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PAID INC
Form 10-Q
May 12, 2008

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

FORM 10-Q

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

For the quarterly period ended March 31, 2008

COMMISSION FILE NUMBER 0-28720

PAID, INC.
(Exact Name of Registrant as Specified in its Charter)

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

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

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

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

Yes No

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

| | |
|--|---|
| Large accelerated filer <input type="checkbox"/> | Accelerated Filer <input checked="" type="checkbox"/> |
| Non-accelerated filer <input type="checkbox"/> | Smaller reporting company <input type="checkbox"/> |

(Do not check if a smaller reporting company)

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

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

Paid, Inc.
and Subsidiary
Form 10-Q
For the Three Months ended March 31, 2008

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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PAID, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS

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

See accompanying notes to consolidated financial statements

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

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

See accompanying notes to consolidated financial statements

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PAID, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31,

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(Unaudited)

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

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Cash paid during the period for:

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

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See accompanying notes to consolidated financial statements

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

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

See accompanying notes to consolidated financial statements

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

Note 1. Organization and Significant Accounting Policies

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

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retail.

General

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

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

Principles of consolidation

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

Inventories

Inventories consist of collectible merchandise for sale and are stated at the lower of average cost or market on a first-in, first-out (FIFO) method. When a purchase contains multiple copies of the same item, they are stated at average cost.

On a periodic basis management reviews inventories on hand to ascertain if any is slow moving or obsolete. In connection with this review, at both March 31, 2008 and December 31, 2007 the Company provided for reserves totaling \$325,000.

Website Development Costs

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

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Revenue Recognition

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

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

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

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

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

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

Advertising costs

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

Shipping and Handling fees and costs

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

Segment reporting

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

Concentrations

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

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

Share Based Compensation

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

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

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

Earnings Per Common Share

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

Fair value Measurements

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

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

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

Recent Accounting Pronouncements

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

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

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

Note 2. Patent

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

Note 3. Accrued Expenses

Accrued expenses are comprised of the following:

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

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

Note 4. Common Stock

Call Option Agreements

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

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

Warrants

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

Share-based Incentive Plans

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

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

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

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| | Number of shares ----- | average exercise price per share ----- |
|--|---------------------------|--|
| Options outstanding at December 31, 2007 | 24,000,000 | \$.041 |
| Granted | 5,000,000 | \$.415 |
| Exercised | (500,000) | .041 |
| | ----- | |
| Options outstanding at March 31, 2008 | 28,500,000 | \$.106 |
| | ===== | |

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

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

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

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

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

| | Number of shares ----- | Weighted average exercise price per share ----- |
|--|---------------------------|--|
| Options outstanding at December 31, 2007 | 99,054 | \$.001 |
| Granted | 972,433 | .001 |
| Exercised | (972,433) | .001 |
| | ----- | |
| Options outstanding at March 31, 2008 | 99,054 | \$.001 |
| | ===== | |

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

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

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| | | 2008 | |
|----------------------------------|-----------|-------|------------|
| | | ----- | |
| Employee payroll | 5,783 | | \$ 2,308 |
| Consulting and professional fees | 966,650 | | 278,393 |
| | ----- | | ----- |
| Total | 972,433 | | \$ 280,701 |
| | ===== | | ===== |
| | | | |
| | | 2007 | |
| | | ----- | |
| Employee payroll | 276,985 | | \$ 85,038 |
| Consulting and professional fees | 2,480,209 | | 405,927 |
| | ----- | | ----- |
| Total | 2,757,194 | | \$ 490,965 |
| | ===== | | ===== |

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

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

| | 2008 | 2007 |
|--|-------|-------|
| | ----- | ----- |
| Expected term (based upon historical experience) | | |