

PAID INC
Form 10-Q
November 14, 2018

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 September 30, 2018
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.)

225 Cedar Hill Street, Marlborough, Massachusetts 01752
(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 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 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) | Emerging Growth Company |

If an emerging growth company, indicate by check mark if the Registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 November 14, 2018, the issuer had outstanding 1,614,817 shares of its Common Stock.

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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

PAID, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

| | September 30, 2018 (Unaudited) | December 31, 2017 |
|--|--------------------------------------|----------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$550,563 | \$535,520 |
| Accounts receivable, net | 109,183 | 38,287 |
| Funds held in trust | - | 203,170 |
| Prepaid expenses and other current assets | 86,815 | 44,088 |
| Total current assets | 746,561 | 821,065 |
| Property and equipment, net | 101,167 | 92,486 |
| Intangible assets, net | 4,733,605 | 5,502,322 |
| Goodwill | 10,398,229 | 10,695,120 |
| Total assets | \$15,979,562 | \$17,110,993 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$703,503 | \$636,997 |
| Notes payable | 63,212 | 113,033 |
| Related party note payable | - | 30,176 |
| Capital leases - current portion | 8,848 | 8,459 |
| Accrued expenses | 1,101,362 | 1,066,994 |
| Contract liabilities | 207,222 | 279,250 |
| Total current liabilities | 2,084,147 | 2,134,909 |
| Long term liabilities: | | |
| Capital leases - net of current portion | 15,153 | 22,494 |
| Deferred tax liability | 1,234,412 | 1,269,660 |
| Total liabilities | 3,333,712 | 3,427,063 |
| Commitments and contingencies | | |
| Shareholders' equity: | | |
| Series A preferred stock, \$0.001 par value, 5,000,000 shares authorized; 3,784,712 and 3,724,547 shares issued and outstanding at September 30, 2018 and December 31, 2017, respectively; | 3,785 | 3,725 |

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liquidation value of \$11,503,321 and \$11,301,999 at September 30, 2018 and December 31, 2017, respectively

| | | |
|---|--------------|--------------|
| Common stock, \$0.001 par value, 25,000,000 shares authorized; 1,648,657 shares issued and 1,614,817 shares outstanding at September 30, 2018 and 1,648,657 shares issued and 1,634,122 shares outstanding at December 31, 2017 | 1,649 | 1,649 |
| Additional paid-in capital | 68,869,036 | 68,574,974 |
| Accumulated other comprehensive income | 582,573 | 975,877 |
| Accumulated deficit | (56,753,346) | (55,845,766) |
| Common stock in treasury, at cost; 33,840 and 14,535 shares at September 30, 2018 and December 31, 2017, respectively | (57,847) | (26,529) |
| Total shareholders' equity | 12,645,850 | 13,683,930 |
| Total liabilities and shareholders' equity | \$15,979,562 | \$17,110,993 |

See accompanying notes to condensed consolidated financial statements

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

| | Three Months Ended | | Nine Months Ended | |
|--|-----------------------|-----------------------|-----------------------|-----------------------|
| | September 30, 2018 | September 30, 2017 | September 30, 2018 | September 30, 2017 |
| Revenues, net | \$2,238,445 | \$1,949,815 | \$6,572,841 | \$5,465,807 |
| Cost of revenues: | | | | |
| Cost of revenues | 1,653,382 | 1,397,048 | 4,787,214 | 3,890,505 |
| Amortization of acquired technology | 72,351 | 70,648 | 220,181 | 216,336 |
| Total cost of revenues | 1,725,733 | 1,467,696 | 5,007,395 | 4,106,841 |
| Gross profit | 512,712 | 482,119 | 1,565,446 | 1,358,966 |
| Operating expenses: | | | | |
| Salaries and related | 193,036 | 154,388 | 589,217 | 452,783 |
| General and administrative | 373,999 | 302,747 | 1,040,554 | 967,101 |
| Stock-based compensation | 297,384 | 118,572 | 716,833 | 118,572 |
| Amortization of other acquired intangible assets | 135,605 | 132,803 | 412,449 | 392,870 |
| Total operating expenses | 1,000,024 | 708,510 | 2,759,053 | 1,931,326 |
| Loss from operations | (487,312) | (226,391) | (1,193,607) | (572,360) |
| Other income (expense): | | | | |
| Interest income (expense), net | 13 | (8,554) | (1,685) | (12,171) |
| Other income, net | 44,280 | 555 | 42,329 | 7,759 |
| Unrealized loss on stock price guarantee | (12,025) | (3,329) | (3,527) | (16,036) |
| Total other income (expense), net | 32,268 | (11,328) | 37,117 | (20,448) |
| Loss before provision for income taxes | (455,044) | (237,719) | (1,156,490) | (592,808) |
| Provision for income taxes | - | - | 1,260 | 1,494 |
| Net loss | (455,044) | (237,719) | (1,157,750) | (594,302) |
| Preferred share redemption discount | 116,017 | 89,327 | 250,170 | 89,327 |
| Preferred dividends | (6,830) | (5,989) | (19,160) | (18,898) |
| Net loss available to common shareholders | \$(345,857) | \$(154,381) | \$(926,740) | \$(523,873) |
| Net loss per share – basic and diluted | \$(0.21) | \$(0.09) | \$(0.57) | \$(0.32) |
| | 1,620,589 | 1,644,045 | 1,625,318 | 1,647,304 |

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Weighted average number of common shares outstanding -
basic and diluted

Condensed consolidated statements of comprehensive loss

| | | | | |
|--|-------------|-------------|---------------|-------------|
| Net loss | \$(455,044) | \$(237,719) | \$(1,157,750) | \$(594,302) |
| Other comprehensive income (loss): | | | | |
| Foreign currency translation adjustments | 229,484 | 535,599 | (393,304) | 1,022,771 |
| Comprehensive income (loss) | \$(225,560) | \$297,880 | \$(1,551,054) | \$428,469 |

See accompanying notes to condensed consolidated financial statements

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

| | 2018 | 2017 |
|---|---------------|-------------|
| Cash flows from operating activities: | | |
| Net loss | \$(1,157,750) | \$(594,302) |
| Adjustments to reconcile net loss to net cash provided by operating activities: | | |
| Depreciation and amortization | 649,537 | 638,926 |
| Share-based compensation | 716,833 | 118,572 |
| Unrealized loss on stock price guarantee | 3,527 | 16,036 |
| Loss on disposal of property and equipment | 1,944 | - |
| Write-off of other receivables | - | 1,026 |
| Changes in assets and liabilities: | | |
| Accounts receivable | (71,625) | 2,360 |
| Prepaid expenses and other current assets | (43,103) | 38,440 |
| Accounts payable | 81,532 | 91,596 |
| Accrued expenses | 33,709 | 98,888 |
| Contract liabilities | (64,643) | (12,564) |
| Net cash provided by operating activities | 149,961 | 398,978 |
| Cash flows from investing activities: | | |
| Proceeds from sale of property and equipment | 1,182 | - |
| Purchase of property and equipment | (31,226) | (17,977) |
| Net cash used in investing activities | (30,044) | (17,977) |
| Cash flows from financing activities: | | |
| Payments on capital leases | (6,110) | (4,161) |
| Payments on notes payable | (250,049) | (32,711) |
| Payments on related party note payable | (29,422) | (111,208) |
| Net cash used in financing activities | (285,581) | (148,080) |
| Effect of exchange rate changes on cash, cash equivalents and funds held in trust | (22,463) | 49,710 |
| Net change in cash, cash equivalents and funds held in trust | (188,127) | 282,631 |
| Cash, cash equivalents and funds held in trust, beginning of period | 738,690 | 508,644 |
| Cash, cash equivalents and funds held in trust, end of period | \$550,563 | |

| | | |
|--|---------|-----------|
| | | \$791,275 |
| Reconciliation of cash, cash equivalents and funds held in trust at end of period: | | |
| Cash and cash equivalents | 550,563 | 626,160 |
| Funds held in trust | - | 165,115 |
| Cash, cash equivalents and funds held in trust at end of period | 550,563 | 791,275 |

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Cash paid during the period for:

| | | |
|--------------|---------|---------|
| Income taxes | \$1,260 | \$1,494 |
| Interest | \$1,658 | \$3,617 |

SUPPLEMENTAL DISCLOSURES OF NON-CASH ITEMS

| | | |
|--|-----------|----------|
| Repurchase of preferred and common stock with note payable | \$202,656 | \$95,931 |
|--|-----------|----------|

See accompanying notes to condensed consolidated financial statements

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PAID, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

September 30, 2018

Note 1. Organization and Significant Accounting Policies

PAID, Inc. (“PAID”, the “Company”, “we”, “us”, or “our”) has developed AuctionInc, which is a suite of online shipping and 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 can 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 province. 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. The light version 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. During 2018, the software was upgraded to create a better user experience.

ShipTime Canada Inc. has developed a SaaS-based application, which focuses on the small and medium business segments. This offering allows members to quote, process, generate labels, dispatch and track courier and LTL shipments all from a single interface. The application provides customers with a choice of today’s leading couriers and freight carriers all with discounted pricing allowing members to save on every shipment. ShipTime can also be integrated into on-line shopping carts to facilitate sales via e-commerce. We actively sell directly to small and medium businesses and through long standing partnerships with selected associations throughout Canada.

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 with 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, 2017 that was filed on March 30, 2018.

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 2018.

On November 9, 2016, the Company’s board of directors agreed to effectuate a reverse split immediately followed by a forward split. The process was completed with FINRA on January 23, 2017. As a result of the split, every ten 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 10,989,608 to 1,098,960. All share and per share information in

this Form 10-Q have 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 nine months ended September 30, 2018, the Company reported a net loss of \$1,157,750. The Company has an accumulated deficit of \$56,753,346 and has a working capital deficit of \$(1,337,586) as of September 30, 2018. These factors raise substantial doubt about the Company's ability to continue as a going concern.

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Management feels that the addition of the new PAID platform of services in addition to the continued growth of ShipTime's services will return a valuable impact on the Company's success in the near future. The ongoing positive cash flow from operations is a significant indicator of our successful transition to the new shipping services. In addition to the existing services provided, ShipTime will launch products in the United States that are complementary to the current offerings.

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 and will have a positive impact on the Company for 2019 and future years.

Principles of Consolidation

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

Foreign Currency

The currencies of ShipTime, the Company's international subsidiary, are in Canadian dollars. Foreign currency denominated assets and liabilities are translated into U.S. dollars using the exchange rates in effect at September 30, 2018. Results of operations and cash flows are translated using the average exchange rates throughout the period. The effect of exchange rate fluctuations on translation of assets and liabilities is included as a separate component of shareholders' equity in accumulated other comprehensive income.

Geographic Concentrations

The Company conducts business in the U.S. and Canada. For customers headquartered in their respective countries, the Company derived approximately 95% of its revenues from Canada and 5% from the U.S. during the three months ended September 30, 2018, compared to 93% from Canada and 7% from the U.S. during the three months ended September 30, 2017. For the nine months ended September 30, 2018 the Company derived 95% of its revenues from Canada and 5% from the U.S. compared to 93% from Canada and 7% from the U.S. during the same period in 2017.

At September 30, 2018, the Company maintained 99% of its property and equipment net of accumulated depreciation in Canada and the remaining 1% in the U.S.

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 recognized during the three and nine months ended September 30, 2018 and 2017. 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.

Revenue Recognition

The Company generates revenue principally from fees for coordinating shipping services, sales of shipping calculator subscriptions, brewery management software subscriptions, and client services (See Note 5).

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.

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For the three months ended September 30, 2018 and 2017 and the nine months ended September 30, 2018 and 2017, there were approximately 60,000 and 61,000 and 61,000 and 67,000, respectively, dilutive shares that were excluded from the diluted earnings (loss) per share as their effect would have been antidilutive for the periods then ended.

The Company computes its loss applicable to common shareholders by adding/subtracting dividends on preferred stock, including undeclared or unpaid dividends if cumulative, and any deemed dividends or discounts on redeemed preferred stock from its reported net loss and reports the same on the face of the condensed consolidated statements of operations and comprehensive loss.

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 four reportable segments are managed separately based on fundamental differences in their operations. At September 30, 2018, the Company operated in the following four reportable segments:

- a. Client services
- b. Shipping calculator services
- c. Brewery management software
- d. Shipping coordination and label generation services

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 makers are the Chief Executive Officer and Chief Financial Officer.

The following table compares total revenues for the periods indicated.

| | Three Months Ended | | Nine Months Ended | |
|---|-----------------------|-----------------------|-----------------------|-----------------------|
| | September 30, 2018 | September 30, 2017 | September 30, 2018 | September 30, 2017 |
| Client services | \$2,890 | \$3,639 | \$13,455 | \$20,192 |
| Shipping calculator services | 40,699 | 46,990 | 134,394 | 153,023 |
| Brewery management software | 68,101 | 78,211 | 211,124 | 235,026 |
| Shipping coordination and label generation services | 2,126,755 | 1,820,975 | 6,213,868 | 5,057,566 |
| Total revenues | \$2,238,445 | \$1,949,815 | \$6,572,841 | \$5,465,807 |

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

| | Three Months Ended | Nine Months Ended |
|--|--------------------|-------------------|
|--|--------------------|-------------------|

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| | September 30, 2018 | September 30, 2017 | September 30, 2018 | September 30, 2017 |
|---|-----------------------|-----------------------|-----------------------|--------------------------|
| Client services | \$2,234 | \$2,898 | \$10,366 | \$15,499 |
| Shipping calculator services | (95,941) | (356,028) | (644,377) | (855,778) |
| Brewery management software | 2,461 | 14,462 | (8,376) | 27,028 |
| Shipping coordination and label generation services | (396,066) | 112,277 | (551,220) | 240,891 |
| Total loss from operations | \$(487,312) | \$(226,391) | \$(1,193,607) | \$(572,360) |

Reclassifications

Certain amounts were reclassified in the accompanying condensed consolidated statements of operations and comprehensive loss for the three and nine months ended September 30, 2017 in order to conform to the current period presentation.

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Recent Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-02, “Leases”, which requires the lease rights and obligations arising from lease contracts, including existing and new arrangements, to be recognized as assets and liabilities on the balance sheet. ASU 2016-02 is effective for reporting periods beginning after December 15, 2018 with early adoption permitted. While the Company is still evaluating ASU 2016-02, the Company expects the adoption of ASU 2016-02 to have a material effect on the Company’s financial condition due to the recognition of the lease rights and obligations as assets and liabilities. The Company does not expect ASU 2016-02 to have a material effect on the Company’s results of operations and cash flows.

In January 2016, the FASB issued ASU 2016-01, “Financial Instruments: Recognition and Measurement of Financial Assets and Financial Liabilities”, which addresses certain aspects of recognition, measurement, presentation and disclosure of financial statements. This guidance will be effective in the first quarter of fiscal year 2019 and early adoption is not permitted. The Company is currently evaluating the impact that this guidance will have on its consolidated financial statements.

In November 2016, the FASB issued ASU No. 2016-18, “Statement of Cash Flows (Topic 230), Restricted Cash”, which enhances and clarifies the guidance on the classification and presentation of restricted cash in the statement of cash flows. The Company adopted this standard in 2018 by using the retrospective transition method, which required the following disclosures and changes to the presentation of its condensed consolidated financial statements: cash, cash equivalents, and funds held in trust reported on the condensed consolidated statement of cash flows now includes funds held in trust of \$203,170, \$165,115, and \$169,082 as of December 31, 2017, September 30, 2017 and December 31, 2016, respectively, as well as previously reported cash and cash equivalents.

In May 2014, the FASB issued ASU 2014-09, “Revenue from Contracts with Customers (Topic 606)”. This updated guidance supersedes the current revenue recognition guidance, including industry-specific guidance. The updated guidance introduces a five-step model to achieve its core principal of the entity recognizing revenue to depict the transfer of goods or services to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. On January 1, 2018, the Company elected to adopt the Modified Retrospective Transition method and has determined there is no impact on its consolidated financial statements (see Note 5 for additional details on this implementation and the required disclosures).

In January 2017, the FASB issued ASU 2017-01, “Business Combinations (Topic 805): Clarifying the Definition of a Business”. The amendments in this updated guidance clarify the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of businesses. The guidance in this update is effective for fiscal years beginning after December 15, 2017, and interim periods within those years. The Company adopted ASU 2017-01 as of January 1, 2018, which had no impact on the Company’s financial statements as of and for the three and nine months ended September 30, 2018.

In January 2017, the FASB also issued ASU 2017-04, “Intangibles - Goodwill and other (Topic 350): Simplifying the Test for Goodwill Impairment”. The amendments in this Update remove the second step of the current goodwill impairment test. An entity will apply a one-step quantitative test and record the amount of goodwill impairment as the excess of a reporting unit's carrying amount over its fair value, not to exceed the total amount of goodwill allocated to the reporting unit. The new guidance does not amend the optional qualitative assessment of goodwill impairment. This guidance is effective for impairment tests in fiscal years beginning after December 15, 2019.

In June 2018, the FASB issued ASU 2018-07, “Compensation – Stock Compensation (Topic 718): Improvements to Non-Employee Share Based Payment Accounting”. The amendments in this update expand the scope of the employee based share payments to non-employees and are intended to reduce cost and complexity for share based payments to non-employees. ASU 2018-07 will take effect for public companies for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted. The Company has elected to early adopt ASU 2018-07 as of June 30, 2018, which required the Company to measure the fair value of the awards for one non-employee as of the adoption date. The new measurement did not have a material effect on the Company’s condensed consolidated financial statements.

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Note 2. Accrued Expenses

Accrued expenses are comprised of the following:

| | September 30, 2018 (unaudited) | December 31, 2017 |
|---------------------------|--------------------------------------|----------------------|
| Payroll and related costs | \$2,796 | \$3,448 |
| Royalties | 51,838 | 51,838 |
| Stock price guarantee | 884,241 | 880,713 |
| Other | 162,487 | 130,995 |
| Total | \$1,101,362 | \$1,066,994 |

Note 3. Acquisitions and Intangible Assets

The Company holds several patents for the real-time calculation of shipping costs for items purchased through online auctions 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. These patents help facilitate rapid and accurate estimation of shipping costs across multiple shipping carriers and also include real-time calculation of shipping.

On October 7, 2015, the Company, through a newly formed limited liability company named PAID Run, LLC, entered into an asset purchase agreement to purchase assets related to BeerRun Software and SpiritRun Software and related intellectual property. The purchase price and additional development for these assets was \$297,500, which include all of the client lists, along with all rights, benefits and privileges associated with the software and intellectual property, associated contracts, and books and records.

On December 30, 2016, the Company completed a merger with ShipTime Canada Inc. and its subsidiary (“ShipTime”) to acquire assets related to the technology, client base and other intellectual property. The Company engaged an outside independent third party valuation firm to assist in establishing a value for the ShipTime acquisition.

At September 30, 2018 and December 31, 2017, intangible assets consisted of the following:

| | September 30, 2018 | December 31, 2017 |
|----------------------------|-----------------------|----------------------|
| Patents | \$16,000 | \$16,000 |
| Software | 83,750 | 83,750 |
| Trade Name | 829,594 | 850,311 |
| Technology | 529,816 | 540,201 |
| Client list / relationship | 4,870,721 | 4,998,130 |
| Accumulated amortization | (1,596,276) | (986,070) |
| | \$4,733,605 | \$5,502,322 |

Amortization expense of intangible assets for all subsidiaries for the nine months ended September 30, 2018 and 2017 was \$632,630 and \$609,206, respectively.

Goodwill

Goodwill represents the excess of the purchase price of the acquired business over the estimated fair value of the underlying net tangible and intangible assets acquired. In the event the Company determines that the value of goodwill has become impaired, it will incur an accounting charge for the amount of the impairment during the fiscal quarter in which the determination is made. None of the goodwill is expected to be deductible for income tax purposes.

For the nine months ended September 30, 2018, goodwill activity was as follows:

For the Nine Months Ended September 30,

2018

| | |
|---------------------------------|--------------|
| Beginning Balance | \$10,695,120 |
| Effect of exchange rate changes | (296,891) |
| Ending Balance | \$10,398,229 |

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Note 4. Commitments and Contingencies

Notes Payable

In 2017, the Company entered into two notes payable with a shareholder to repurchase common and preferred shares. The first note was for a period of one year for CAD \$120,000 with payment terms of twelve equal installments of CAD \$10,328 at an interest rate of 6%. The second note was an interest-free seven-month note for CAD \$70,992 with payment terms of one payment of CAD \$10,000 followed by six equal installments of CAD \$10,165. Both of these notes were paid in full in 2018.

In January 2018, the Company entered into a note payable with a shareholder to repurchase common and preferred shares. The note was an interest-free, eight-month note for CAD \$66,708 with payment terms of one payment of CAD \$10,000 followed by eight equal installments of CAD \$8,101. This note was paid in full in the third quarter of 2018. In April 2018, the Company entered into a note payable with a shareholder to repurchase common and preferred shares. The note was an interest-free, fifteen-month note for CAD \$72,500. The Company made payments on this note in the amount of CAD \$31,726. The balance of CAD \$40,774 on this note was offset in the third quarter of 2018 against a note receivable to the same party (see below). In August 2018, the Company entered into a note payable with a shareholder to repurchase common and preferred shares. The note is an interest-free, six-month note for CAD \$122,400 with payment terms of six equal installments of CAD \$20,400.

The balance of the note payable on September 30, 2018 is USD \$63,212. The note payable is scheduled to be paid in full in the first quarter of 2019.

Related Party Note Payable

In June 2017, the Company agreed to make monthly payments of \$5,000 CAD to related parties for seven months followed by monthly payments of \$15,000 CAD with one final payment in March 2018. As of March 31, 2018, the note was paid in full.

Notes Receivable

In April 2018, the Company entered into an agreement with a third party to develop software to assist with the growth of the e-commerce platform. The agreement contained a loan to a third party in the amount of \$144,000 to be loaned by the Company in eighteen installments of which CAD \$40,744 was actually loaned during the nine month period ended September 30, 2018.

During the third quarter of 2018, the Company cancelled the agreement and called the CAD \$40,774 note with the third party developer. As a result, the balance of the note receivable was offset against the CAD \$72,500 note payable for the repurchase of common and preferred shares issued to the same party (see above), and no balance on the note receivable is due.

Stock Price Guarantee

In connection with the Company's advance royalties with a client, the Company guaranteed that shares of common stock would sell for at least \$60.00 per share as adjusted for the reverse stock split. If the shares are not at the required \$60.00 per share when they are sold, the Company has the option of issuing additional shares at their fair value or making cash payments for the difference between the guaranteed price per share and the fair value of the stock. As of September 30, 2018 and December 31, 2017, the maximum value of the stock price guarantee was \$884,241 and

\$880,713, respectively, as the Company's stock price was below \$60.00 per share at September 30, 2018 and December 31, 2017, although some or all of the stock may already be sold and no longer subject to a guaranty and any required payment would be disputed by the Company. For the nine months ended September 30, 2018 and 2017, the Company recorded an unrealized loss on stock price guarantee of (\$3,527) and (\$16,036), respectively.

Legal Matters

In the normal course of business, the Company periodically becomes involved in litigation. As of September 30, 2018, in the opinion of management, the Company had no pending litigation that would have a material adverse effect on the Company's consolidated financial position, results of operations, or cash flows.

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Indemnities and Guarantees

The Company has made certain indemnities and guarantees, under which it may be required to make payments to a guaranteed or indemnified party, in relation to certain actions or transactions. The Company indemnifies its directors, officers, employees and agents, as permitted under the laws of the State of Delaware. In connection with its facility leases, the Company has agreed to indemnify its lessors for certain claims arising from the use of the facilities. The duration of the guarantees and indemnities varies, and is generally tied to the life of the agreements. These guarantees and indemnities do not provide for any limitation of the maximum potential future payments the Company could be obligated to make. Historically, the Company has not been obligated nor incurred any payments for these obligations and, therefore, no liabilities have been recorded for these indemnities and guarantees in the accompanying condensed consolidated balance sheets.

Note 5. Revenue from Contracts with Customers

Revenue Recognition

In May 2014, the FASB issued Accounting Standards Update ASU 2014-09, “Revenue from Contracts with Customers (Topic 606),” which modifies how all entities recognize revenue. Topic 606 introduces a five-step model to achieve its core principle of the entity recognizing revenue to depict the transfer of goods or services to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. We adopted Topic 606 on January 1, 2018 and have evaluated the Company’s current revenue recognition process in comparison to the adoption of Topic 606. The Company reviewed the principles of Topic 606 by taking into consideration the following five steps: (1) identify the contract(s) with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract; and (5) recognize revenue when (or as) the entity satisfies a performance obligation. Due to the nature of the Company’s product offerings and contracts associated with those products, the Company’s deliverables do not fluctuate and its revenue recognition is consistent.

The Company adopted Topic 606 on January 1, 2018 using the modified retrospective transition method. The adoption of Topic 606 did not have a material effect on the Company’s financial statements or results of operations, and no cumulative catch-up adjustment to the opening balance of retained earnings was required. The Company used the related practical expedients to not disclose the transaction price allocated to remaining unsatisfied obligations and when the Company expects to recognize the related revenue.

Nature of Goods and Services

For label generation service revenues the Company recognizes revenue when a customer has successfully prepared a shipping label and had a pickup. Customers with pickups after the end of the reporting period are recorded as contract liabilities on the condensed consolidated balance sheets. The service is offered to consumers via an online registration and allows users to create a shipping label using a credit card on their account. ShipTime, in partnership with the Canadian Federation of Independent Businesses (“CFIB”), offered a cash rebate to its customers. Revenues were recognized net of the cash rebates, which were held in “funds held in trust” account in the accompanying condensed consolidated balance sheets. The cash rebates are available for twelve months for future use. Rebate revenue is recognized when the rebate is used.

Beginning in 2018, customers are offered airline miles as a reward in lieu of a cash rebate. As a result, the CFIB allowed the Company to release the funds held in trust for unused customer rebates back to cash and cash equivalents.

As the Company transitioned from cash rebates to airline mile rewards, customers were allowed to convert their existing cash rebate balances to airline miles at the rate of 10 miles per \$1 of rebates. For the quarter ended September 30, 2018, the Company recognized \$44,280 of other income related to these conversions as the cost of the exchanged airline miles was less than the value of the cash rebates exchanged. Unused airline miles are recorded in prepaid expenses and other current assets in the accompanying condensed consolidated balance sheets.

All clients must have a valid credit card on file to process shipments on the ShipTime platform.

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 timing of the revenue recognition and cash collection may vary within a given quarter and the deposits for future services are recorded as contract liabilities on the condensed consolidated balance sheets. Brewery management software subscribers are billed monthly at the first of the month. All payments are made via credit card for the month following.

Revenue Disaggregation

The Company operates in four reportable segments (see Note 2).

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Performance Obligations

At contract inception, an assessment of the goods and services promised in the contracts with customers is performed and a performance obligation is identified for each distinct promise to transfer to the customer a good or service (or bundle of goods or services). To identify the performance obligations, the Company considers all of the goods or services promised in the contract regardless of whether they are explicitly stated or are implied by customary business practices. Revenue is recognized when the performance obligation has been met, which is when the customer has successfully prepared a shipping label and had a pickup for shipping coordination and label generation services. The Company considers control to have transferred at that time because the Company has a present right to payment at that time, the Company has provided the shipping label, and the customer is able to direct the use of, and obtain substantially all of the remaining benefits from the shipping label.

For arrangements under which the Company provides a subscription for shipping calculator services and brewery management software, the Company satisfies its performance obligations over the life of the subscription, typically twelve months or less.

The Company has no shipping and handling activities related to contracts with customers.

Significant Payment Terms

Pursuant to the Company's contracts with its customers, amounts are collected up front primarily through credit/debit card transactions. Accordingly, the Company determined that its contracts with customers do not include extended payment terms or a significant financing component.

Variable Consideration

In some cases, the nature of the Company's contracts may give rise to variable consideration, including rebates and cancellations or other similar items that generally decrease the transaction price.

Variable consideration is estimated at the most likely amount that is expected to be earned. Estimated amounts are included in the transaction price to the extent it is probable that a significant reversal of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is resolved. Estimates of variable consideration and determination of whether to include estimated amounts in the transaction price are based largely on an assessment of the anticipated performance and all information (historical, current and forecasted) that is reasonably available.

Revenues are recorded net of variable consideration, such as rebates and cancellations.

Warranties

The Company's products and services are provided on an "as is" basis and no warranties are included in the contracts with customers. Also, the Company does not offer separately priced extended warranty or product maintenance contracts.

Contract Assets

Typically, the Company has already collected revenue from the customer at the time it has satisfied its performance obligation. Accordingly, contract assets consist of only a small balance of accounts receivable, totaling \$109,183 and \$38,287 as of September 30, 2018 and December 31, 2017, respectively. Generally, the Company does not have material amounts of other contract assets since revenue is recognized as control of goods is transferred or as services are performed.

Contract Liabilities (Deferred Revenue)

Contract liabilities are recorded when cash payments are received in advance of the Company's performance (including rebates). Contract liabilities were \$207,222 and \$279,250 at September 30, 2018 and December 31, 2017, respectively.

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Practical Expedients and Exemptions

The Company has elected the following practical expedients allowed under Topic 606:

o Payment terms with the Company's customers, which are one year or less, are not considered a significant financing component.

o The Company's performance obligations on its orders are generally satisfied within one year from a given reporting date and, therefore, the Company has omitted disclosure of the transaction price allocated to remaining performance obligations on open orders.

Note 6. Shareholders' Equity

Preferred Stock

On December 19, 2016, the Company filed an amendment to its Certificate of Incorporation to authorize the issuance of 20,000,000 shares of blank-check preferred stock at \$0.001 par value, of which 3,825,000 shares have been reserved for future issuance. The Board of Directors will be authorized to fix the designations, rights, preferences, powers and limitations of each series of the preferred stock.

The Company filed a Certificate of Designations effective on December 30, 2016 which sets aside 5,000,000 shares of Preferred Stock as Series A Preferred Stock. The Series A Preferred Stock holders have no voting rights and have an aggregate liquidation value of \$11,503,321 at September 30, 2018. The Series A Preferred Stock also carries a coupon payment obligation of 1.5% per year calculated by taking the 30-day average closing price for an equal number of shares of common stock for the month immediately preceding the coupon payment date, which is made annually. Payout of the coupon may be made out of existing cash or in shares of Series A Preferred Stock of the Company. For the three and nine month periods ended September 30, 2018 and 2017, the estimated portion of the annual coupon is \$6,830 and \$5,989 and \$19,160 and \$18,898, respectively, which has been added to the liquidation value of the preferred stock as the Company does not anticipate paying the coupon in cash. The Series A Preferred Stock have no voting or conversion rights. If purchased, redeemed, or otherwise acquired (other than conversion), the preferred stock may be reissued.

Common Stock

In November 2016, the majority shareholders approved an amendment to the Company's Certificate of Incorporation to increase the Company's authorized shares of common stock from 1,100,000 to 25,000,000, to issue up to 2,000,000 shares of blank check preferred stock and to make effective, a reverse stock split at a range of 1 for 500 through 1 for 3,000 immediately followed by a forward split of the outstanding common stock at an exchange rate of 50 for 1 through 300 for 1 to reduce the number of authorized shares of the Company's common stock, subject to the Board of Directors' discretion.

In January 2017, the Company completed a reverse split of 1-for-3,000 immediately followed by a forward split of 300-for-1. As a result of the split every ten shares of common stock outstanding were consolidated into one share, reducing the number of common shares outstanding on the effective date from 10,989,608 to 1,098,960. All share and per share information on this Form 10-Q have been retroactively adjusted to reflect the reverse stock split.

The Company has authorized and reserved for future issuance 480,880 shares of common stock and 3,347,304 shares of preferred stock with respect to the remaining exchangeable shares to be issued as a result of the ShipTime acquisition.

Share Repurchase

During 2017, the Company entered into three agreements to repurchase exchangeable shares of ShipTime common stock. Each ShipTime exchangeable share exchanges into 311 preferred shares and 45 common shares of the Company. The total shares exchanged in these transactions were 14,535 common shares and 100,453 preferred shares. The allocated discount on the repurchase of the preferred stock was \$1.77 per share of preferred stock and has been recorded in accumulated deficit, and was added to the net loss available to common shareholders in accordance with ASC 260-10-S99-2. The repurchase of the common shares was recorded at an allocated cost of \$1.83 per share.

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In January 2018, the Company entered into an agreement to repurchase 109 exchangeable shares of ShipTime common stock. The total shares exchanged in this transaction were 4,905 common shares and 33,899 preferred shares of the Company. The allocated discount on the repurchase of the preferred stock was \$1.87 per share and has been recorded in accumulated deficit, and was added to the net loss available to common shareholders. The repurchase of the common shares was recorded at an allocated cost of \$1.59 per share. In April 2018, the Company entered in a second agreement with a shareholder to purchase 120 exchangeable shares of ShipTime common stock. The total shares exchanged in this transaction were 5,400 common shares and 37,320 preferred shares of the Company. The discount on the repurchase of preferred stock was \$1.90 per share and has been recorded in accumulated deficit, and was added to the net loss available to common shareholders. The repurchase of the common shares was recorded at an allocated cost of \$1.58 per share. In August 2018, the Company entered in an additional agreement with a shareholder to purchase 200 exchangeable shares of ShipTime common stock. The total shares exchanged in this transaction were 9,000 common shares and 62,200 preferred shares of the Company. The discount on the repurchase of preferred stock was \$1.87 per share and has been recorded in accumulated deficit, and was added to the net loss available to common shareholders. The repurchase of the common shares was recorded at an allocated cost of \$1.58 per share.

Share-based Incentive Plans

During the period ended March 31, 2018, the Board of Directors voted to approve the 2018 Stock Option Plan which reserves 450,000 non-qualified stock options to be granted to employees. The Company has three additional stock option plans that include both incentive and non-qualified stock options to be granted to certain eligible employees, non-employee directors, or consultants of the Company. The Company granted 183,700 stock options to employees and consultants during the quarter ended March 31, 2018. The options have vesting periods of immediately and over a two-year period, they expire if not exercised within ten years from grant date, and the exercise price is \$4.10 per share. During the third quarter of 2018, the Board of Directors voted to approve Executive Compensation by means of issuance of 193,584 preferred shares valued at \$257,468. As a result of the issuance, during the three and nine month periods ended September 30, 2018 the Company recorded share-based compensation expense of \$297,384 and \$716,833, respectively. During the third quarter of 2018 there were 23,325 options that expired.

Note 7. Subsequent Events

The Company has evaluated subsequent events through the filing date of this Form 10-Q, and has determined that no subsequent events have occurred that would require recognition in the condensed consolidated financial statements or disclosure in the notes thereto, other than as disclosed herein.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward Looking Statements

This Quarterly Report on Form 10-Q 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 PAID, Inc. (the "Company") and its business, financial condition, results of operations and prospects. Words such as "expects," "anticipates," "intends," "plans," "believes," "seeks," "estimates", "could", "may", "should", "will", "would", 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 Item 1A, "Risk Factors", in the Company's Form 10-K for the fiscal year ended December 31, 2017 that was filed on March 30, 2018.

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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, 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 or services by others, the Company's failure to attract sufficient interest in, and traffic to, its site, the Company's inability to complete development of its products, the failure of the Company's operating systems, and the Company's inability to increase its revenues as rapidly as anticipated. If the Company is not profitable in the future, it will not be able to continue its business operations.

Except as required by applicable laws, we do not intend to publish updates or revisions of any forward-looking statements we make to reflect new information, future events or otherwise. Readers are urged to review carefully and to consider the various disclosures made by the Company in this Quarterly Report, which attempts to advise interested parties of the risks and factors that may affect our business, financial condition, results of operations and prospects.

Overview

ShipTime Canada Inc. ShipTime's platform provides its members with the ability to quote, process, track and dispatch shipments while getting preferred rates on packages and skidded (LTL) freight shipments throughout North America and around the world. In addition to these features, ShipTime also provides what it refers to as "Heroic Multilingual Customer Support." In this capacity, ShipTime acts as an advocate on behalf of its clients in resolving matters concerning orders and shipping. With an increasing focus and service offering for e-commerce merchants, which include online shopping carts, inventory management, payment services, client prospecting and retention software, ShipTime can help merchants worldwide grow and scale their businesses. ShipTime generates monthly recurring revenue through transactions and "software as a service" (SAAS) offerings. It currently serves in excess of 30,000 members in North America and has plans to expand its services into Europe and then worldwide.

AuctionInc Software. AuctionInc 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 application was designed to focus on real-time carrier calculated shipping rates and tax calculations. The product does have 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. BeerRun Software is a brewery management and Alcohol and Tobacco Tax and Trade Bureau tax reporting software. Small craft brewers can 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 province. 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 continues to grow in the United States and we feel that there is considerable potential to grow this portion of our business.

Paid products are in development and include PaidCart and PaidPayments. These additional offerings will provide a full e-commerce solution for small businesses.

Significant Accounting Policies

Our significant accounting policies are more fully described in Note 3 to our consolidated financial statements for the years ended December 31, 2017 and 2016 included in our Form 10-K filed on March 30, 2018, as updated and amended in Note 1 of the Notes to Condensed Consolidated Financial Statements included herein. In addition, we adopted the new revenue recognition standard on January 1, 2018 as discussed in Note 5 of the Notes to Condensed Consolidated Financial Statements with no effect to current or past amounts recognized as revenue. However, certain of our accounting policies, most notably with respect to revenue recognition, 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.

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Results of Operations

Comparison of the three months ended September 30, 2018 and 2017.

The following discussion compares the Company's results of operations for the three months ended September 30, 2018 with those for the three months ended September 30, 2017. The Company's condensed consolidated 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

The following table compares total revenue for the periods indicated.

| | Three months Ended September 30, | | |
|---|----------------------------------|-------------|----------|
| | 2018 | 2017 | % Change |
| Client services | \$2,890 | \$3,639 | (21)% |
| Brewery management software | 68,101 | 78,211 | (13)% |
| Shipping coordination and label generation services | 2,126,755 | 1,820,975 | 17% |
| Shipping calculator services | 40,699 | 46,990 | (13)% |
| Total revenues | \$2,238,445 | \$1,949,815 | 15% |

Revenues increased 15% in the third quarter primarily from the growth of our shipping coordination and label generation services.

Client service revenues decreased \$749 or 21% to \$2,890 in the third quarter of 2018 compared to \$3,639 in 2017. This decrease is a result of the depleted inventory of our movie posters resulting in fewer auctions.

Brewery management software revenues decreased \$10,110 to \$68,101 in 2018 from \$78,211 in 2017. The decrease in revenues is due to a reduced number of new clients and an increase in competition.

Shipping calculator services revenue decreased \$6,291 or 13% to \$40,699 in the third quarter of 2018 compared to \$46,990 in 2017. The decrease was primarily due to a decline in new customers and the projected transition to the new e-commerce shopping cart offering. During 2018 the Company discontinued offering several e-commerce shipping calculator plugins with the anticipation of a new offering.

Shipping coordination and label generation service revenues increased \$305,780 or 17% to \$2,126,755 in the third quarter of 2018 compared to \$1,820,975 in 2017. The increase is attributable to the increased marketing, new corporate partnerships and brand recognition for this segment of our business.

Gross Profit

Gross profit increased \$30,593 or 6% in the third quarter of 2018 to \$512,712 compared to \$482,119 in 2017. Gross margin decreased to 23% for the third quarter of 2018 from 25% in 2017. The decrease in gross margin is a result of a minor change in carrier rates for the shipping coordination and label generation services that the Company offers.

Operating Expenses

Total operating expenses in the third quarter 2018 were \$1,000,024 compared to \$708,510 in the third quarter of 2017, an increase of \$291,514 or 41%. The increase is primarily due to the one time executive compensation of \$257,468 and the addition of new personnel in the third quarter of 2018.

Other Income/Expense, net

Net other income (expense) in the third quarter of 2018 was \$32,268 compared to (\$11,328) in the same period of 2017, a change of \$43,596. This is primarily attributable to new program in place to award airline miles in lieu of rebates on certain transactions. The existing rebate credits have a higher value than the airline miles. As customers elect to convert credits to miles the Company records difference in other income.

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Net Loss

The Company realized a net loss in the third quarter of 2018 of (\$455,044) compared to a net loss of (\$237,719) for the same period in 2017. The net loss available to common stockholders for the third quarter of 2018 and 2017 represent (\$0.21) and (\$0.09) per share, respectively.

Comparison of the nine months ended September 30, 2018 and 2017.

The following discussion compares the Company's results of operations for the nine months ended September 30, 2018 with those for the nine months ended September 30, 2017. The Company's condensed consolidated 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

The following table compares total revenue for the periods indicated.

| | Nine months Ended September 30, | | |
|---|---------------------------------|-------------|----------|
| | 2018 | 2017 | % Change |
| Client services | \$13,455 | \$20,192 | (33)% |
| Brewery management software | 211,124 | 235,026 | (10)% |
| Shipping coordination and label generation services | 6,213,868 | 5,057,566 | 23% |
| Shipping calculator services | 134,394 | 153,023 | (12)% |
| Total revenues | \$6,572,841 | \$5,465,807 | 20% |

Revenues increased 20% in 2018 primarily from the growth of our shipping coordination and label generation services.

Client service revenues decreased \$6,737 or 33% to \$13,455 compared to \$20,192 in 2017. This decrease is a result of the number of movie posters available for auction in 2018 compared to those held in same period for 2017.

Brewery management software revenues decreased \$23,902 to \$211,124 in 2018 from \$235,026 in 2017. The decrease in revenues is due to a reduced number of new clients and an increase in competition.

Shipping calculator services revenue decreased \$18,629 or 12% to \$134,394 in 2018 compared to \$153,023 in 2017. The decrease was primarily due to a decline in new customers and the focus on transitioning this segment of the business to a new platform.

Shipping coordination and label generation service revenues increased \$1,156,302 or 23% to \$6,213,868 in 2018 compared to \$5,057,566 in 2017. The increase is attributable to the increased marketing and strengthening of carrier and affiliate relationships for this segment of our business.

Gross Profit

Gross profit increased \$206,480 or 15% in 2018 to \$1,565,446 compared to \$1,358,966 in 2017. Gross margin decreased to 24% compared to 25% for 2017. The gross margin decreased as a result of the minor adjustments with the carrier rates and for shipping coordination and label generation services.

Operating Expenses

Total operating expenses in 2018 were \$2,759,053 compared to \$1,931,326 in 2017, an increase of \$827,727 or 43%. The increase is due to the increase in marketing efforts and growth in personnel for the new product offerings in addition to the executive and option compensation of \$716,833 in 2018.

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Other Income/Expense, net

Net other income (expense) in 2018 was \$37,117 compared to (\$20,448) in the same period of 2017, a change of \$57,565. This is primarily attributable to the additional customer reward program that was implemented in the third quarter of 2018.

Net Loss

The Company realized a net loss in 2018 of (\$1,157,750) compared to a net loss of (\$594,302) for the same period in 2017. The net loss available to common stockholders for the third quarter of 2018 and 2017 represent (\$0.57) and (\$0.32) per share, respectively.

Cash Flows from Operating Activities

A summarized reconciliation of the Company's net loss to cash and cash equivalents provided by operating activities for the nine months ended September 30, 2018 and 2017 is as follows:

| | 2018 | 2017 |
|--|---------------|-------------|
| Net loss | \$(1,157,750) | \$(594,302) |
| Depreciation and amortization | 649,537 | 638,926 |
| Share-based compensation | 716,833 | 118,572 |
| Unrealized loss on stock price guarantee | 3,527 | 16,036 |
| Loss on disposal of property and equipment | 1,944 | - |
| Write-off of other receivable | - | 1,026 |
| Changes in current assets and liabilities | (64,130) | 218,720 |
| Net cash provided by operating activities | \$149,961 | \$398,978 |

Working Capital and Liquidity

The Company had cash, cash equivalents and funds held in trust of \$550,563 at September 30, 2018, compared to \$738,690 at December 31, 2017. The Company had a negative working capital of \$1,337,586 at September 30, 2018, a change of (\$23,742) compared to \$1,313,844 at December 31, 2017. The increase in working capital deficit is attributable to the additional programs launched in the third quarter of 2018 in addition to the ongoing share repurchase agreements the Company has engaged in. The decrease to the cash, cash equivalents and funds held in trust is due to the full refund received of our funds held in trust as of the third quarter 2018.

The Company may need an infusion of additional capital to fund anticipated operating costs over the next 12 months, however, management believes that the Company has adequate cash resources to fund operations. There can be no assurance that anticipated growth will occur, and that the Company will be successful in launching new products and services. If necessary, management will seek alternative sources of capital to support operations.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As a smaller reporting company, the Company is not required to provide the information for this Item 3.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

The Company's management, including the Chief Executive Officer of the Company and the Chief Financial Officer of the Company, as its principal financial officers have 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 this evaluation, the Chief Executive Officer, and Chief Financial Officer both have concluded that, as of September 30, 2018, the Company's disclosure controls and procedures were not effective, due to material weaknesses in internal control over financial reporting, 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.

The Company has identified six material weaknesses in internal control over financial reporting as described in the Company's Form 10-K for the year ended December 31, 2017.

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Changes in Internal Control over Financial Reporting

There were several changes in our internal control over financial reporting during the quarter ended September 30, 2018. The Company has implemented policies and procedures to assure that there is a segregation of duties, evaluation of financial reporting and ongoing monitoring of activities. The Company continues to evaluate the internal controls over financial reporting and is working toward implementation of corporate governance, increased communication and updates to control documents and documentation of all procedures.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

In the normal course of business, the Company periodically becomes involved in litigation. As of September 30, 2018, in the opinion of management, the Company had no material pending litigation other than ordinary litigation incidental to the business.

ITEM 1A. RISK FACTORS

There are no material changes for the risk factors previously disclosed on Form 10-K for the year ended December 31, 2017.

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

There were no issuances of unregistered securities during the three months ended September 30, 2018.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

| Exhibit No. | Description |
|-------------|--|
| <u>31.1</u> | CEO Certification required under Section 302 of Sarbanes-Oxley Act of 2002 |
| <u>31.2</u> | CFO Certification required under Section 302 of Sarbanes-Oxley Act of 2002 |
| <u>32</u> | CEO and CFO Certification required under Section 906 of Sarbanes-Oxley Act of 2002 |
| 101.INS | XBRL Instance Document (filed herewith) |
| 101.SCH | XBRL Taxonomy Extension Schema (filed herewith) |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase (filed herewith) |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase (filed herewith) |

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101.LAB XBRL Taxonomy Extension Label Linkbase (filed herewith)
101.PRE XBRL Taxonomy Extension Presentation Linkbase (filed herewith)

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PAID, INC.

By: /s/ Allan Pratt
Allan Pratt, Chief Executive Officer

By: /s/ W. Austin Lewis IV

Date: November 14, 2018

W. Austin Lewis, IV, Chief Financial Officer

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