

PAID INC
Form 10-K
May 15, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended December 31, 2011 or
 Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from _____ to _____
COMMISSION FILE NUMBER 0-28720

(Exact Name of Registrant as Specified in its Charter)

DELAWARE

73-1479833

(State or Other Jurisdiction of Incorporation or
Organization)

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

40 Washington Street, Westborough, Massachusetts 01581

(Address of Principal Executive Offices) (Zip Code)

(617) 861-6050

(Registrant's Telephone Number, Including Area Code)

Securities registered under Section 12(b) of the Act:

None

Securities registered under Section 12(g) of the Act:

Common Stock, \$0.001 Par Value

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes No

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer Accelerated Filer Non-accelerated filer Smaller reporting company

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

The aggregate market value of the common stock held by non-affiliates of the registrant based on the last sale price of such stock as reported by the Over-the-Counter Bulletin Board on June 30, 2011 (the last business day of the Registrant's most recently completed second fiscal quarter) was approximately \$101,275,449

As of May 10, 2012, the registrant had 311,390,478 shares of Common Stock outstanding.

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

PAID, INC.
FORM 10-K
FOR THE YEARS ENDED DECEMBER 31, 2011, 2010, AND 2009

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PART I

Forward Looking Statements

This Annual Report on Form 10-K contains certain forward-looking statements (within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934) regarding the Company and its business, financial condition, results of operations and prospects. Words such as "expects," "anticipates," "intends," "plans," "believes," "seeks," "estimates", "could", "may", "should", "will", "would", and similar expressions or variations of such words are intended to identify forward-looking statements in this report. Additionally, statements concerning future matters such as the development of new services, technology enhancements, purchases 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 be based only on facts and factors currently known by the Company. Further, 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. Thus, actual results and outcomes may differ materially from results and outcomes discussed in this report. Although the Company believes that its plans, intentions and expectations reflected in these forward-looking statements are reasonable, the Company can give no assurance that its plans, intentions or expectations will be achieved. For a more complete discussion of these risk factors, see Item 1A, "Risk Factors".

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.

Except as required by applicable laws, we do not intend to publish updates or revisions of any forward-looking statements we make to reflect new information, future events or otherwise. Readers are urged to review carefully and to consider the various disclosures made by the Company in this 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.

Item 1. Business

Overview

PAID, Inc. (the "Company") was incorporated in Delaware on August 9, 1995. The Company's main web address is located at www.paid.com, which offers updated information on various aspects of our operations. Information contained in the Company's website shall not be deemed to be a part of this Annual Report. The Company's principal executive offices are located at 40 Washington Street, Westborough, Massachusetts 01581, and the Company's telephone number is (617) 861-6050.

We file annual reports on Form 10-K, quarterly reports on Form 10-Q, and current reports on Form 8-K with the Securities and Exchange Commission (the "SEC"). These reports, any amendments to these reports, proxy and information statements and certain other documents we file with the SEC are available through the SEC's website at www.sec.gov or free of charge on our website as soon as reasonably practicable after we file the documents with the SEC. The public may also read and copy these reports and any other materials we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, D.C. 20549. You may obtain information on the operation

of the Public Reference Room by calling the SEC at 1-800-SEC-0330.

Our Business

The Company's primary focus is to provide brand-related services to businesses, celebrity clients in the entertainment industry as well as charitable organizations. PAID's brand management, brand marketing, social media marketing, product design and merchandising, website design; development and hosting services are designed to grow each client's customer base in size, loyalty and revenue generation. We offer entertainers and business entities comprehensive web-presence and related services supporting and managing clients' official websites and fan-community services including e-commerce, VIP ticketing, live event fan experiences, user-generated content, client content publishing and distribution, fan forums, social network

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management, social media marketing, customer data capture, management and analysis. PAID's brand support services also include design and production of print, audio and video promotion marketing materials for client branded products and events. In addition to sourcing, designing and marketing, PAID sells merchandise for celebrities and businesses, through official website stores and other web-based outlets as well as on-tour and retail outlets. Our celebrity services proprietary content management system and our use of both off-the-shelf best of class and proprietary software applications provides an opportunity for our clients to offer a Direct-To-Consumer solution enabling more information, merchandise and experiences directly to their customers and communities while optimizing our ability to capture customer data and build robust customer data-bases for them. We provide business management tools for online retailers, through AuctionInc, which is home to our patented 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.

All the sales for our celebrity and entertainment services, other than retail and tour merchandise, are made through the client's official website and official social network site and PAID's proprietary content managed system. A customer interested in a membership, merchandise, fan experience or ticket 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 a concert or other event. The services offered by a client depend upon the client's desire and willingness to offer different initiatives. Not all clients and customer bases are the same and the Company works closely with its different clients to cater to their unique needs. Our services also include video production, marketing, management, sponsorship, mobile marketing, and website development and management. We provide services for artists and organizations such as Aerosmith, The Moody Blues, Stand Up 2 Cancer, Deep Purple, comedian Ron White, Rockapella and others.

AuctionInc Software. AuctionInc is a suite of online shipping management tools assisting businesses with e-commerce storefronts, shipping solutions, inventory management, and auction processing. The application was designed originally to reduce overhead costs for auction sales, but over time the functionality and core business is strictly focused on shipping calculations. The product does have tools to assist with other aspects of the fulfillment process, but the main purpose of the product is to provide accurate shipping calculations and packaging algorithms that provide customers with the best possible shipping solutions.

The AuctionInc system was originally designed to assist and improve just the Company's sales, 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 Company's technology team focused its attention on the core fundamental piece of the system called the Shipping Calculator. The Company recognized the potential importance of the calculator and filed for a patent before launching it to the public in April of 2001. The Company obtained its first patent on the shipping calculator in January 2008, and the second patent in April 2011. The product is modular based and we continue to develop new tools and products for its customers.

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. Artists can announce tours or other news, sell premium tickets to fan club members, sell merchandise, and other fan experiences. Viral communities and viral marketing are a 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.

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Business Strategy

Our mission is to increase the Company's market share and revenues by providing products and services that grow each of our client's customer bases in size, loyalty and revenue generation. As the Company continues to support our clients in earning more, owning more and keeping more of the business they are responsible for having created in the first place, we continue to strengthen our reputation, add new clients to our client base and share in the increase in revenues across the aggregate of the Company's client roster. Our strategy to achieve our mission is based upon the following:

During 2011 we experienced continued expansion of our Direct-to-Consumer marketing, ecommerce and fulfillment services, celebrity web-hosting, merchandising and fan experience programs. We believe there will be an increase in online and social communities that will create an opportunity for more celebrity web store management, fan community monetization and fulfillment services. It is our view that our services and programs will become more desirable as these communities and social interaction increases. Our proprietary Content Management System was built to handle news, events, ticketing, fan experiences, e-commerce, video, music streaming, mobile services, downloads and forums. Our Customer Relationship Management was developed to facilitate the capture, analysis and management of customer data.

Fulfillment: The Company continues to increase fulfillment services by adding new business relationships to our fulfillment client roster. The Company is increasing new business development efforts - adding experienced sales and marketing personnel, targeting a greater number and wider range of companies in need of fulfillment services. The Company is providing fulfillment services as a partner to companies in a growing sector of commerce, ecommerce and social commerce service providers with ecommerce platforms which facilitate engagement and monetization of consumers via social media networks, distributed affiliate sites, and advertising networks but which do not offer inventory management and pick-pack-ship fulfillment services themselves.

The Company recognizes that fulfillment is a customer-facing service wherein the action of delivering a product to a customer provides the Company with the opportunity to 'touch' the customer multiple times throughout the fulfillment cycle. The Company sees this as an opportunity to incorporate into the fulfillment process increased sales and marketing tools and practices which result in an increase in per-customer purchases and new customer referrals.

Consumer Data Management: The monetization of consumer data continues to prove to be a growing and profitable business practice. The Company manages fan and customer communities also known as affinity groups which are representative of taste-makers and trend-setters whose interests and behaviors are valuable to the Company and the Company's clients as well as to a much greater range of marketers generally. These affinity groups can be quantified and qualified by the Company owing to the Company's established direct-to-consumer communication channels and practices, our robust Customer Relationship Management system and our consumer data analytics capabilities.

Our key objectives include the capture, analysis and monetization of consumer data with both short and longer term goals. We believe that by knowing the consumer better, we are able to turn consumers into customers. By targeting the customer with greater accuracy, delivering messages the customer has expressed interest in receiving, the Company can offer our customers and our clients' customers products and services they want to buy. Doing so reduces cost of sale, enables quicker inventory turns, results in higher margins and profits and also engenders customer trust and loyalty. Customer loyalty provides for a business-to-customer relationship in which the customer is positively inclined to share information about themselves - consumer data. Loyal customers engage in greater numbers and when incited by contests, VIP experiences, various promotions and product discounts, loyal fans/customers are willing to share information about themselves, their likes, dislikes, affiliations and consumer behaviors. The compilation and analysis of this consumer data can be fashioned into a suite of predictive modeling tools and made available as a B-to-B product for marketers of goods and services across a broad range of industries.

Strategic Partnerships: Our growth strategy includes strategic partnerships with music business industry leaders in providing software solutions which enable Direct-To-Consumer ecommerce. We have partnered with these companies to provide inventory management and pick-pack-ship fulfillment services for their clients including- John Legend, Carly Simon, Taye Diggs, as well as breakout indie artists, Fitz and the Tantrums and Silversun Pickups. We also partner with providers of turnkey solutions for their celebrity clients for design, product development, manufacturing and sales in all channels of retail distribution: live events, web stores, sponsorships, and third-party licensing. We provide web store development, ecommerce, inventory management and pick-pack-ship services to their celebrity clients including Slash, Slayer, Alice Cooper, and others.

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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.

In providing our services, our business plan includes the payment of advances to some clients on merchandise and VIP programs and appearances, and recoupment of those advances from the artists' and celebrities' share of profits, as agreed upon in any agreement with the artist or celebrity.

The business strategy described above is intended to enhance our opportunities in the online e-commerce market. However, there are a number of factors that may impact our plans and inhibit our success. See "Risk Factors" included in Item 1A. Therefore, we have no guarantees and can provide no assurances, that our plans will be successful.

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 2011 we added additional sales and marketing personnel and employed cutting edge technology to drive the awareness and to deliver our products and services to a larger audience. Promoting and marketing PAID's celebrity services will continue by using various mediums of marketing; social engine marketing; "adword" campaigns, search engine optimization, email marketing, social media marketing, traditional print media and public relations methods, and presence at industry conferences and trade shows. However, as our celebrity services continue to gain exposure, we have had 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, increasing our CRM capabilities with enhanced marketing services, and continue to invest in our shipping calculator products.

The Company is extending its sales and marketing initiatives by incorporating sales and marketing materials and outreach into fulfillment and customer service activities.

The Company will continue to market AuctionInc throughout 2012. In the past, 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 may 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" included in Item 1A. Therefore, we have no guarantees and can provide no assurances that our plans will be successful.

Revenue Sources

In 2011, our revenues were derived from our online merchandise and fulfillment operations, client services and touring programs. Although we expect that this revenue model will generate increased revenue, if we are not successful in implementing this model, if the entertainment industry and fans do not accept the services we provide, if costs are higher than anticipated, or if revenues do not increase as rapidly as hoped, we may not be able to generate positive cash flow. There are a number of factors that may impact our plans and inhibit our success. See "Risk Factors" included in Item 1A. Therefore, we have no guarantees and can provide no assurances, that our plans will be successful.

Competition

Our web hosting software program, AuctionInc software suite, is proprietary. We received two patents related to our online auction shipping calculator in January 2008 and April 2011. We do not have any other 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 have federally registered the "PAID" and "Rockin' Coffee" marks. We believe that our products and other proprietary rights do not infringe on the

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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. The client websites we build are developed on a Coldfusion proprietary content management and ecommerce engine. We use open source software and technology as well to support the growing social and viral opportunities on the Internet. By using 'best-of-breed' products and tools we can maximize our clients opportunities while minimizing our costs which we are able to pass on to our customers.

Research and Development

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

Employees

The Company currently has 32 full time equivalent employees. We believe that our future success will depend in part on our continued ability to attract, hire and retain qualified personnel. We have no collective bargaining agreements and consider the relationship with our employees to be good.

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 1A. Risk Factors

You should carefully consider the risks and uncertainties described below before deciding to invest in shares of our common stock. If any of the following risks or uncertainties actually occurs, our business, prospects, financial condition and operating results would likely suffer, possibly materially. In that event, the market price of our common stock could decline and you could lose all or part of your investment.

Risks Relating to the Company

We have experienced significant operating losses.

Our business and prospects must be considered in light of the risks, expenses and difficulties that are inherent in our business. The risks include:

- our ability to anticipate and adapt to a developing market;
- our ability to attract new businesses in the entertainment market for our brand-related services;
- our ability to engage musical artists and celebrities and name brands, to service a sustainable fan base for each musical artist and celebrity, and to sell merchandise, VIP tickets, fan experiences and other services;
- dependence upon the level of hits to our artists' sites and on sites that we use to sell our products and services;
- the popularity and success of the artists and name brands who receive our services;
- artist tour activities and fan attendance;
- our ability to recoup any advance paid to an artist or celebrity for merchandise, artist appearances, and VIP programs;
- our ability to engage organizations for web site development and sponsorship;
- our ability to market, license and enforce our patented shipping calculator; and
- development of equal or superior Internet portals, auctions and related services by competitors.

To address these risks, we must, among other things, successfully market celebrities, musical artists, and name brands and service their fan or consumer base, increase traffic to their web sites, maintain our customer base, attract significant numbers of new customers and clients, respond to competitive developments, implement and execute successfully our business strategy and continue to develop and upgrade our technologies and customer services. We

cannot offer any assurances that we will be successful in addressing these risks.

We incurred substantial losses each year since 1999. There can be no assurance that we will be profitable in the

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future.

Our capital is limited and we may need additional financing to continue operations.

We require substantial working capital to fund our business. Additional funds or authorized common stock may be necessary for our Company to continue its operations and to make recoupable advances for merchandise, artist appearances, and VIP programs. If we are unable to obtain financing in the amounts desired and on acceptable terms, or at all, or issue stock, we could be required to reduce significantly the scope of our expenditures or limit our ability to engage an artist, which would have a material adverse effect on our business potential and the market price of our common stock. If we raise additional funds by issuing equity securities, our shareholders will be further diluted. Based on our cash position as of December 31, 2011, we may need additional capital to fund our anticipated operating expenses over the next 12 months. If we require additional funding, there can be no assurances that the financing will be obtained, or if obtained, that funding will be obtained on reasonably acceptable terms.

We are unable to guarantee that the marketplace will accept our software products.

The software markets are characterized by rapid technological change, frequent new product enhancements, uncertain product life cycles, changes in customer demands and evolving industry standards. Our software products could be rendered obsolete if products based on new technologies are introduced or new industry standards emerge, or if we do not obtain adequate intellectual property protection. We are unable to provide any assurances that the marketplace will accept our software products and services, or that we will be able to provide these products and services at a profit. Our operating results are unpredictable and are expected to fluctuate in the future.

You should not rely on the results for any period as an indication of future performance. Our operating results are unpredictable and are expected to fluctuate in the future due to a number of factors, many of which are outside our control. These factors beyond our control include:

our ability to engage well known celebrities, musical artists, and businesses in the entertainment industry with name brands for merchandise sales, web site and fan management, as well as other entities for web site development and sponsorship;

our ability to engage celebrities for ticket sales services;

our ability to significantly increase our customer base and traffic to our web sites, manage our inventory mix and the mix of products offered, liquidate our inventory in a timely manner, maintain gross margins, and maintain customer satisfaction;

our ability to market and sell our software products;

the availability and pricing of merchandise from vendors;

consumer confidence in encrypted transactions in the Internet environment;

the timing, cost and availability of advertising on our web sites and other entities' web sites;

popularity of celebrities;

the amount and timing of costs related to expansion of our operations and the hiring of experienced personnel;

the announcement or introduction of new types of services or products by our competitors;

technical difficulties with respect to consumer and fan use of our web sites;

our ability to make acquisitions of complementary business and technologies;

governmental regulation by federal or local governments; and

general economic conditions and economic conditions specific to the Internet and electronic commerce.

As a strategic response to changes in the competitive environment, we may from time to time make certain service, marketing or supply decisions or acquisitions that could have a material adverse effect on our results of operations and financial condition. In 2011, our revenues were derived from our celebrity services, fulfillment services, and ticketing and fan experiences.

The successful operation of our business depends upon the supply of critical technology elements from other third parties, including our Internet service provider and technology licensors.

Our operations depend on a number of third parties for Internet/telecom access, delivery services, and software services. We have limited control over these third parties and no long-term relationships with any of them. We rely on an Internet service provider to connect our web sites to the Internet. From time to time, we have experienced temporary interruptions in our web sites' connection and also our telecommunications access. We license technology

and related databases from third parties for certain elements of our properties. Furthermore, we are dependent on hardware suppliers for

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prompt delivery, installation, and service of servers and other equipment to deliver our products and services. Our internally developed software depends on an operating system, database and server software that was developed and produced by and licensed from third parties. We have from time to time discovered errors and defects in the software from these third parties and, in part, rely on these third parties to correct these errors and defects in a timely manner. Any errors, failures, interruptions, or delays experienced in connection with these third-party technologies and information services could negatively impact our relationship with users and adversely affect our brand and our business, and could expose us to liabilities to third parties.

We rely on third parties for our order fulfillment, and failures on the part of these third parties could harm our business.

We use overnight courier and delivery services for substantially all of our merchandise and products. We use third party manufacturers to produce our merchandise. Should these vendors be unable to deliver our products for a sustained time period as a result of a strike, war, act of terrorism, business failure, or other reason, our business, results of operations and financial condition would be adversely affected. If, due to computer systems failures or other problems related to these third-party service providers, we experience any delays in shipment, our business, results of operations and financial condition would be adversely affected.

Our failure to manage growth could place a significant strain on our management, operational and financial resources. Growth places a significant strain on our management, operational and financial resources, and has placed significant demands on our management, which currently includes only three executive officers. In order to manage growth, we will be required to expand existing operations, particularly with respect to customer service and merchandising, to improve existing and implement new operational, financial and inventory systems, procedures and controls.

We have experienced a significant strain on our resources because of:

- the need to manage relationships with our clients, including musical artists, businesses in the entertainment industry with name brands, and other celebrities;
- the need to manage relationships with various technology licensors, advertisers, other web sites and services, Internet service providers and other third parties;
- difficulties in hiring and retaining skilled personnel necessary to support our businesses;
- the need to train and manage a growing employee base; and
- pressures for the continued development of our financial and information management systems.

Difficulties we may encounter in dealing successfully with the above risks could seriously harm our operations. We cannot offer any assurance that our current personnel, systems, procedures and controls will be adequate to support our future operations or that management will be able to identify, hire, train, retain, motivate and manage required personnel.

If our acquisitions are not successful, or if we are not able to structure future acquisitions in a financially efficient manner, there could be an adverse effect on our business and operations.

If appropriate opportunities present themselves, we may acquire businesses, technologies, services or products that we believe will help us develop and expand our business. The process of integrating an acquired business, technology, service or product may result in operating difficulties and expenditures which we cannot anticipate and may absorb significant management attention that would otherwise be available for further development of our existing business. Moreover, the anticipated benefits of any acquisition may not be realized. Any future acquisitions of other businesses, technologies, services or products might require us to obtain additional equity or debt financing, which might not be available to us on favorable terms or at all, and might be dilutive. Additionally, we may not be able to successfully identify, negotiate or finance future acquisitions or to integrate acquisitions with our current business.

Our Company's success still depends upon the continued services of its current management and other relationships. We are substantially dependent on the continued services of our management, Gregory Rotman, our President and Chief Executive Officer; Christopher Culross, our Chief Financial Officer, and Richard Rotman, our Chief Operating Officer, Vice President, and Secretary, and with the President of our celebrity services group, Keith Garde. These individuals have acquired specialized knowledge and skills with respect to our Company and our operations and relationships with our clients. As a result, if any of these individuals were to leave our Company, we could face substantial difficulty in hiring qualified successors and could experience a loss in revenue while any successor obtains

the necessary training and experience or builds new relationships. We do not maintain any key person life insurance.

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