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PAID INC  
Form 10KSB  
March 31, 2006

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-KSB

ANNUAL REPORT UNDER SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended December 31, 2005

Commission File No. 0-28720

PAID, INC.

(Name of Small Business Issuer in its Charter)

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

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

(508) 791-6710  
(Issuer's Telephone Number, Including Area Code)

Securities registered pursuant to Section 12(g) of the Exchange Act:

Common Stock, \$0.001 Par Value  
(Title of Class)

Check whether the issuer is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act.

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

Yes  No

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB.

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

Yes  No

State Issuer's revenues for its most recent fiscal year: \$4,920,123.

The aggregate market value of the voting and non-voting common equity held by

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non-affiliates on March 17, 2006 was approximately \$32,976,172 based upon the average bid and ask over the counter price of \$.18 per share on such date. However, the aggregate market value of the voting and non-voting common equity held by non-affiliates on December 1, 2005, a date which is 60 days prior to the end of the issuer's most recent fiscal year end, was \$22,442,117, based upon the average bid and ask over the counter price of \$.1225 per share on such date.

As of March 17, 2006, the issuer had outstanding 201,575,111 shares of its Common Stock, par value of \$0.001, its only class of voting securities.

### DOCUMENTS INCORPORATED BY REFERENCE

No documents are incorporated by reference into this Annual Report except those Exhibits so incorporated as set forth in the Exhibit Index.

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This Annual Report on Form 10-KSB (including without limitation the Risk Factors included as Exhibit 99) may contain forward looking statements. We caution you to be aware of the speculative nature of "forward-looking statements". Statements that are not historical in nature, including the words "anticipate," "estimate," "should," "expect," "believe," "intend," and similar expressions, are intended to identify forward-looking statements. Although these statements reflect our good faith belief based on current expectations, estimates and projections about (among other things) the industry and the markets in which we operate, they are not guarantees of future performance.

Whether actual results will conform to our expectations and predictions is subject to a number of known and unknown risks and uncertainties, including the risks and uncertainties discussed in this Annual Report; general economic, market, or business conditions; the opportunities that may be presented to and pursued by us; competitive actions by other companies; changes in laws or regulations; and other circumstances, many of which are beyond our control. Consequently, all of the forward-looking statements made in this Annual Report are qualified by these cautionary statements and there can be no assurance that the actual results anticipated by us will be realized or, even if substantially realized, that they will have the expected consequences to, or effects on, us or our business or 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 carefully review and consider the various disclosures made by Paid, Inc. in this Annual Report, which attempts to advise interested parties of the risks and factors that may affect our business, financial condition, results of operations and prospects.

### PART I.

#### Item 1. Description of Business.

Paid, Inc. (the "Company") was incorporated in Delaware as Rose International Ltd. on August 9, 1995. The Company's main web address is located at [www.paid.com](http://www.paid.com), which offers updated information on various aspects of our operations, as well as access to [www.ksportsent.com](http://www.ksportsent.com) and [www.paidcelebrityservices.com](http://www.paidcelebrityservices.com). The Company has one subsidiary, Rotman Collectibles, Inc. Information contained in the Company's websites shall not be deemed to be a part of this Annual Report. The Company's principal executive offices are located at 4 Brussels Street, Worcester, Massachusetts 01610, and the Company's telephone number is (508) 791-6710.

### BUSINESS

#### Our Business

The Company's primary focus is to provide businesses and clients with marketing, management, merchandising, auction management, website hosting, and authentication and consignment services for the entertainment, sports and collectible industries. We provide business management tools for online retailers, through AuctionInc, which is home to our patent pending shipping calculator and automated auction checkout and order processing system. This system provides the fundamental structure for our celebrity web hosting and development services, and for individuals seeking a professional and interactive presence on the Internet. We also provide the merchandise and fulfillment services for these websites, using 20 years of experience from Rotman Auction, to maintain the best customer service and integrity for these celebrities. We continue to provide live and private autograph signings and support professional athletes' careers through the Rotman Auction brand and K Sports initiative.

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In 2004 we added the services of the newly acquired K Sports brand which specializes in athlete agent services and marketing and promoting these celebrities. K Sports delivers personalized attention to each client for services that include contract negotiations, endorsements, public relations, or charitable organizations. The merger of K Sports' experience and clientele with Paid's expertise in merchandising, website hosting, and auction management developed services for fan clubs and tour and travel packages was intended to create a business that is unrivaled in the sports and entertainment industry. During 2005 this acquisition proved to be a success as the Company's revenues increased substantially due to the focus on developing celebrity services.

For the year ended December 31, 2005 there was a large shift in our revenues being derived from Rotman Auction and the sale of collectibles to merchandising, memberships, V.I.P. fan experiences, and ticketing. For 2005, a substantial portion of our revenue was generated from celebrity services because of the development of one particular artist's fan club. Throughout the year memberships and merchandising grew, while the artist planned a tour, creating an opportunity to capitalize on fan experiences and ticketing programs. All the sales for our celebrity and entertainment services are made through the artist's personal website and Paid's proprietary content managed system. A customer interested in a membership, merchandise, fan experience or ticketing would use our system to make purchases, and then depending on the sale, the Company either ships the merchandise, or delivers the fan experience at an event. The services offered by a client depend upon the client's desire and willingness to offer different initiatives. Not all artists and fan bases are the same and the Company works closely with its different clients to cater to their needs.

The remainder of our revenue in 2005 was primarily derived from public and private autograph signings, the sale of collectibles and movie posters, and commissions relating to agent fees and marketing opportunities for our clients. The sale of collectibles and movie posters occurs in various different sales channels; retail, online auction, charity auction, direct sale, and wholesale distribution. Most of the online auctions take place through a person-to-person auction service. Our auctions consist of sports and non-sports cards, collectibles, Americana, autographed items, and movie memorabilia, among other types of collectibles from the 1800s to the present day. Rotman Auction also maintains a substantial inventory of memorabilia with popular and historical significance which allows customers to directly purchase the memorabilia without the competition from bidders in an auction format. Most of these sales are consummated through our website located at [www.rotmanauction.com](http://www.rotmanauction.com). We acquire inventory in the ordinary course of our business from a number of companies and individuals. We also may acquire inventory through acquisition of companies that own collectibles, or through the acquisition of substantially all the assets of a company that holds collectibles.

We engage in autograph signing activities under the "Rotman Auction" name, at public and private autograph signing events. We contract and pay the celebrities for their services and for supplying products for the event. We hosted celebrities such as Adam Viniateri, Bronson Arroyo, Troy Brown, Johnny Damon, Jim Rice, Ty Law, Terry O'Reilly, Pete Rose, Ray Bourque, Paul Pierce, Trot Nixon, Corey Dillon, Derek Lowe, Carlton Fisk, Tedy Bruschi, and Alfonso Soriano. Our autograph signing events include the creation, development and maintenance of celebrity websites. We provide comprehensive content managed websites that include message boards, shopping, articles, statistics, biographical information and event schedules. We currently host such celebrities' websites as Jerry Rice, Tim Wakefield, Deuce McAllister, Roy Williams, and Chris Chambers. Revenues are generated from sales of product produced by the celebrity. Full and part-time employees, as well as interns update the news and information on these sites. We receive payment in the form of autographs for maintaining and hosting the website. We also provide

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management services for order fulfillment and product distribution for the celebrities.

To assist with the inventory management and order processing Rotman Auction uses the AuctionInc platform for reducing order processing, increasing sales and improving customer service. The AuctionInc system was originally designed to just assist and improve Rotman Auction's business,

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but management realized that there was a need for an order management system for individuals and businesses that sell on the Internet, specifically at auction. In 2000 the technology team focused its attention on the core fundamental piece of the system called the Shipping Calculator. The Company realized the potential importance of the calculator and filed for a patent before launching it to the public in April of 2001. The product is modular based and continues to develop new tools and products for its customers.

AuctionInc Software. AuctionInc is a suite of online management tools assisting businesses with e-commerce storefronts, order processing, customer service, shipping solutions, inventory management, and auction processing. The application was designed originally to reduce overhead costs for Rotman Auction, but based on its marketability the Company began to offer the application to other sellers in 2003. A seller's use of the application reduces overhead and labor costs, and through its customer-friendly setup improves customer relations and increases sales.

AIship is a shipping calculator that automatically estimates the shipping, sales tax, and insurance on auction listings. This module automatically calculates shipping costs, carrier insurance fees, optional shipping services, and offers an adjustable shipping fee markup, and co-branded shipping calculator page. It pre-configures shipping rates with handling costs, and provides a multiple auctions tab to calculate shipping on numerous auctions. The Company receives a transaction fee for each auction listing that uses AIship.

AIseller is an auction management tool used to streamline a seller's order processing for improved customer service and higher sales. This module is designed for sellers who are selling more than 50 items per month at online auctions. It offers summary and detail order and sales reporting, auction/sales tracking, automated personalized e-mail notifications, auction re-listing reports, a complete integrated order management system, a customer checkout system, as well as automatic shipping rates and sales tax calculations for consolidating multiple auctions. The Company does not actively market this product, but would receive a transaction fee for each listing at auction that uses AIseller.

During 2005 we enhanced our new products that we launched the end of 2004 to provide more features and options for the new online user. These enhanced tools were focused on ecommerce and were therefore branded under the Paid name. These products ranged from a simple shipping calculator to be used anywhere on the internet to a complex integration into our software application.

PaidShipCalc is a shipping calculator that provides the most comprehensive shipping calculations available today. A customer can use this tool anywhere on the Internet, including its website, web store, or even classified listing. Shoppers can then choose from the shipping methods that the customer offers along with the ability to combine shipping, include your flexible handling charges, and calculate insurance and taxes if necessary.

PaidShopCart provides website and ecommerce store owners a fully

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functional shopping cart with shipping calculations from all the major carriers. We have designed the Paid ShopCart with your needs in mind; an affordable, simple, easy to use cart that is feature heavy and an enhanced replacement for the carts being utilized today. This Paypal integrated shopping cart can be inserted into any web page by just pasting in just a few lines of HTML. It provides accurate rates for 25 domestic shipping services from USPS, UPS, FedEx, and DHL, and is configurable to match with a customer's web site design.

Paid Inc's Global Module is a direct plug into the PaidShopCart and PaidShipCalc. This module is used to add comparative international rate calculations to your PaidShopCart or PaidShipCalc products.

Interested clients may purchase any and all of our tools or applications for a flat quarterly fee and/or per-transaction fee depending on the module chosen. The Company may add more features and

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modules to the suite to enable it to grow with sellers and continue to provide them superior online selling tools.

Web Hosting and Development. The Company provides web hosting and development for various clients that pay monthly hosting fees and maintenance fees for updates. This service also uses the core AuctionInc platform for maintaining web portals and storefronts systems. The Company also maintains several corporate websites which it hopes to continue to expand and grow. Through improved customer awareness and a larger customer base we hope these websites will continue to grow and offer a revenue source to the Company. These websites provide minimal revenue to the Company, but offer awareness and advertising opportunities for the Company's other products.

The Collecting Channel features extensive coverage of all aspects of collecting from its twelve micro-channels devoted to Antiques, Automotive, Books/Movies/Music, Jewelry/Gems, Stamps/Coins, Collectibles, Glass/Pottery, Dolls/Figures, Photo/Electronics, Toys/Beanie Babies, Sports and Miscellaneous. By combining information from the Collecting Exchange with the Collecting Channel portal, we have created a comprehensive collectibles site, offering services such as web searching, broadcast services, appraisal and valuation information, auction site sign-ins, price guides, shopping and classified ads. The CollectingChannel has approximately 15,000 articles, 6,000 minutes of video, and 150,000 items in the realized pricing database archived in various collecting databases.

Appraisal Services. As part of the services we make available on our site, we also offer a completely interactive and dynamic appraisal service called Ask the Appraiser™. The appraisal area permits visitors to send us an image in order to obtain an online appraisal of their item for a fee of \$19.95 per appraisal. This service enables visitors to make informed decisions regarding their purchases, and helps sellers define the prices for their goods.

Other Amenities. The CollectingChannel.com website also includes other amenities such as chat rooms, message boards, a classified posting area, and an information area regarding auctions. The My Collecting(TM) area of the website enables users to create and customize their own collecting pages, with personalized news, video, chat capability, wish lists and access to an extensive database of reference materials. The website also includes MaloneysOnline, a clearinghouse for hard to find information that contains the searchable Internet version of the book Maloney's Antiques & Collectibles Resource Directory. In 2003 the Company for the first time offered advertising in Maloney's Antiques & Collectibles Resource Directory.

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## Industry Background

### Growth of the Internet and the Web

The Internet enables millions of people worldwide to share information, communicate and conduct business electronically. The growth in the number of Web users is being driven by the increasing importance of the Internet as a communications medium, an information resource, and a sales and distribution channel. The Internet has also evolved into a unique marketing channel. Unlike the traditional marketing channels, Internet retailers do not have many of the overhead costs borne by traditional retailers. The Internet offers the opportunity to create a large, geographically dispersed customer base more quickly than traditional retailers. The Internet also offers customers a broader selection of goods to purchase, provides sellers the opportunity to sell their goods more efficiently to a broader base of buyers and allows business transactions to occur at all hours.

### State of Viral Communities on the Internet

The massive growth of online communities over the past decade has reached viral proportions. Internet communities are built revolving around ideas, music, individuals, artists, writers, or any tangible or intangible entity, and new content can be distributed within minutes of exposure. Viral communities and

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viral marketing are the next phenomenon that web users are embracing with vigor. As traffic and communities continue to grow, more services will be required to sustain the appetite of these users.

### State of the Collectibles and Online Auction Industries

The online auction industry continues to be a strong and permanent player in e-commerce. Online auctions resolve the weaknesses of traditional auctions (i.e. limited geographical coverage, a dearth of product variety, high transaction costs and information inefficiency). The Internet overcomes these issues because it can handle large quantities of data and support an infinite number of products and services. It also allows buyers and sellers to trade on a global basis.

## Business Strategy

During 2005 we experienced growth with our celebrity web-hosting and fan club and membership programs. We believe there will be an increase in online communities that will create an opportunity for more celebrity web-hosting and fan club services. It is our view that our services and programs will become more desirable as these communities grow. Our proprietary system was built to handle news, events, ticketing, fan experiences, ecommerce, authentication, charity auctions, chat, video editing, music streaming, mobile services, downloads and forums.

Our goal for our celebrity services is to build the best communication and quality services that provide unparalleled opportunities for viral communities, celebrities and their fans. This goal can be accomplished by implementing the following strategy:

- o Increase the number of celebrity service clients and programs we offer to capitalize on internet communities. Provide high quality services and continued impeccable customer and fulfillment services

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building on our solid reputation.

- o Expand into new services being offered that will generate larger partnerships and marketing opportunities for our clients.
- o Shift to a quarterly billing system on AuctionInc, reducing the initial fee but increasing the number of renewal receivables.
- o Increase the general awareness of our Shipping Calculators and continuing to offer cutting edge technology and services in the industry.
- o Provide and offer more athletes and other artists marketing and promotional opportunities through K Sports & Entertainment brand.
- o Offer more private autograph signing and authentication services increasing our distribution and partnerships and limited costs and overhead associated with larger events.
- o Increase our web hosting services, charging a one time set up fee plus monthly maintenance fees, and an hourly fee for any design or feature enhancements we make;
- o As the number of visitors to our site increases, impose monthly/annual membership fees.

We expect the above plan will enable us to increase our celebrity services and offer a wider variety of management services providing more resources for a sales and a marketing campaign to promote the Company.

The business strategy described above is intended to enhance our opportunities in the online ecommerce market. However, there are a number of factors that may impact our plans and inhibit our success. See "Risk Factors" included as Exhibit 99. Therefore, we have no guarantees and can provide no assurances, that our plans will be successful.

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### Marketing and Sales

Successful branding of our corporate identity and services is the key to our success. We changed our name to Paid, Inc. at the end of 2003 and have consolidated our websites and brands under one internet presence.

In the past our marketing had been designed to position the Company as the premier collectibles site on the Internet, targeting both traditional collectors as well as the new online generation of collectors. We are continuing to market to collectors, but we have been shifting our focus to dealers, distributors and retail outlets to reduce the number of vendors and costs and increase sales.

Promoting and marketing Paid's celebrity services will be undertaken using various mediums of marketing; "adword" campaigns, traditional print methods, and industry trade shows. As our celebrity services continue to gain exposure, we will have substantial opportunity to grow our business through referrals. Networking and referral business is a large portion of sales and marketing for these types of services. As we market and promote our celebrity services, we also will be supporting our proprietary content management system and our shipping calculator products.

The Company will continue to market AuctionInc throughout 2006. In the



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past years, representatives of the Company attended trade shows, events and conferences to analyze the potential for AuctionInc and to narrow the Company's marketing base. Based on experience with existing partnerships that promote AuctionInc, the Company believes that creating partnerships is an effective marketing tool to promote and encourage new registrations. The Company will continue to seek new partnerships. The Company also intends to promote the AuctionInc product line in trade publications to reach small and midsize companies.

Although we believe that this marketing strategy, if successful, will lead to increased revenues, and attract more users to our site, we have no commitments that our marketing will be successful or our sales will increase. There are a number of factors that may impact our plans and inhibit our success. See "Risk Factors" described in Exhibit 99. Therefore, we have no guarantees and can provide no assurances that our plans will be successful.

### Revenue Sources

In 2005, 66% of our revenues were derived from our celebrity services, fan club management, and ticketing and fan experiences. We also generated retail revenues from the sale of autographed merchandise, collectibles and movie posters. Adding to these revenues were agent commissions, marketing opportunities for athletes and celebrity clients of K Sports.

As additional services, we currently provide web hosting and online appraisal services. To date, we have generated minimal revenues from these services, but we hope that as the awareness of the AuctionInc product line increases, we will be able to increase our advertising and marketing efforts, which we expect will generate revenue and may attract more visitors that will utilize these services on our site. In addition to web hosting, we expect to increase revenues through the development and design of third party websites. We also have an agreement with Krause Publications, pursuant to which Krause Publications prints Maloney's Antiques & Collectibles Resource Directory and we receive a percentage of the sales revenues from the book sales. We own "www.MaloneyOnline.com," a clearinghouse for hard to find information that contains the searchable Internet version of the resource directory.

Although we expect that this revenue model will generate increased revenue, if we are not successful in implementing this model, if the collectibles community is not accepting of the services we provide, if costs are higher than anticipated, or if revenues do not increase as rapidly as anticipated, we may not be able to continue positive cash flow. There are a number of factors that may impact our plans

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and inhibit our success. See "Risk Factors" included as Exhibit 99. Therefore, we have no guarantees and can provide no assurances, that our plans will be successful.

### Competition

Electronic content management, fan club membership and fan experiences and ticketing services, are relatively new and growing industries. This industry has several hurdles for new companies; building a strong reputation, proficient operational skills in customer service and fulfillment, and gaining a client base. While these are big hurdles and present a strong barrier to entry, they are not insurmountable. There are several competitors in this industry like Music Today, UltraStar, and FanAsylum, each of whom offer unique solutions and services. There are other indirect competitors who deal in just merchandising or

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electronic memberships, but these companies serve a different customer base.

The electronic commerce market is relatively new, rapidly evolving and intensely competitive. Furthermore, we expect competition to intensify in the future. Barriers to entry are relatively low, and current and new competitors can launch new sites at relatively low cost using commercially available software. Our Rotman Auction operation competes with a variety of other companies depending on the type of merchandise and sales format offered to customers. These competitors include: (i) various Internet collectible companies, Collectors Universe, Shop at Home and Tri-Star Productions; (ii) a number of indirect competitors that specialize in electronic commerce or derive a substantial portion of their revenue from electronic commerce, including Internet Shopping Network and AOL, Shopping.com; and (iii) a variety of other companies that offer merchandise similar to that of our Company but through physical auctions.

In addition, several large companies sell specialty consumer products, including collectibles through interactive electronic media, including broadcast, cable and satellite television and, increasingly, the Internet. These companies include QVC, Home Shopping Network and Shop At Home. They generally have substantial financial resources and, while their current collectible offerings tend to be less focused than our collectible offerings, there can be no guarantee that they will not become significant competitors in the future.

There can be no assurance that we can maintain our competitive position against potential competitors, especially those with greater financial, marketing, customer support, technical and other resources than us. Increased competition is likely to result in reduced operating margins, loss of market share and a diminished brand franchise, any one of which could materially adversely affect the our business, results of operations and financial condition.

### Intellectual Property

Our web hosting software program, AuctionInc software suite, is proprietary. We have filed one application for a patent related to AIShip. We do not have any patents for our designs or innovations and we may not be able to obtain copyright, patent or other protection for our proprietary technologies or for the processes developed by our employees. Legal standards relating to intellectual property rights in computer software are still developing and this area of the law is evolving with new technologies. Our intellectual property rights do not guarantee any competitive advantage and may not sufficiently protect us against competitors with similar technology. To protect our interest in our intellectual property, we restrict access by others to our proprietary software. In addition, we own the "Collecting Channel" mark and for the mark "Paid".

We believe that our products and other proprietary rights do not infringe on the proprietary rights of third parties. However, there can be no assurance that third parties will not assert infringement claims against us in the future with respect to current or future products or other works of ours. This assertion may require us to enter into royalty arrangements or result in costly litigation.

We also utilize free open-source technology in certain areas. Unlike proprietary software, open-source software has publicly available source code and can be copied, modified and distributed with minimal restrictions. Our principal web servers' software is Apache, a free web server software. We are

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using PHPShop for our e-commerce to provide highly customizable storefronts. In addition to PHPShop we develop a substantial portion of our websites with the language PHP.

### Research and Development

Over the past 2 years the Company has not made additional investments in research and development.

### Employees

We currently employ 21 personnel, 19 of whom are employed full time. We believe that our future success will depend in part on our continued ability to attract, hire and retain qualified personnel.

### Government Regulation

We are not currently subject to direct federal, state or local regulation, and laws or regulations applicable to access or commerce on the Internet, other than regulations applicable to businesses generally. However, due to the increasing popularity and use of the Internet and other online services, it is possible that a number of laws and regulations may be adopted with respect to the Internet or other online services covering issues such as user privacy, freedom of expression, pricing, content and quality of products and services, taxation, advertising, intellectual property rights and information security.

### Item 2. Description of Property.

Our corporate headquarters are located at 4 Brussels Street, Worcester, Massachusetts 01610. Currently, we are tenants-at-will, but we are not required to pay rent on the Brussels Street, Worcester location. The condition of our corporate headquarters is excellent. We do not invest in real estate or interests in real estate, real estate mortgages, or securities of or interests in persons primarily engaged in real estate activities, and we have no policies related to such investments.

### Item 3. Legal Proceedings.

None.

### Item 4. Submission of Matters to a Vote of Security Holders.

None.

### Item 5. Market for Common Equity, Related Stockholder Matters and Small Business Issuer Purchases of Equity Securities.

Our common stock, par value \$.001 per share, is presently traded on the Over-the-Counter Bulletin Board ("OTCBB") under the symbol, "PAYD".

The following table sets forth the high and low bid prices for our common stock as reported by OTCBB for the eight quarters ended December 31, 2005. The quotations from the OTCBB reflect inter-dealer prices without retail mark-up, mark-down, or commission and may not represent actual transactions.

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2004	High	Low
	-----	---
Quarter ended March 31, 2004	\$ .80	\$ .175

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Quarter ended June 30, 2004	\$ .47	\$ .275
Quarter ended September 30, 2004	\$ .39	\$ .221
Quarter ended December 31, 2004	\$ .34	\$ .05
2005	High	Low
	-----	---
Quarter ended March 31, 2005	\$ .35	\$ .15
Quarter ended June 30, 2005	\$ .36	\$ .17
Quarter ended September 30, 2005	\$ .29	\$ .165
Quarter ended December 31, 2005	\$ .235	\$ .115

As of March 17, 2006, there were approximately 2,345 holders of record of our common stock.

We have not previously paid cash dividends on our common stock, and intend to utilize current resources to operate the business; thus, it is not anticipated that cash dividends will be paid on our common stock in the foreseeable future.

Equity Compensation Plan Information

	Number of Securities To be Issued Upon Exercise of Outstanding Options, Warrants and Rights (a)	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (b)	Number Remaining Under Future Equity Plans Secu Colu (c)
Equity Compensation Plans Approved by Security Holders	25,000,000	\$.041	5,000
Equity Compensation Plans Not Approved by Security Holders	165,054	\$.6126	2,910
Total	25,165,054	\$.045	7,910

Refer to Note 7, Notes to Consolidated Financial Statements for the Years ended December 31, 2005 and 2004, incorporated by reference in Part II, Item 7, of this Annual Report, for a detailed discussion of the stock options and warrants that are outstanding.

During the fourth quarter of 2005, the Company did not receive any conversion requests from Augustine Fund, L.P. with respect to the Company's November 7, 2001 convertible note. The remaining balance on the November 7, 2001 convertible note as of December 31, 2005 is \$1,150,000. Augustine Fund, L.P. is an accredited investor that represented that it acquired the convertible note for its own account. The issuance of the convertible note and securities pursuant to the convertible note is exempt from registration under Section 4(2) of the Securities Act of 1933 and Regulation D promulgated thereunder. The terms of the Note are described further in Note 9, Notes to Consolidated Financial

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Statements for the Years ended December 31, 2005 and 2004, incorporated by reference in Part II, Item 7, of this Annual Report.

The Company borrowed \$160,000 from an unaffiliated individual in October 2004, which amount, including all principal and 12% interest, was paid off in full through two issuances of common stock of the Company: 125,000 shares on October 29, 2004, and 800,000 shares on March 7, 2005. The shares were not registered under the Securities Act of 1933. The issuance of the securities is exempt from registration under Section 4(2) of the Securities Act of 1933 and Regulation D promulgated thereunder.

The Company paid an unaffiliated consultant 250,000 shares of common stock of the Company in lieu of fees. The shares were issued on December 31, 2004 and delivered in certificate form in January 2005. The shares were not registered under the Securities Act of 1933. The issuance of the securities is exempt from registration under Section 4(2) of the Securities Act of 1933 and Regulation D promulgated thereunder.

Item 6. Management's Discussion and Analysis or Plan of Operation.

### Overview

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

### Critical Accounting Policies

Our significant accounting policies are more fully described in Note 3 to our financial statements. However, certain of our accounting policies are particularly important to the portrayal of our financial position and results of operations and require the application of significant judgment by our management; as a result, they are subject to an inherent degree of uncertainty. In applying these policies, our management makes estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosures. Those estimates and judgments are based upon our historical experience, the terms of existing contracts, our observance of trends in the industry, information that we obtain from our customers and outside sources, and on various other assumptions

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that we believe to be reasonable and appropriate under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. Our critical accounting policies include:

Inventories: Inventories are stated at the lower of average cost or market

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

Property and Equipment and Intangible Assets: Property and equipment and intangible assets are stated at cost. Depreciation and amortization are computed over estimated useful lives that are reviewed periodically. In connection with this review we consider changes in the economic environment, technological advances, and management's assessment of future revenue potential and a review of the estimated useful lives of the various assets.

### Results of Operations

The following discussion compares the Company's results of operations for the year ended December 31, 2005 with those for the year ended December 31, 2004. The Company's financial statements and notes thereto included elsewhere in this annual report contain detailed information that should be referred to in conjunction with the following discussion.

Revenue. For the year ended December 31, 2005, revenues were \$4,920,100, 66% of which was attributable to sales of fan club memberships, merchandise, and fan experiences related to the tour of a major performing artist which ended in March 2006. Sales of the Company's own product and fees from buyers and sellers through the Rotman Auction operations represented 26% of revenues, and Sports marketing revenues represented 7% of revenues. Gross sales of the Company's own product were \$1,299,800. Fan experience, Fan club membership and related merchandise sales revenues were \$3,228,400, and sports marketing revenues were \$357,200. Advertising and web hosting fees were \$33,900, less than 1% of gross revenues, during the year ended December 31, 2005. Substantially all of the fan club membership and fan experience revenues were generated during the fourth quarter of 2005. Management anticipates continued increases in revenues from these sources and from tours, products and services related to several other performing artists for the year ending December 31, 2006.

The Company's 2005 revenues represent an increase of approximately \$3,067,600, or 165%, from the year ended December 31, 2004, in which revenue was \$1,853,000. For the year ended December 31, 2004, sales of the Company's product were \$1,613,500, or 87% of gross sales, fan club membership and related merchandise sales revenues were \$126,500, 7% of gross revenues, sports marketing revenues were \$90,200, or 5% of gross revenues, and advertising and web hosting fees were \$17,500, or 1% of gross revenues.

The reason for the increase in revenues was a \$3,101,900 increase related to the beginning of a tour by a major performing artist in late October 2005 which continued through most of the first quarter of 2006, higher revenues related to sports marketing services of \$267,000 which was acquired in the K Sports transaction during the fourth quarter of 2004, offset by lower sales of Company owned product of approximately \$313,700 from the same period in 2004. Gross profit from Company owned product sales for the year ended December 31, 2005 was approximately \$433,600, \$177,300 less than in 2004. Since gross margin percentages on Company owned product were 5% less in 2005 and sales of Company owned product were \$313,700 lower in the year ended December 31, 2005, the Company produced

\$177,300 lower gross margin dollars in 2005. The decrease in sales and gross profit margin is attributable to a management decision to streamline sales channels for company owned product and, in turn, terminating sales on eBay, in

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an effort to reduce related overhead.

**Operating Expenses.** Total operating expenses for the year ended December 31, 2005 were \$4,561,400, compared to \$4,272,100 for the corresponding period in 2004, an increase of \$289,300. Sales, general and administrative ("SG&A") expenses for the year ended December 31, 2005 were \$4,016,200, compared to \$3,492,300 for the year ended December 31, 2004. The increase of \$524,000 in SG&A costs includes increases in payroll and related costs of \$139,900, travel of \$148,000, credit card commissions of \$150,800, postage and shipping costs of \$79,600, and professional fees of \$105,200, offset by decreases in depreciation and amortization of \$187,800 as certain assets became fully depreciated during 2005 and 2004. The payroll, travel, credit card commissions and postage and shipping increases are all principally attributable to the tour of a major performing artist. Costs associated with planning, maintaining and operating our web sites for the year ended December 31, 2005 decreased \$234,600 from 2004. This decrease is due primarily to decreases in personnel costs of \$11,500, and depreciation and amortization of \$84,300, as certain website development costs became fully depreciated. In addition, during 2005 the Company capitalized approximately \$200,000 of website development costs, while in 2004 the Company capitalized \$64,700.

**Interest Expense.** For the year ended December 31, 2005, the Company incurred interest charges of approximately \$294,800 principally associated with one convertible note, compared to interest charges of \$497,300 for the corresponding period in 2004, a decrease of \$202,500. \$14,900 of the decrease is attributable to lower balances of interest-bearing debt in 2005 and \$187,600 of the decrease is attributable to lower amortization of beneficial conversion features.

**Net Loss.** The Company realized a net loss for the year ended December 31, 2005 of \$3,100,700 compared to a loss of \$4,079,700 for the year ended December 31, 2004. Losses in both years represented \$.02 per share.

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

### Assets

At December 31, 2005, total assets of the Company were \$4,229,600 compared to \$1,764,900 at December 31, 2004. The increase was primarily due the \$999,800 remaining balance of the acquisition of a large collection of movie poster inventory and cash and deferred expenses totaling \$1,880,000 associated with sales of tickets to entertainment events to be held during the first quarter of 2006, offset by depreciation and amortization totaling \$805,800. The Company also reports a related liability to customers, in the form of deferred revenues, at December 31, 2005 of \$2,305,300.

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### Operating Cash Flows

A summarized reconciliation of the Company's net losses to cash provided by (used in) operating activities for the years ended December 31, 2005 compared to December 31, 2004, is as follows:

	2005	2004
	----	----
Net loss	\$ 3,100,700)	\$(4,079,700)
Depreciation and amortization	805,800	1,077,900

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Amortization of beneficial conversion		
Discount and debt discount	103,900	291,500
Common stock issued in payment of services	1,632,500	1,401,500
Common stock issued in payment of interest	137,200	315,200
Net current assets and liabilities associated with advance ticketing	1,749,000	--
Call Options	(268,000)	--
Changes in current assets and liabilities	356,400	264,900
	-----	-----
Net cash provided by (used in) operating activities	\$ 1,416,100	\$ (728,700)
	=====	=====

### Working Capital and Liquidity

The Company had cash and cash equivalents of \$1,503,000 at December 31, 2005, compared to \$43,500 at December 31, 2004. The Company had \$152,300 of working capital at December 31, 2005 compared to a deficit in working capital of \$542,800 at December 31, 2004. At December 31, 2005 current liabilities were \$3,787,700 compared to \$1,446,000 at December 31, 2004. Current liabilities increased at December 31, 2005 compared to December 31, 2004 primarily due to deferred revenues of \$2,305,300 associated with events scheduled during the first quarter of 2006. As discussed in greater detail in Note 9 to the Financial Statements, included in Part I of this annual report and incorporated by reference herein, the Company has outstanding a convertible notes held by Augustine Fund, L.P. The Series B Note has a principal amount outstanding as of December 31, 2005 of \$1,150,000.

The Company's independent auditors have issued a going concern opinion on the Company's consolidated financial statements for the year ended December 31, 2005. The Company may need an infusion of additional capital to fund anticipated operating costs over the next 12 months. Management anticipates growth in revenues and gross profits in 2006 from its celebrity services products and websites, and similar services to other entities; including memberships, fan experiences and ticketing, appearances, website development and hosting, and merchandise sales from both existing and new clients. In addition, "AuctionInc" which hosts a suite of management tools and enhanced shipping calculator solutions for small ecommerce enterprises, sales of movie posters, both from inventory and on consignment, and web hosting are expected to increase revenues and result in higher total gross profit. Subject to the discussion below, management believes that the Company has sufficient cash commitments to fund operations during the next 12 months. These commitments include call options for approximately 1,625,000 shares of common stock, which, once assigned by the Company, can generate between \$195,000 and \$585,000 (based solely upon the 52 week high and low closing prices of the Company's common stock) of cash. However, there can be no assurance that assignment of the call options can be concluded on reasonably acceptable terms. If assignments are not made, management may need to seek alternative sources of capital to support operations.

### Forward Looking Statements

This Annual Report on Form 10-KSB 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



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1934) regarding the Company and its business, financial condition, results of operations and prospects. Words such as "expects," "anticipates," "intends," "plans," "believes," "seeks," "estimates" and similar expressions or variations of such words are intended to identify forward-looking statements in this report. Additionally, statements concerning future matters such as the development of new services, technology enhancements, purchase of equipment, credit arrangements, possible changes in legislation and other statements regarding matters that are not historical are forward-looking statements.

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

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, tour or event cancellations, higher costs than anticipated, the Company's inability to sell its products and services to a sufficient number of customers, the introduction of competing products by others, the Company's failure to attract sufficient interest in and traffic to its sites, the Company's inability to complete development of its sites, the failure of the Company's operating systems, and the Company's inability to increase its revenues as rapidly as anticipated. If the Company is not profitable in the future, it will not be able to continue its business operations.

### Item 7. Financial Statements.

The consolidated financial statements and supplementary data required by this item appear on Page F-1 immediately following the signature page, and are incorporated by reference herein.

### Item 8. Changes In and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

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### Item 8A. Controls and Procedures.

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

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Commission's rules and forms, and is accumulated and communicated to the Company's management, including its principal executive and financial officers, as appropriate to allow timely decisions regarding required disclosure.

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

Item 8B. Other Information.

None.

### Part III.

Item 9. Directors and Executive Officers of the Registrant.

#### Directors and Executive Officers

The following table sets forth certain information regarding the directors and executive officers of Paid, Inc.:

Name	Age	Position
-----	---	-----
Gregory Rotman*	40	Director, Chief Executive Officer & President
Richard Rotman*	35	Director, Chief Financial Officer, Vice President, Treasurer & Secretary
Andrew Pilaro	36	Director

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\*Gregory Rotman and Richard Rotman are brothers.

Each of the directors was elected as of September 19, 2000, for a term expiring at the 2001 Annual Meeting of Stockholders and until their successors are elected and qualified. The Company has not held an annual meeting or elected directors since September 19, 2000. Under the Delaware General Corporation Law, each director holds office until such director's successor is elected and qualified or until such director's earlier resignation or removal. The following is a description of the current occupation and business experience for at least five years for each director and executive officer.

Gregory Rotman has served as a Director and the Chief Executive Officer and President of Paid, Inc. since February 1999. From 1995 to 1998, he served as a Partner of Teamworks, LLC, which was responsible for the design, financing and build-out of MCI National Sports Gallery.

Richard Rotman has served as a Director and the Chief Financial Officer, Vice President, Treasurer and Secretary of Paid, Inc. since February 1999. Prior to joining Paid, Inc., he was involved in the management and day-to-day operations of Rotman Auction, which he formed in February 1997. From 1995

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until February 1997, Mr. Rotman worked for the family business, Rotman Collectibles, where he focused on sale and distribution of collectibles, including through auctions and on the Internet.

Andrew Pilaro has served as a Director of Paid, Inc. since September 2000.

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Since August, 1996, he has served as the Assistant to the Chairman of CAP Advisors Limited, an investment management company, with responsibility for asset management.

The Securities and Exchange Commission has adopted rules to implement certain requirements of the Sarbanes-Oxley Act of 2002 pertaining to public company audit committees. One of the rules requires a company to disclose whether it has an "audit committee financial expert" serving on its audit committee. Based on its review of the criteria of an audit committee financial expert under the rule adopted by the SEC, the Board of Directors does not believe that any member of the Board of Directors' Audit Committee would be described as an audit committee financial expert. At this time, the Board of Directors believes it would be desirable for the Audit Committee to have an audit committee financial expert serving on the committee. While from time to time informal discussions as to potential candidates have occurred, no formal search process has commenced.

The Company has adopted a Code of Ethics that applies to all of its directors, officers, and employees, including its principal executive officer, principal financial officer, principal accounting officer, or controller, or persons performing similar functions. A written copy of the Company's Code of Ethics will be provided to anyone, free of charge, upon request to: Richard Rotman, CFO, Paid, Inc., 4 Brussels Street, Worcester, Massachusetts 01610 or (508) 791-6710.

### Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's directors and executive officers, and persons who own more than 10% of the Company's outstanding Common Stock to file with the Securities and Exchange Commission initial reports of ownership and reports of changes in ownership of Common Stock. These persons are required by SEC regulation to furnish the Company with copies of all such reports they file. To the Company's knowledge, based solely on a review of the copies of such reports furnished to the Company and representations that no other reports were required, all Section 16(a) filing requirements applicable to its officers and directors and beneficial owners of more than 10% of the Company's stock, have been complied with for the period which this Form 10-KSB relates.

### Item 10. Executive Compensation.

The following table sets forth the compensation of the Company's chief executive officer, the chief financial officer, and each officer whose total cash compensation exceeded \$100,000, for the last three fiscal years ended December 31, 2005, 2004, and 2003.

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### SUMMARY COMPENSATION TABLE

Name and Principal Position	Fiscal Year	Annual Compensation  Salary (1)	Long-Term Compensation  Awards (2)  Securities Underlying Options (#)

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Gregory Rotman	2005	\$84,871	0
President and Chief Executive Officer	2004	\$ 92,154	0
	2003	\$ 72,000	0
Richard Rotman	2005	\$86,794	0
Chief Financial Officer and Vice President and Secretary	2004	\$ 93,491	0
	2003	\$ 90,532	0

(1) For each of 2005, 2004, and 2003, the Company paid the amount shown as compensation, but has accrued the difference between these amounts per annum for both Gregory Rotman and Richard Rotman and \$100,000.

(2) On October 11, 2002, both Gregory Rotman and Richard Rotman were granted options to purchase 10,000,000 shares of common stock at an exercise price of \$.041, under the Company's 2002 Stock Option Plan, pursuant to the following vesting schedule: options to purchase 4,000,000 shares of common stock vested on April 11, 2003; options to purchase 3,000,000 shares of common stock vested on October 11, 2003, and options to purchase 3,000,000 shares vested on October 11, 2004.

No options were granted to the named executive officers during the last fiscal year.

The following table sets forth certain information related to the number of options exercised and the number and value of exercisable and unexercisable options of the named executive officers as of December 31, 2005:

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AGGREGATED OPTION/SAR EXERCISES IN LAST FISCAL YEAR AND  
FY-END OPTION/SAR VALUES

Name	Shares Acquired on Exercise (#)	Value Realized (\$)	Number of Securities Underlying Unexercised Options/SARs at FY-End (#) Exercisable/Unexercisable
Gregory Rotman, President and CEO	0	\$0	10,000,000/0

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Richard Rotman, CFO, Vice President  
and Secretary

0

\$0

10,000,000/0

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- (1) Based on closing price of \$.185 on December 31, 2005 as reported by the OTC Bulletin Board.

None of the Company's directors receives any compensation from the Company for serving as directors. However, on October 11, 2002, Andrew Pilaro received options to purchase 2,000,000 shares of common stock at an exercise price of \$.041, pursuant to the 2002 Stock Option Plan, subject to the following vesting schedule: options to purchase 800,000 shares of common stock vested immediately; options to purchase an additional 600,000 shares of common stock vested on October 11, 2003, and options to purchase 600,000 shares of common stock vested on October 11, 2004. Based on a closing price of the Company's common stock as report on the OTC Bulletin Board of \$.185 as of December 31, 2005, Mr. Pilaro's exercisable options have a value of \$288,000.

### Item 11. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

To the knowledge of the management of the Company the following table sets forth the beneficial ownership of our common stock as of March 17, 2005 of each of our directors and executives officers, and all of our directors and executive officers as a group.

Name and Address of Beneficial Owner (1)	Number of Shares Beneficially Owned	% of Class
Gregory Rotman	18,309,005 (2)	8.19%
Richard Rotman	19,996,451 (2)	8.94%
Andrew Pilaro	2,068,700 (3)	.93%
All directors and officers as a group (3 individuals)	40,374,156	18.06%

(1) The address of each person named is the address of the Company.

(2) Includes options to purchase 10,000,000 shares of the Company's common stock at an exercise price of \$.041, 4,000,000 of which vested on April 1, 2003, 3,000,000 of which vested on October 11, 2003, and 3,000,000 of which vested on October 11, 2004.

(3) Includes 17,200 shares held indirectly as custodian for Mr. Pilaro's minor sons and options to purchase 2,000,000 shares of the Company's common stock at an exercise price of \$.041, 800,000 of which vested on October 11, 2002, 600,000 of which vested on October 11, 2003, and 600,000 of which vested on October 11, 2004.

To the knowledge of the Company's management, as of March 17, 2006, there are no persons and/or companies who or which beneficially own, directly or indirectly, shares carrying more than 5% of the

voting rights attached to all outstanding shares of the Company, other than Gregory Rotman and Richard Rotman, as set forth above.

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The information regarding the Company's Equity Compensation Plan Information is incorporated herein by reference in Part II, Item 5 of this Annual Report on Form 10-KSB.

### Item 12. Certain Relationships and Related Transactions.

Steven Rotman is the father, and Leslie Rotman is the mother, of Gregory Rotman, President of the Company, and Richard Rotman, CFO/Vice President/Secretary of the Company. The Company entered into a number of transactions over the past two years with both Steven Rotman and Leslie Rotman. Management believes that these transactions are fair and reasonable to the Company and no less favorable than could have been obtained by an unaffiliated third party.

In December 2001, the Company engaged Steven Rotman to provide consulting services to the Company. Steven Rotman did not provide any consulting services in 2005. However, during 2005, for consulting fees owed and for consulting services provided prior to 2005, including \$160,000 in fees and services provided in 2004, the Company paid Steven Rotman \$251,659 in the form of options to purchase 1,264,630 shares of common stock of the Company pursuant to the Company's 2001 Non-Qualified Stock Option Plan. Under the 2001 Non-Qualified Stock Option Plan employees and consultants may elect to receive their gross compensation in the form of options 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.

In 2002, the Company obtained private financing from Mr. Steven Rotman in the aggregate amount of \$115,000 at an 8% interest rate, and borrowed an additional \$15,000 in 2003, all of which was outstanding in 2004. In 2005, the Company repaid \$50,000, but continues to owe Steven Rotman \$80,000 in principal, and \$33,833 in interest, including \$10,267 in interest which accrued in 2005.

In 2004, the Company acquired approximately \$110,000 of memorabilia for sale from Mr. Steven Rotman.

On May 9, 2005, the Company entered into a Settlement Agreement and Mutual Release with Leslie Rotman ("Seller") to settle all outstanding disputes regarding the value paid and the value received in the 2001 transaction in which Seller, Rotman Collectibles, Inc., and the Company entered into an Agreement and Plan of Merger, pursuant to which Rotman Collectibles, Inc., a Massachusetts corporation, was merged into the Company's Delaware subsidiary, now named Rotman Collectibles, Inc. To settle any possible differences or disputes between the value paid and the value received, Seller delivered 2,000,000 shares of the Company's common stock into escrow, with a fair market value of \$600,000 based on the closing bid price of \$.30 on May 6, 2005 (as set forth in the Settlement Agreement and Mutual Release) and granted the Company an option to purchase the shares for \$.001 per share. The option is assignable by the Company and expires one year from the date of grant. The related \$600,000 settlement gain has been apportioned between other income in the amount \$340,500, representing the amount attributable to goods sold in prior years and \$259,500 as reductions of inventory cost at January 1, 2005. Also included in other income is the effect of reducing the \$130,000 reserve related to the movie poster inventory at January 1, 2005. During 2005 the Company assigned options to purchase 375,000 shares of stock from Leslie Rotman to certain individuals in exchange for \$96,885.

On September 8, 2005, the Company entered into an Asset Purchase Agreement for the purchase of approximately \$1,010,000 of memorabilia for sale from Leslie Rotman, the mother of Richard and Greg Rotman, in exchange for 6,433,121 shares of restricted common stock valued at \$.157.

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Item 13. Exhibits, List and Reports on Form 8-K.

(a) Exhibits.

Exhibits are numbered in accordance with Item 601 of Regulation S-B.

Exhibit No. -----	Description of Exhibits -----
3.1	Certificate of Incorporation, as amended (incorporated by reference to Exhibit 3.1 to Form 8-K, filed on November 25, 2003)
3.2	Amended and Restated Bylaws (incorporated by reference to Exhibit 3.2 to Form 8-K, filed on December 8, 2004)
4.1	Specimen of certificate for Common Stock (incorporated by reference to Exhibit 4.1 to Form SB-2/A filed on December 1, 2000)
4.2	Convertible Promissory Note dated March 23, 2000 issued to Augustine Fund, LP pursuant to Securities Purchase Agreement (incorporated by reference to Exhibit 10.3 to Form 10-KSB filed on April 14, 2000)
4.3	Convertible Promissory Note, dated November 7, 2001, issued to Augustine Fund, L.P., pursuant to Loan Agreement (incorporated by reference from Exhibit 4.2 to Form 8-K filed on November 21, 2001)
4.4	Modification Agreement dated September 19, 2000 between the Company and Augustine Fund, L.P. (incorporated by reference to Exhibit 4.7 to Form S-3 filed on October 25, 2000).
4.5	Amended Modification Agreement dated July 15, 2001, between the Company and Augustine Fund, L.P. (incorporated by reference from Exhibit 4.10 to Form SB-2/A filed on August 8, 2001)
4.6	Second Amended Modification Agreement dated August 30, 2001 between the Company and Augustine Fund, L.P. (incorporated by reference from Exhibit 4.11 to Form SB-2 filed on August 31, 2001)
4.7	Third Amended Modification Agreement dated May 21, 2002 between the Company and Augustine Fund, L.P. (incorporated by reference from Exhibit 4.1 to Form 10-QSB/A filed on August 14, 2002)
4.8	Modification Agreement dated May 21, 2002 between the Company and Augustine Fund, L.P. (incorporated by reference from Exhibit 4.2 to Form 10-QSB/A filed on August 14, 2002)
4.9	Second Modification Agreement dated October 31, 2003 between the Company and Augustine Fund, L.P. (incorporated by reference from Exhibit 4.10 to Form 10-KSB filed on

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March 30, 2004)

- 4.10 Third Modification Agreement dated October 15, 2005 between the Company and Augustine Fund, L.P.\*
- 4.11 Warrant issued by the Registrant to Delano Group Securities, LLC (expired March 2005) (incorporated by reference to Exhibit 10.7 to Form 10-KSB filed on April 14, 2000).
- 4.12 Warrant dated March 23, 2000 issued to Augustine Fund, LP pursuant to Securities Purchase Agreement (expired March 2005) (incorporated by reference to Exhibit 10.4 to Form 10-KSB filed on April 14, 2000)
- 10.1 1999 Stock Option Plan (incorporated by reference to Exhibit 10.2 to Form SB-2/A filed on December 1, 2000)
- 10.2 1999 Omnibus Share Plan (incorporated by reference to Exhibit 10.3 to Form SB-2/A filed on December 1, 2000)
- 10.3 2001 Non-Qualified Stock Option Plan, as amended (incorporated by reference from Exhibit 99.1 to Form S-8 filed on September 5, 2003)
- 10.4 2002 Stock Option Plan (incorporated by reference from Exhibit 10.17 to Form 10-KSB filed on March 31, 2003)
- 10.5 Securities Purchase Agreement dated March 23, 2000 between the Company and Augustine Fund, LP. (incorporated by reference to Exhibit 10.2 to Form 10-KSB filed on April 14, 2000)
- 10.6 Loan Agreement, dated November 7, 2001, by and between Augustine Fund, L.P. and the Company (incorporated by reference from Exhibit 10.1 to Form 8-K filed on November 21, 2001)

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- 10.7 Loan Agreement dated May 21, 2002 between the Company and Augustine Fund, L.P. (incorporated by reference from Exhibit 10.1 to Form 10-QSB/A filed on August 14, 2002)
- 10.8 Agreement and Plan of Merger between the Company, Rotman Collectibles, Inc. and Leslie Rotman dated October 23, 2001 (incorporated by reference from Exhibit 2.1 to Form 8-K filed on November 21, 2001)
- 10.9 Asset Purchase Agreement dated September 8, 2005 between the Company and Leslie Rotman (incorporated by reference from Exhibit 10 to Form 10-QSB filed on November 14, 2005)
- 10.10 Settlement Agreement and Mutual Release dated May 9, 2005 between the Company and Leslie Rotman (incorporated by reference to Exhibit 10.1 to Form 10-QSB filed on May 13, 2005)
- 10.11 Escrow Agreement dated May 9, 2005 between the Company, Leslie Rotman, and Escrow Agent (incorporated by reference



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to Exhibit 10.2 to Form 10-QSB filed on May 13, 2005)

21	Subsidiaries of the Registrant (included in Item I)*
23	Consent of Carlin, Charron & Rosen, LLP*
31.1	CEO Certification required under Section 302 of Sarbanes-Oxley Act of 2002*
31.2	CFO Certification required under Section 302 of Sarbanes-Oxley Act of 2002*
32	CEO and CFO Certification required under Section 906 of Sarbanes-Oxley Act of 2002*
99	Risk Factors*

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\* filed herewith

(b) Reports on Form 8-K.

The Company did not file any reports on Form 8-K during the last quarter of 2005.

### Item 14. Principal Accountant Fees and Services.

**Audit Fees.** The aggregate fees billed by Carlin, Charron & Rosen, LLP for the audit of the Company's annual consolidated financial statements for the fiscal year ended December 31, 2005 and 2004, and the reviews of the consolidated financial statements included in the Corporation's Forms 10-QSB for fiscal years 2005 and 2004, were \$52,500 and \$50,000, respectively.

**Audit Related Fees.** There were no fees billed to the Company by Carlin, Charron & Rosen, LLP in either of the past two fiscal years for assurance and related services that are reasonably related to the performance of the audit or review of the Company's financial statements.

**Tax Fees.** There were no fees billed to the Company by Carlin, Charron & Rosen, LLP in either of the past two fiscal years for professional services for tax compliance, tax advice, and tax planning.

**All Other Fees.** There were no fees billed to the Company by Carlin, Charron & Rosen, LLP for any other services for the past two fiscal years.

The Audit Committee approves all audit and audit-related fees. The Audit Committee is required to pre-approve all non-audit services to be performed by the auditor. The percentage of hours expended on the principal accountant's engagement to audit the Company's financial statements for the most recent fiscal year that were attributed to work performed by persons other than the principal accountant's full-time, permanent employees was 0%.

### SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

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PAID, INC.

By: /s/ Gregory Rotman

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Gregory Rotman, President

Date: March 31, 2006

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

/s/ Gregory Rotman

-----  
Gregory Rotman, President and Director

Date: March 31, 2005

/s/ Richard Rotman

-----  
Richard Rotman, Vice President, Treasurer,  
Secretary and Director

Date: March 31, 2006

/s/ Andrew Pilaro

-----  
Andrew Pilaro, Director

Date: March 31, 2006

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PAID, INC. AND SUBSIDIARY  
DECEMBER 31, 2005 AND 2004  
AUDITED CONSOLIDATED FINANCIAL STATEMENTS

Report of Independent Registered Public Accounting

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders of Paid, Inc.

We have audited the accompanying consolidated balance sheets of Paid, Inc. and subsidiary (the Company) as of December 31, 2005 and 2004, and the related consolidated statements of operations, shareholders' deficit and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion of the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Paid, Inc. and subsidiary as of December 31, 2005 and 2004, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the consolidated financial statements, the Company has incurred recurring losses and has a shareholders' deficit at December 31, 2005. These conditions raise substantial doubt about the Company's ability to continue as a going concern. Management's plans regarding those matters are also described in Note 2. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Westborough, Massachusetts  
March 17, 2006

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PAID, INC. AND SUBSIDIARY  
CONSOLIDATED BALANCE SHEETS  
DECEMBER 31,

ASSETS

2005  
----

2004  
----

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Current assets:		
Cash and cash equivalents	\$ 1,502,987	\$ 43,
Accounts receivable	72,317	45,
Inventories, net	1,364,248	624,
Investment in call options	300,625	
Deferred expenses	556,250	
Prepaid expenses	67,981	125,
Due from employees	66,558	55,
Other current assets	9,073	9,
	-----	-----
Total current assets	3,940,039	903,
Property and equipment, net	256,244	172,
Other intangible assets, net	33,290	688,
	-----	-----
Total assets	\$ 4,229,573	\$ 1,764,
	=====	=====
LIABILITIES AND SHAREHOLDERS' DEFICIT		
Current liabilities:		
Notes payable	\$ 130,000	\$ 290,
Accounts payable	275,336	164,
Accrued expenses	1,077,081	991,
Deferred revenues	2,305,278	
	-----	-----
Total current liabilities	3,787,695	1,446,
	-----	-----
Long term liabilities:		
Convertible debt	1,150,000	2,398,
	-----	-----
Shareholders' deficit:		
Common stock, \$.001 par value, 350,000,000 shares authorized; 200,405,555 and 173,320,731 shares issued and outstanding at December 31, 2005 and 2004, respectively	200,406	173,
Additional paid-in capital	25,575,959	21,166,
Accumulated deficit	(26,484,487)	(23,383,
Unearned compensation	--	(35,
	-----	-----
Total shareholders' deficit	(708,122)	(2,079,
	-----	-----
Total liabilities and shareholders' deficit	\$ 4,229,573	\$ 1,764,
	=====	=====

See accompanying notes to consolidated financial statements

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	2005 ----	2004 ----
Revenues	\$ 4,920,123	\$ 1,852,545
Cost of revenues	3,432,623 -----	1,162,953 -----
Gross profit	1,487,500 -----	689,592 -----
Operating expenses:		
Selling, general, and administrative expenses	4,016,219	3,492,264
Website development costs	545,171 -----	779,811 -----
Total operating expenses	4,561,390 -----	4,272,075 -----
Loss from operations	(3,073,890) -----	(3,582,483) -----
Other income (expense):		
Interest expense	(294,822)	(497,320)
Loss on call options	(202,490)	--
Other income	470,550 -----	69 -----
Total other expense, net	(26,762) -----	(497,251) -----
Loss before income taxes	(3,100,652)	(4,079,734)
Provision for income taxes	-- -----	-- -----
Net loss	\$ (3,100,652) =====	\$ (4,079,734) =====
Loss per share (basic and diluted)	\$ (0.02) =====	\$ (0.02) =====
Weighted average shares	184,008,727 =====	163,762,845 =====

See accompanying notes to consolidated financial statements

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PAID, INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' DEFICIT  
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

Common stock

Additional

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	----- Shares -----	----- Amount -----	----- Paid-in Capital -----	----- Accumula defici -----
Balance, December 31, 2003	159,100,228	\$159,100	\$17,832,123	\$(19,304,
Compensatory stock options granted	--	--	195,000	
Amortization of stock-based compensation	--	--	--	
Issuance of common stock pursuant to exercise of stock options granted to employees for services	800,679	801	192,714	
Common stock issued in payment of professional and consulting fees	4,240,573	4,241	1,043,743	
Common stock issued in payment of interest on convertible debt	3,924,905	3,925	311,300	
Common stock issued in connection with acquisition of assets of K-sports & Entertainment, LLC	195,313	195	62,305	
Conversions of notes payable	4,882,783	4,883	931,705	
Proceeds from assignment of call options	--	--	573,060	
Exercise of stock options	176,250	176	--	
Beneficial conversion discount	--	--	24,384	
Net loss	--	--	--	(4,079,
	-----	-----	-----	-----
Balance, December 31, 2004	173,320,731	173,321	21,166,334	(23,383,
Common stock issued pursuant to exercise of stock options granted to employees for services	1,561,315	1,561	310,119	
Common stock issued in payment of professional and consulting fees	7,064,926	7,065	1,278,765	
Common stock issued in payment of interest	1,057,966	1,058	136,103	
Common stock issued in payment of note payable	761,905	762	159,238	
Stock options exercised	536,364	536	--	
Common stock issued for payment of convertible debt	9,469,227	9,470	1,342,422	
Issuance of common stock	200,000	200	29,800	
Amortization of unearned compensation	--	--	--	
Common stock issued for inventory	6,433,121	6,433	1,003,567	

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Proceeds from sale of warrants	--	--	50,000	
Proceeds from assignment of call options	--	--	99,611	
Net loss	--	--	--	(3,100,652)
	-----	-----	-----	-----
Balance, December 31, 2005	200,405,555	\$200,406	\$25,575,959	\$(26,484,652)
	=====	=====	=====	=====

See accompanying notes to consolidated financial statements

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PAID, INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31,

	2005
	----
Operating activities:	
Net loss	\$(3,100,652)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:	
Depreciation and amortization	805,752
Settlement Agreement and Mutual Release - call options	(470,500)
Amortization of unearned compensation	35,000
Beneficial conversion feature	103,871
Loss on call options	202,490
Common stock issued in payment of professional and consulting fees	1,285,830
Issuance of common stock pursuant to exercise of stock options granted to employees for services	311,680
Common stock issued in payment of interest	137,161
Compensatory stock options granted	--
Changes in assets and liabilities:	
Accounts receivable	(26,578)
Inventories	140,334
Deferred expenses	(556,250)
Prepaid expense and other current assets	46,297
Accounts payable	110,507
Accrued expenses	85,885
Deferred revenue	2,305,278
	-----
Net cash provided by (used in) operating activities	1,416,105
	-----
Investing activities:	
Proceeds from assignment of call options	96,885
Property and equipment additions	(233,708)
Cash paid for assets of K Sports & Entertainment, LLC	--
	-----
Net cash used in investing activities	(136,823)
	-----

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Financing activities:

Net proceeds from notes payable	250,000
Payments of notes payable	(250,000)
Proceeds from sale of warrants	50,000
Proceeds from sale of common stock	30,000
Proceeds from convertible debt	--
Proceeds from assignment of call options	99,611
Proceeds from exercise of stock options	536
	-----
Net cash provided by financing activities	180,147
	-----
Net increase (decrease) in cash and cash equivalents	1,459,429
Cash and cash equivalents, beginning	43,558
	-----
Cash and cash equivalents, ending	\$ 1,502,987
	=====

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Cash paid during the year for:

Income taxes	\$ --
	=====
Interest	\$ 2,184
	=====

See accompanying notes to consolidated financial statements

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

Note 1. Organization

Paid, Inc. and subsidiary (the "Company") provides businesses and clients with marketing, management, merchandising, auction management, website hosting, and authentication and consignment services for the entertainment, sports and collectibles industries.

On October 7, 2004 the Company acquired operating assets of K Sports & Entertainment LLC ("K Sports") comprised of accounts receivable totaling \$114,550, property and equipment valued at \$5,550 and intangible assets comprised of contract rights, valued at \$54,900. The purchase price, totaling \$175,000, was paid with 195,313 unregistered shares of Company stock, valued at \$62,500, \$50,000 in cash, and a commitment to issue an additional 195,312 unregistered shares of company stock, valued at \$62,500 on October 7, 2005. Such shares remain unissued at December 31, 2005. K Sports operated as a sports agency business and is expected to supplement and enhance the Company's celebrity services offerings.

Note 2. Management's Plans



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The Company has continued to incur significant losses. For the years ended December 31, 2005 and 2004 the Company reported losses of approximately \$3,100,000 and \$4,100,000, respectively.

To date the Company has met its cash needs from the proceeds of convertible debt and the assignment of call options discussed in Note 7.

Management anticipates growth in revenues and gross profits in 2006 from its celebrity services products and websites; including memberships, fan experiences and ticketing, appearances, and merchandise sales. In addition, "AuctionInc" which hosts a suite of management tools and enhanced shipping calculator solutions for small ecommerce enterprises, sales of movie posters, both from inventory and on consignment, and web hosting are expected to increase revenues and result in higher total gross profit.

A 2005 Settlement Agreement provided the Company with call options for approximately 2 million shares of the Company's common stock. As of December 31, 2005 the Company still held call options for 1,625,000 shares of common stock, which expire on May 9, 2006. Assignment of these call options is expected to produce between \$195,000 and \$585,000 based solely upon 52 week high and low closing prices of the Company's common stock.

Although there can be no assurances, the Company believes that the above anticipated additional revenues, and additional financing will be sufficient to meet the Company's working capital requirements through the end of 2006.

### Note 3. Summary Of Significant Accounting Policies

#### Principles of consolidation

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

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#### Cash and cash equivalents

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

#### 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 December 31, 2005 and 2004 the Company has provided for reserves totaling \$50,000 and \$300,000, respectively.

#### Investment in call options

The Company accounts for investment in call options in accordance with EITF 96-18, "Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services". Accordingly, call options are recorded at fair value, determined by the closing

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price of the Company's common stock, on the date they are received and adjusted to fair value at the balance sheet date. Any realized or unrealized gains or losses are recorded in other income (expense).

### 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" ("EITF 00-2"), which requires that costs incurred in planning, maintaining, and operating stages that do not add functionality to the site be charged to operations as incurred. External costs incurred in the site application and infrastructure development stage and graphic development are capitalized. Such capitalized costs are included in "Property and equipment." During the year ended December 31, 2005 the Company capitalized approximately \$200,000 of website development costs. During the year ended December 31, 2004 the Company capitalized approximately \$65,000 of website development costs.

### Property and Equipment

Property and equipment are stated at cost. Depreciation is computed using the straight line and double declining balance method over the estimated useful lives of 3 to 5 years.

### Intangible Assets

Intangible assets are being amortized on a straight-line basis over estimated useful lives of two to seventeen years.

The Company accounts for intangible assets in accordance with Financial Accounting Standards Board Statement No. 142 "Goodwill and Other Intangible Assets" (SFAS No. 142). SFAS No. 142 addresses the initial recognition and measurement of intangible assets acquired outside of a business combination and the accounting for goodwill and other intangible assets subsequent to acquisition. SFAS No. 142 provides that intangible assets with finite lives be amortized and that goodwill and intangible assets with indefinite lives not be amortized, but rather be tested at least annually for impairment.

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### Revenue Recognition

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

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

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

For sales of merchandise owned and warehoused by the Company, the Company is responsible for conducting the auction, billing the customer, shipping the merchandise to the customer, processing customer returns and collecting accounts

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receivable. The Company recognizes revenue upon verification of the credit card transaction and shipment of the merchandise, discharging all obligations of the Company with respect to the transaction.

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

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

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

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

### 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 are reported as an expense.

### Advertising Costs

Advertising costs totaling approximately \$85,700 in 2005 and \$99,500 in 2004, are charged to expense when incurred.

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### Fair Value of Financial Instruments

Cash and cash equivalents, accounts receivable, accounts payable and accrued expenses - The carrying amount of these financial instruments approximates fair value because of the short-term nature of these instruments.

Notes payable - The carrying amount of these financial instruments approximates fair value as the interest rate approximates market rates.

Convertible debt - The carrying amount of these financial instruments approximates fair value as the interest rates approximate market rates.

### Concentrations of Credit Risk

The Company's financial instruments that are exposed to concentrations of credit risk consist primarily of cash and cash equivalents and accounts receivable.

Cash and cash equivalents - The Company places its cash and cash equivalents with high credit quality institutions.

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Accounts receivable - The Company maintains receivable balances with certain of its customers and typically does not require collateral. The Company reviews a customer's credit history before extending credit and establishes an allowance for doubtful accounts based upon periodic reviews of the credit risk of specific customers and other information, if necessary. Based on experience to date, potential credit losses are considered minimal.

### Income Taxes

Income taxes are accounted for under the liability method. Under this method, deferred income taxes are provided for temporary differences between the financial reporting and the tax bases of assets and liabilities and are measured using enacted laws and rates that will be in effect when the differences are expected to reverse. A valuation allowance is provided when management believes it is more likely that not that some or all of the deferred tax assets will not be realized.

### Use of Estimates

In preparing consolidated financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheets and reported amounts of revenue and expenses during the reporting periods. Material estimates that are particularly susceptible to significant change in the near term relate to inventories, intangible assets and deferred tax asset valuation. Although these estimates are based on management's knowledge of current events and actions, they may ultimately differ from actual results.

### Stock Compensation Plans

The Company accounts for stock based employee compensation in accordance with Statement of Financial Accounting Standards (SFAS) No. 148, "Accounting for Stock Based Compensation - Transition and Disclosure". SFAS No. 148 amends SFAS No. 123, "Accounting for Stock-Based Compensation" to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation and requires prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results.

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Although SFAS Nos. 123 and 148 encourage all entities to adopt a fair value based method of accounting for employee stock compensation plans, they also allow an entity to continue to measure compensation cost for those plans using the intrinsic value based method of accounting prescribed by Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees", whereby compensation cost is the excess, if any, of the quoted market price of the stock at the grant date (or other measurement date) over the amount an employee must pay to acquire the stock. Stock options issued under the Company's stock option plans typically have no intrinsic value at the date of grant, and under Opinion No. 25 no compensation cost is recognized for them. The Company has elected to continue with the accounting methodology in Opinion No. 25 and has provided proforma disclosures, in accordance with SFAS No 148, of net income and earnings per share as if the fair value based method of accounting had been applied (refer to note 7).

### Earnings Per Common Share

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Basic earnings per share represents income available to common stockholders divided by the weighted-average number of common shares outstanding during the period. Diluted earnings per share reflects additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. Potential common shares that may be issued by the Company relate to convertible debt and outstanding stock options and warrants. The number of common shares that would be issued upon conversion of the convertible debt would have been 8,518,519 as of December 31, 2005 and 12,447,224 as of December 31, 2004. The number of common shares that would be included in the calculation of outstanding options and warrants is determined using the treasury stock method. The assumed conversion of outstanding dilutive stock options and warrants would increase the shares outstanding but would not require an adjustment of income as a result of the conversion. Stock options and warrants applicable to 27,165,054 shares and 26,101,418 shares at December 31, 2005 and 2004, respectively, have been excluded from the computation of diluted earnings per share, as have the common shares that would be issued upon conversion of the convertible debt, because they were antidilutive. Diluted earnings per share have not been presented as a result of the Company's net loss for each year.

### Asset Impairment

In accordance with SFAS No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets", long lived assets to be held and used by the Company are reviewed to determine whether any events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. For long-lived assets to be held and used, the Company bases its evaluation on such indicators as the economic benefits of the assets, any historical or future profitability measurements, a review of estimated useful lives, as well as other external market conditions or factors that may be present. If such impairment indicators are present or other factors exist that indicate that the carrying amount of the asset may not be recoverable, the Company determines whether an impairment has occurred through the use of an undiscounted cash flow analysis of assets at the lowest level for which identifiable cash flow exist. If impairment has occurred, the Company recognizes a loss for the difference between the carrying amount and the estimated value of the asset. The fair value of the asset is measured using an estimate of discounted cash flow analysis.

### Recent Accounting Pronouncements

In December 2004, the FASB issued SFAS No. 123R, "Share-Based Payment," a revision of SFAS No. 123, "Accounting for Stock-Based Compensation" and superseding APB Opinion No. 25, "Accounting for Stock Issued to Employees." SFAS No. 123R requires the Company to expense grants made under stock option and employee stock purchase plans. The cost will be recognized over the vesting period of the plans. SFAS No. 123R is effective for the first interim or annual period beginning after June 15, 2005. SFAS 123R is effective for the Company beginning January 1, 2006 at which time the Company will adopt the modified prospective transition method. SFAS 123R is not expected to have a material impact on the financial statements at the time of adoption.

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In November 2004, the FASB issued SFAS No. 151, "Inventory Costs," an amendment of ARB No. 43, Chapter 4, "Inventory Pricing". This statement clarifies that abnormal amounts of idle facility expense, freight, handling costs, and wasted materials (spoilage) should be recognized as current-period charges and requires the allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. The provisions of SFAS No. 151 are effective for inventory costs incurred during fiscal years beginning

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after June 15, 2005. The Company does not produce products and therefore, does not expect adoption of this standard to have a material impact on its financial position, results of operations and cash flow.

In May 2005, the Financial Accounting Standards Board issued SFAS No. 154, "Accounting Changes and Error Corrections" (SFAS No. 154), which replaces APB Opinion No. 20, "Accounting Changes and SFAS No. 3, "Reporting Accounting Changes in Interim Financial Statements - An Amendment of APB Opinion No. 28". SFAS No. 154 provides guidance on the accounting for and reporting of accounting changes and error corrections. It establishes retrospective application, to prior years' financial statements, as the required method for reporting a change in accounting principle and the reporting of an error unless it is not practical to do so. SFAS No. 154 is effective for accounting changes and a correction of errors made in fiscal years beginning after December 15, 2005 and is required to be adopted by the Company in the first quarter of 2006.

### Note 4. Property and Equipment

At December 31, property and equipment consisted of the following:

	2005	2004
	----	----
Computer equipment and software	\$ 905,179	\$ 871,467
Office furniture	61,927	61,927
Video and article archives	418,983	418,983
Video equipment	158,513	158,513
Website development cost	908,996	709,000
Purchased software	70,000	70,000
	-----	-----
	2,523,598	2,289,890
Accumulated depreciation	(2,267,354)	(2,117,184)
	-----	-----
	\$ 256,244	\$ 172,706
	=====	=====

Depreciation expense of property and equipment for the years ended December 31, 2005 and 2004 amounted to \$150,200 and \$297,100, respectively.

The Company uses office and warehouse facilities as a tenant at will in a building leased by a related party. No rent has been charged during the years ended December 31, 2005 and 2004.

### Note 5. Intangible Assets

At December 31, intangible assets are comprised of the following:

	2005	2004
	----	----
Software licenses	\$ 2,882,660	\$ 2,882,660
Patent pending	16,000	16,000
Domain names	77,025	77,025
Acquired Websites	762,301	762,301
Customer and user lists	327,157	327,157
Assigned contracts	54,900	54,900
Other	30,763	30,763
	-----	-----
	4,150,806	4,150,806
Accumulated amortization	(4,117,516)	(3,461,934)
	-----	-----
	\$ 33,290	\$ 688,872
	=====	=====

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Amortization expense for intangible assets for the years ended December 31, 2005 and 2004 amounted to \$655,600 and \$780,800, respectively.

Estimated amortization expense for each of the next five years is \$21,000 in 2006 and \$1,000 in each year 2007 to 2010.

Note 6. Accrued Expenses

At December 31, accrued expense are comprised of the following:

	2005	2004
	----	----
Interest	\$ 172,490	\$ 129,635
Payroll and related costs	204,280	167,322
Professional and Consulting fees	134,411	378,210
Consignments	172,782	173,626
Due to K Sports	62,500	62,500
Commissions	300,000	40,000
	30,618	39,903
	-----	-----
Other	\$1,077,081	\$ 991,196
	=====	=====

Note 7. Common Stock

Call Option Agreements

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

During 2004 the Company assigned options to purchase 1,889,000 shares of stock from CSEI to certain individuals in exchange for \$573,000. During January 2005 the remaining 394,565 options were assigned in exchange for approximately \$100,000. The proceeds from the assignment of these options were added to the paid in capital of the Company.

On May 9, 2005, the Company entered into a Settlement Agreement and Mutual Release with Leslie Rotman ("Seller") to settle all outstanding disputes regarding the value paid and the value received in the 2001 transaction in which Seller, Rotman Collectibles, Inc., and the Company entered into an Agreement and Plan of Merger (the "Merger Agreement"), pursuant to which Rotman Collectibles, Inc., a Massachusetts corporation, was merged into the Company's Delaware subsidiary, now named Rotman Collectibles, Inc. Seller is the mother of Gregory Rotman, President of the Company, and Richard Rotman, CFO/Vice President/Secretary of the Company. To settle any possible differences or disputes between the value paid and the value received, Seller delivered 2,000,000 shares of the Company's common stock into escrow, with a fair market value of \$600,000 based on the closing bid price of \$.30 on May 6, 2005 (as set forth in the Settlement Agreement and Mutual Release) and granted the Company an option to purchase the shares for \$.001 per share. The option is

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assignable by the Company and expires one year from the date of grant. The related \$600,000 settlement gain has been apportioned between other income in

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the amount \$340,500, representing the amount attributable to goods sold in prior years and \$259,500 as reductions of inventory cost at January 1, 2005. Also included in other income is the effect of reducing the \$130,000 reserve related to the movie poster inventory at January 1, 2005. During 2005 the Company assigned options to purchase 375,000 shares of stock from Leslie Rotman to certain individuals in exchange for \$96,885. At December 31, 2005, 1,625,000 call options remain outstanding.

### Stock Options

In June 1999, the Company's Board of Directors adopted the 1999 Stock Option Plan (the "1999 Plan") that provides for the issuance of options to directors, officers, employees and consultants of the Company to purchase up to 1,000,000 shares of the Company's common stock. Options granted under the plan may be either incentive stock options or nonqualified stock options. The 1999 Plan provides that each option be granted at a price determined by the Board of Directors on the date such option is granted and have a maximum option term of ten years. The options granted become exercisable during a period of time as specified by the Board of Directors at the date such option is granted.

In 1999, the Company also granted options to purchase 126,000 shares of unrestricted common stock at the stock's fair value on the dates of grant (between \$.8125 and \$1.625 per share).

In October 2002, the Company's Board of Directors adopted the 2002 Stock Option Plan (the "2002 Plan") that provides for the issuance of options to directors, officers, employees and consultants of the Company to purchase up to 30,000,000 shares of the Company's common stock. Options granted under the plan may be either incentive stock options or nonqualified stock options. The 2002 Plan provides that each option be granted at a price determined by the Board of Directors on the date such option is granted and have a maximum option term of ten years. The options granted become exercisable during a period of time as specified by the Board of Directors at the date such option is granted. In 2002 the Company granted options to purchase a total of 25,000,000 restricted shares of common stock to its President, Chief Financial Officer, Chief Technology Officer and a Director at the stock's fair value on the date of grant, \$0.041.

In October 2004, the Company granted options to an employee and a consultant to purchase 635,418 shares of unrestricted common stock at \$.001 per share. 468,750 of these options, valued at \$150,000, were immediately vested while 166,668 vested over a nine-month period. The Company recorded unearned compensation of \$45,000, based on the difference between the fair value of the common stock at the grant date and the exercise price of the options that did not immediately vest. The unearned compensation was amortized over the option's vesting period with \$35,000 and \$10,000 being charged to expense during 2005 and 2004, respectively.

There were no other options granted or cancelled/expired under any plans during 2004 or 2005.

Information pertaining to options outstanding at December 31, 2005 is as follows:

Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisabl



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.81	9,000	3	\$.81	9,000
1.62	57,000	3	1.62	57,000
.001	99,054	9	.001	99,054
.041	25,000,000	7	.041	25,000,000
	-----			-----
Outstanding at end of year	25,165,054		\$.045	25,165,054
	=====			=====

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During July 1999, the Company's Board of Directors adopted, subject to stockholders' approval, the 1999 Omnibus Share Plan (the "Omnibus Plan") that provides for both incentive and non-qualified stock options, stock appreciation rights and other awards to directors, officers, and employees of the Company to purchase or receive up to 1,000,000 shares of the Company's stock. A committee of the Board of Directors ("Committee") establishes the option price at the time each option is granted, which price may, in the discretion of the Committee, be less than 100% of the fair market value of the shares on the date of the grant. Any options granted will have a maximum term of ten years and will be exercisable during a period as specified by the Committee. No options have ever been granted under the Omnibus Plan.

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

During the year ended December 31, 2005 the Company granted options for 8,302,602 shares at various dates aggregating \$1,580,216 under this plan. During the year ended December 31, 2004 the Company granted options for 5,676,670 shares at various dates aggregating \$1,436,499 under this plan. All options except 99,054 shares granted during the 2005 and 2004 were exercised.

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

	Years Ended December 31, -----	
	2005 ----	2004 ----
Net loss		
As reported	\$ (3,100,652)	\$ (4,079,734)
Stock based compensation cost, as reported (net of tax)	35,000	160,000
Stock based compensation cost that would have been included in the determination of net income had the fair value method been applied (net of tax)	(35,000)	(424,450)

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Pro forma	----- \$ (3,100,652) =====	----- \$ (4,344,184) =====
Basic loss per share as reported	\$ (.02)	\$ (.02)
Stock based compensation cost, as reported (net of tax)	--	--
Stock based compensation cost that would have been included in the determination of net income had the fair value method been applied (net of tax)	(.00)	(.01)
Pro forma	----- \$ (.02) =====	----- \$ (.03) =====

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Note 8. Income Taxes

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

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

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

	2005 ----	2004 ----
Federal net operating loss carry forwards	\$ 6,758,000	\$ 6,357,000
State net operating loss carry forwards	1,492,000	1,776,000
	-----	-----
	8,250,000	8,133,000
Valuation reserve	(8,250,000)	(8,133,000)
	-----	-----
Net deferred tax asset	\$ --	\$ --
	=====	=====

The valuation reserve applicable to net deferred tax asset for the years ended December 31, 2005 and 2004 is due to the likelihood of the deferred tax not to be utilized.

At December 31, 2005, the Company has federal and state net operating loss carry forwards of approximately \$20,000,000 and \$16,000,000, respectively, available to offset future taxable income. The state carry-forwards will expire intermittently through 2010, while the federal carry forwards will expire intermittently through 2025.

Note 9. Convertible Debt Financing

As of December 31, 2005 the Company has outstanding \$1,150,000 of convertible

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debt.

On March 23, 2000, the Company entered into a Securities Purchase Agreement (the "Agreement"), whereby the Company sold an 8% convertible note in the amount of \$3,000,000 (the "Series A Note"), due in shares of

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common stock on March 31, 2002 to Augustine Fund, L.P. (the "Buyer"). The Series A Note, as most recently modified on May 21, 2002, provided for the extensions of the maturity date until March 31, 2005. As of December 31, 2005 this note has been paid in full through a series of conversions to common stock. During 2005 the Company received conversion requests for the remaining \$251,892 balance into 1,412,942 common shares at prices ranging from \$.149 to \$.213 per share. During 2004, 2003, and 2002 \$2,748,108, had been converted into 25,314,096 shares of the Company's common stock at conversion prices ranging from \$.028 to \$.375 per share.

The Company entered into a second Loan Agreement, most recently modified in October 2005, whereby it issued an 8% convertible note in the amount of \$2,250,000, due November 7, 2006 (the "Series B Note") to Buyer. The Series B Note is convertible into common stock at a conversion price equal to the lesser of: (1) \$.25 per share, or (2) seventy-three percent (73%) of the average of the closing bid price for the common stock for the five (5) trading days immediately preceding the conversion date. Based upon advances through December 31, 2005 totaling \$2,250,000, had the Buyer converted the series B Note at issuance, Buyer would have received \$3,082,193 in aggregate value of the company's common stock upon conversion of the convertible note. As a result, in accordance with EITF 00-27, the intrinsic value of the beneficial conversion feature of \$832,193 was charged to interest expense over the original two year term of the related note. The beneficial conversion feature that was charged to interest expense totaled \$103,871 and \$291,494 in 2005 and 2004, respectively. The total beneficial conversion discount related to this note was recorded as an increase in additional paid in capital and the unamortized portion as a reduction in the related note.

### Note 10. Notes Payable

At December 31, 2005 the Company was obligated on short-term notes payable totaling \$130,000, of which \$80,000 was to a related party. The related party notes bear interest at 8%, while the remainder bear interest at 10%. The related party debt is due on demand while the remainder is due on May 31, 2006. Interest expense charged to operations in connection with the related party notes totaled \$10,266 in 2005.

At December 31, 2004, the Company was obligated on short-term notes payable totaling \$290,000, of which \$130,000 was to a related party. The related party notes bear interest at 8%, while the remainder bore interest at 12% to 18%. In addition, with respect to the third party debt, the Company issued 125,000 unregistered shares of stock valued at \$17,500 as an origination fee. All of this short-term debt was due on demand. Interest expense charged to operations in connection with the related party notes totaled \$10,967 in 2004.

### Note 11. Related party transactions

During the year ended December 31, 2004 the Company acquired approximately \$110,000 of memorabilia for sale from Steven Rotman, the father of Richard and Greg Rotman.

### Note 12. Issuance of Common Stock

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During 2005 the Company purchased \$1,010,000 of memorabilia for sale from Leslie Rotman, the mother of Richard and Greg Rotman in exchange for 6,433,121 shares of restricted stock valued at \$.157.

During 2005 and 2004 the Company issued 1,019,871 and 3,924,905 shares of common stock, respectively, in connection with the payment of \$129,161 and \$315,225, respectively, of interest due on its convertible debt.

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### EXHIBIT INDEX

Exhibit No. -----	Description of Exhibits -----
3.1	Certificate of Incorporation, as amended (incorporated by reference to Exhibit 3.1 to Form 8-K, filed on November 25, 2003)
3.2	Amended and Restated Bylaws (incorporated by reference to Exhibit 3.2 to Form 8-K, filed on December 8, 2004)
4.1	Specimen of certificate for Common Stock (incorporated by reference to Exhibit 4.1 to Form SB-2/A filed on December 1, 2000)
4.2	Convertible Promissory Note dated March 23, 2000 issued to Augustine Fund, LP pursuant to Securities Purchase Agreement (incorporated by reference to Exhibit 10.3 to Form 10-KSB filed on April 14, 2000)
4.3	Convertible Promissory Note, dated November 7, 2001, issued to Augustine Fund, L.P., pursuant to Loan Agreement (incorporated by reference from Exhibit 4.2 to Form 8-K filed on November 21, 2001)
4.4	Modification Agreement dated September 19, 2000 between the Company and Augustine Fund, L.P. (incorporated by reference to Exhibit 4.7 to Form S-3 filed on October 25, 2000).
4.5	Amended Modification Agreement dated July 15, 2001, between the Company and Augustine Fund, L.P. (incorporated by reference from Exhibit 4.10 to Form SB-2/A filed on August 8, 2001)
4.6	Second Amended Modification Agreement dated August 30, 2001 between the Company and Augustine Fund, L.P. (incorporated by reference from Exhibit 4.11 to Form SB-2 filed on August 31, 2001)
4.7	Third Amended Modification Agreement dated May 21, 2002 between the Company and Augustine Fund, L.P. (incorporated by reference from Exhibit 4.1 to Form 10-QSB/A filed on August 14, 2002)
4.8	Modification Agreement dated May 21, 2002 between the Company and Augustine Fund, L.P. (incorporated by

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reference from Exhibit 4.2 to Form 10-QSB/A filed on August 14, 2002)

- 4.9 Second Modification Agreement dated October 31, 2003 between the Company and Augustine Fund, L.P. (incorporated by reference from Exhibit 4.10 to Form 10-KSB filed on March 30, 2004)
- 4.10 Third Modification Agreement dated October 15, 2005 between the Company and Augustine Fund, L.P.\*
- 4.11 Warrant issued by the Registrant to Delano Group Securities, LLC (expired March 2005) (incorporated by reference to Exhibit 10.7 to Form 10-KSB filed on April 14, 2000).
- 4.12 Warrant dated March 23, 2000 issued to Augustine Fund, LP pursuant to Securities Purchase Agreement (expired March 2005) (incorporated by reference to Exhibit 10.4 to Form 10-KSB filed on April 14, 2000)
- 10.1 1999 Stock Option Plan (incorporated by reference to Exhibit 10.2 to Form SB-2/A filed on December 1, 2000)
- 10.2 1999 Omnibus Share Plan (incorporated by reference to Exhibit 10.3 to Form SB-2/A filed on December 1, 2000)
- 10.3 2001 Non-Qualified Stock Option Plan, as amended (incorporated by reference from Exhibit 99.1 to Form S-8 filed on September 5, 2003)
- 10.4 2002 Stock Option Plan (incorporated by reference from Exhibit 10.17 to Form 10-KSB filed on March 31, 2003)
- 10.5 Securities Purchase Agreement dated March 23, 2000 between the Company and Augustine Fund, LP. (incorporated by reference to Exhibit 10.2 to Form 10-KSB filed on April 14, 2000)
- 10.6 Loan Agreement, dated November 7, 2001, by and between Augustine Fund, L.P. and the Company (incorporated by reference from Exhibit 10.1 to Form 8-K filed on November 21, 2001)
- 10.7 Loan Agreement dated May 21, 2002 between the Company and Augustine Fund, L.P. (incorporated by reference from Exhibit 10.1 to Form 10-QSB/A filed on August 14, 2002)
- 10.8 Agreement and Plan of Merger between the Company, Rotman Collectibles, Inc. and Leslie Rotman dated October 23, 2001 (incorporated by reference from Exhibit 2.1 to Form 8-K filed on November 21, 2001)
- 10.9 Asset Purchase Agreement dated September 8, 2005 between the Company and Leslie Rotman (incorporated by reference from Exhibit 10 to Form 10-QSB filed on November 14, 2005)
- 10.10 Settlement Agreement and Mutual Release dated May 9, 2005 between the Company and Leslie Rotman (incorporated by reference to Exhibit 10.1 to Form 10-QSB filed on May 13, 2005)

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10.11	Escrow Agreement dated May 9, 2005 between the Company, Leslie Rotman, and Escrow Agent (incorporated by reference to Exhibit 10.2 to Form 10-QSB filed on May 13, 2005)
21	Subsidiaries of the Registrant (included in Item I)*
23	Consent of Carlin, Charron & Rosen, LLP*
31.1	CEO Certification required under Section 302 of Sarbanes-Oxley Act of 2002*
31.2	CFO Certification required under Section 302 of Sarbanes-Oxley Act of 2002*
32	CEO and CFO Certification required under Section 906 of Sarbanes-Oxley Act of 2002*
99	Risk Factors*

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\* filed herewith