreted as, an effort to present information regarding the financial prospects of any issuer or any trends, events or other factors that may have a positive or negative influence on those prospects or as an endorsement of any particular issuer.**

Exxon Mobil Corporation (XOM)

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Exxon Mobil Corporation's (ExxonMobil) common stock, no par value, trade on the NYSE under the symbol XOM. ExxonMobil, formerly named Exxon Corporation, was incorporated in the State of New Jersey in 1882. On November 30, 1999, Mobil Corporation became a wholly-owned subsidiary of Exxon Corporation, and Exxon changed its name to Exxon Mobil Corporation. Divisions and affiliated companies of ExxonMobil operate or market products in the United States and about 200 other countries and territories. Their principal business is energy, involving exploration for, and production of, crude oil and natural gas, manufacture of petroleum products and transportation and sale of crude oil, natural gas and petroleum products. ExxonMobil is a major manufacturer and marketer of commodity petrochemicals, including olefins, aromatics, polyethylene and polypropylene plastics and a wide variety of specialty products. ExxonMobil also has interests in electric power generation facilities. Affiliates of ExxonMobil conduct research programs in support of these businesses. Exxon Mobil Corporation has several divisions and hundreds of affiliates, many with names that include ExxonMobil, Exxon, Esso or Mobil. **ExxonMobil's SEC file number is 001-02256.**

ConocoPhillips (COP)

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ConocoPhillips's common stock, par value \$0.01, trade on the NYSE under the symbol COP. ConocoPhillips is an international, integrated energy company. ConocoPhillips was incorporated in the state of Delaware on November 16, 2001, in connection with, and in anticipation of, the merger between Conoco Inc. (Conoco) and Phillips Petroleum Company (Phillips). The merger between Conoco and Phillips was consummated on August 30, 2002, at which time Conoco and Phillips combined their businesses by merging with separate acquisition subsidiaries of ConocoPhillips. ConocoPhillips's business is organized into six operating segments: Exploration and Production, Midstream, Refining and Marketing, LUKOIL Investment, Chemicals and Emerging Businesses. **ConocoPhillips's SEC file number is 001-32395.**

Halliburton Company (HAL)

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Halliburton Company's (Halliburton) common stock, par value \$2.50, trades on the NYSE under the symbol HAL. Halliburton's predecessor was established in 1919. Halliburton provides a variety of services and products to energy,

industrial, and governmental customers. Halliburton offers its products and services through six business segments: Production Optimization, Fluid Systems, Drilling and Formation Evaluation, Digital and Consulting Solutions (formerly landmark and other energy services), Government and Infrastructure, and Energy and Chemicals segments. **Halliburton's SEC file number is 001-03492.**

ILLUSTRATIVE EXAMPLES & HISTORICAL TABLES

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The following are illustrative examples demonstrating the hypothetical amounts payable at maturity based on the assumptions outlined below. These examples do not purport to be representative of every possible scenario concerning increases or decreases in the Reference Assets or of the movements that are likely to occur with respect to the Reference Assets. You should not construe these examples or the data included in the tables as an indication of the expected performance of the Notes. Some amounts are rounded and actual returns may be different.

Assumptions:

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Investor purchases \$100,000 principal amount of Notes on the Pricing Date at the initial offering price of 100% and holds the Notes to maturity. No Market Disruption Events or Events of Default occur during the term of the Notes.

Coupon: [12.50%] per annum, payable as a single cash flow of [6.25%] of par at maturity.

The reinvestment rate on any interest payments made during the term of the Notes is assumed to be 0.00%.

Maturity: 6 months.

The following examples include, in the return on the Notes, the [12.50]% per annum coupon, which will be paid regardless of the Final Level of any of the Reference Assets.

The following table depicts the assumptions regarding the Initial Level, Conversion Level, Conversion Price, and Exchange Ratio.

Reference Asset	Initial Level	Conversion Level	Conversion Price	Exchange Ratio (rounded down)	Fractional Shares
XOM	\$ 60.00	90%	\$ 54.00	18 (\$1,000 / \$54.00)	0.519
COP	\$ 60.00	90%	\$ 54.00	18 (\$1,000 / \$54.00)	0.519
HAL	\$ 68.50	90%	\$ 61.65	16 (\$1,000 / \$61.65)	0.221

Example 1 On the Calculation Date, the Final Level of each of the Reference Assets is greater than the respective Conversion Price of such Reference Asset, resulting in a payment at maturity of \$100,000 (plus a \$6,250.00 coupon).

Reference Asset	Initial Level	Final Level	Percentage Change in the Value of the Reference Asset	Final Level at or above Conversion Price?	Payment and Redemption of Notes at Maturity
XOM	\$ 60.00	\$ 68.15	+13.36%	Yes	Note pays \$6,250.00 coupon; principal redeems for \$100,000 in cash.
COP	\$ 60.00	\$ 70.32	+17.20%	Yes	
HAL	\$ 68.50	\$ 79.28	+15.74%	Yes	

Example 2 On the Calculation Date, the Final Level of all of the Reference Assets are below the Conversion Prices for such Reference Assets. Because the Final Level of one or more of the Reference Assets is below the Conversion Price, you will receive, at our option, 1,600 (Exchange Ratio of 16 for HAL per \$1,000 par amount) shares of the Reference Asset with the greatest percentage price decline, Halliburton Company, plus the Fractional Share Cash Amount of \$1,227.43 (for each \$1,000 par amount, .221 fractional shares times the Final Level of \$55.54 per share), plus the \$6,250.00 coupon with a total value of \$96,341.43. You would have lost -3.66% on your investment in the Notes.

Reference Asset	Initial Level	Final Level	Percentage Change in the Value of the Reference Asset	Final Level at or above Conversion Price?	Payment and Redemption of Notes at Maturity
XOM	\$ 60.00	\$ 51.95	-13.42%	No	Note pays \$6,250.00 coupon; principal redeems for 1,600 shares of HAL plus 0.060 x \$55.54 fractional shares in cash.
COP	\$ 60.00	\$ 49.87	-16.88%	No	
HAL	\$ 68.50	\$ 55.54	-18.92%	No, and HAL has the largest percentage decline	

Example 3 On the Calculation Date, the Final Level of all of the Reference Assets are below the Initial Levels of the Reference Assets, but exceed the Conversion Prices of such Reference Assets. Because the Final Level of all of the Reference Assets are above the Conversion Prices, you would have received a payment of \$100,000 at maturity (plus a \$6,250.00 coupon).

Reference Asset	Initial Level	Final Level	Percentage Change in the Value of the Reference Asset	Final Level at or above Conversion Price?	Payment and Redemption of Notes at Maturity
XOM	\$ 60.00	\$ 59.81	-0.32%	Yes	Note pays \$6,250.00 coupon; principal redeems for \$100,000 in cash.
COP	\$ 60.00	\$ 57.63	-3.95%	Yes	
HAL	\$ 68.50	\$ 63.41	-7.43%	Yes	

Example 4 On the Calculation Date, the Final Level of one of the Reference Assets is below the Conversion Price for such Reference Asset, while the Final Level of the other two Reference Assets exceed the Conversion Prices for those Reference Assets. Because the Final Level of at least one of the Reference Assets is below the Conversion Price, you will receive, at our option, 1,800 (Exchange Ratio of 18 for COP per \$1,000 par amount) shares of such Reference Asset with the greatest percentage price decline, ConocoPhillips, plus the Fractional Share Cash Amount of \$2,625.62 (for each \$1,000 par amount, 0.519 fractional shares times the Final Level of \$50.59 per share), plus the \$6,250.00 coupon with a total value of \$99,937.62 or the equivalent amount in cash. You would have lost -0.06% on your investment in the Notes.

Reference Asset	Initial Level	Final Level	Percentage Change in the Value of the Reference Asset	Final Level at or above Conversion Price?	Payment and Redemption of Notes at Maturity
XOM	\$ 60.00	\$ 78.12	+30.20%	Yes	Note pays \$6,250.00 coupon; principal redeems for 1,800 shares of COP plus 0.852 fractional shares in cash.
COP	\$ 60.00	\$ 50.59	-15.68%	No	
HAL	\$ 68.50	\$ 85.98	+25.52%	Yes	

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The following tables set forth on a per share basis the highest and lowest intraday sale prices during the applicable quarter, as well as end-of-quarter closing prices, for the Reference Assets during the periods indicated below. We obtained the information in the tables below from Bloomberg Financial Markets, without independent verification.

1. Exxon Mobil Corporation

Quarter Ending	Quarterly High	Quarterly Low	Quarterly Close	Quarter Ending	Quarterly High	Quarterly Low	Quarterly Close
March 30, 2001	44.88	40.50	37.60	December 31, 2003	41.13	41.00	35.05
June 29, 2001	45.84	43.68	38.50	March 31, 2004	43.40	41.59	39.91
September 28, 2001	44.40	39.40	35.01	June 30, 2004	45.53	44.41	41.43
December 31, 2001	42.70	39.30	36.41	September 30, 2004	49.79	48.33	44.20
March 29, 2002	44.29	43.83	37.60	December 31, 2004	52.05	51.26	48.18
June 28, 2002	44.58	40.92	38.50	March 31, 2005	64.37	59.60	49.25
September 30, 2002	41.10	31.90	29.75	June 30, 2005	61.74	57.47	52.78
December 31, 2002	36.50	34.94	32.03	September 30, 2005	65.96	63.54	57.60
March 31, 2003	36.60	34.95	31.58	December 31, 2005	63.89	56.17	54.50
June 30, 2003	38.45	35.91	34.20	January 1, 2006 to March 15, 2006 only	63.96	57.87	60.81
September 30, 2003	38.50	36.60	34.90				

2. ConocoPhillips

Quarter Ending	Quarterly High	Quarterly Low	Quarterly Close	Quarter Ending	Quarterly High	Quarterly Low	Quarterly Close
March 30, 2001	27.53	25.85	29.50	December 31, 2003	32.79	27.15	33.02
June 29, 2001	28.50	26.39	34.00	March 31, 2004	34.91	32.15	35.75
September 28, 2001	26.97	25.00	29.93	June 30, 2004	38.15	34.29	39.50
December 31, 2001	30.13	25.33	30.48	September 30, 2004	41.43	35.64	42.18
March 29, 2002	31.40	27.65	31.90	December 31, 2004	43.42	40.75	45.61
June 28, 2002	29.44	27.27	32.05	March 31, 2005	53.92	41.40	56.99
September 30, 2002	23.12	22.38	29.61	June 30, 2005	57.49	47.55	61.36
December 31, 2002	24.20	22.02	25.38	September 30, 2005	69.91	58.05	71.48
March 31, 2003	26.80	22.57	26.93	December 31, 2005	58.18	57.05	70.66
June 30, 2003	27.40	24.84	27.98	January 1, 2006 to March 15, 2006 only	66.25	58.01	60.83
September 30, 2003	27.38	25.65	28.77				

3. Halliburton Company

Quarter Ending	Quarterly High	Quarterly Low	Quarterly Close	Quarter Ending	Quarterly High	Quarterly Low	Quarterly Close
March 30, 2001	45.90	34.81	36.75	December 31, 2003	27.20	22.23	26.00
June 29, 2001	49.25	32.20	35.60	March 31, 2004	32.70	25.80	30.39
September 28, 2001	36.79	19.35	22.55	June 30, 2004	32.35	27.35	30.26
December 31, 2001	28.90	10.94	13.10	September 30, 2004	33.98	26.45	33.69
March 29, 2002	18.00	8.60	17.07	December 31, 2004	41.69	33.08	39.24
June 28, 2002	19.63	14.60	15.94	March 31, 2005	45.29	37.18	43.25
September 30, 2002	16.00	8.97	12.91	June 30, 2005	49.39	39.65	47.82
December 31, 2002	21.65	12.45	18.71	September 30, 2005	69.78	45.76	68.52
March 31, 2003	22.10	17.20	20.73	December 31, 2005	69.37	54.70	61.96
June 30, 2003	25.37	19.98	23.00	January 1, 2006 to March 15, 2006 only	82.39	63.99	69.79
September 30, 2003	25.90	20.50	24.25				

Assumptions:

CERTAIN U.S. FEDERAL INCOME TAX CONSIDERATIONS

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You should carefully consider, among other things, the matters set forth in **Certain U.S. Federal Income Tax Considerations** in the Prospectus Supplement. In the opinion of Cadwalader, Wickersham & Taft LLP, special U.S. tax counsel to us, the following discussion summarizes certain of the material U.S. federal income tax consequences of the purchase, beneficial ownership, and disposition of Notes.

There are no regulations, published rulings or judicial decisions addressing the characterization for U.S. federal income tax purposes of securities with terms that are substantially the same as those of the Notes. Under one approach, each Note should be treated as a put option written by you (the **Put Option**) that permits us to (1) sell the Reference Asset to you at maturity for an amount equal to the Deposit (as defined below) or (2) cash settle the Put Option (i.e., require you to pay us at maturity the difference between the Deposit and the Final Level of the Reference Asset), and a

deposit with us of cash in an amount equal to the principal amount you invested (the Deposit) to secure your potential obligation under the Put Option. We intend to treat the Notes consistent with this approach. Pursuant to the terms of the Notes, you agree to treat the Notes as cash deposits and put options with respect to the Reference Asset for all U.S. federal income tax purposes. We also intend to treat the Deposits as short-term obligations for U.S. federal income tax purposes. Please see the discussion under the heading Certain U.S. Federal Income Tax Considerations Tax Treatment of U.S. Holders Short-Term Deposits in the accompanying Prospectus Supplement for certain U.S. federal income tax considerations applicable to short-term obligations.

The table below indicates the yield on the Deposit and the Put Premium, as described in the Prospectus Supplement under the heading Certain U.S. Federal Income Tax Considerations. If the Internal Revenue Service (the IRS) were successful in asserting an alternative characterization for the Notes, the timing and character of income on the Notes might differ. We do not plan to request a ruling from the IRS regarding the tax treatment of the Notes, and the IRS or a court may not agree with the tax treatment described in this pricing supplement.

Term to Maturity	Coupon Rate	Yield on the Deposit, per Annum	Put Premium
6-months	[6.25]%	[$\frac{1}{4}$]	[$\frac{1}{4}$]