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PAPERCLIP SOFTWARE INCE
Form 10QSB
November 14, 2006

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-QSB

(Mark One)

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

For the quarterly period ended September 30, 2006

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

For the transition period from _____ to _____

Commission file number 0-26598

PAPERCLIP SOFTWARE, INC.
(Exact name of Small Business Issuer as specified in its Charter)

DELAWARE
(State of incorporation)

22-3137907
(IRS Employer ID number)

1 University Plaza
Hackensack, New Jersey 07601
(Address of principal executive offices) (Zip Code)

(201) 525-1221
(Issuer's telephone number)

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 ☐

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

(Applicable only to Corporate Issuers)

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	November 14, 2006
Common Stock, \$.01 par value	30,000,000
Transitional Small Business Disclosure Format (check one):	
Yes ☐	No ☒

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PAPERCLIP SOFTWARE, INC.

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Item 1. Financial Statements

PAPERCLIP SOFTWARE, INC.
CONDENSED BALANCE SHEET
September 30, 2006
(UNAUDITED)

ASSETS

CURRENT ASSETS:

Cash and cash equivalents	\$228,783
Accounts receivable (net of allowance for doubtful accounts of \$89,000)	137,938
Other current assets	4,028

Total Current Assets	370,749

EQUIPMENT, FURNITURE AND FIXTURES:

Computer and office equipment	57,659
Furniture and fixtures	6,056

	63,715
Less- Accumulated depreciation	21,658

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Equipment, Furniture, and Fixtures, Net	42,057
OTHER ASSETS	8,506
Total assets	\$421,312

LIABILITIES AND STOCKHOLDERS' DEFICIENCY

CURRENT LIABILITIES:

Accounts payable and accrued expenses	\$335,670
Taxes payable	13,500
Deferred revenue	387,530
Notes payable - current	129,691

Total Current Liabilities 866,391

Accrued compensation- related party 906,749

STOCKHOLDERS' DEFICIENCY:

Convertible Series A, preferred stock, authorized 10,000,000 shares; \$.01 par value; 3,649,543 shares issued and outstanding	36,495
Common stock, authorized 30,000,000 shares; \$.01 par value; issued and outstanding 8,196,521 shares	81,965
Additional paid-in capital	19,450,318
Accumulated deficit	(20,920,60)

Total Stockholders' Deficiency (1,351,828)

Total liabilities and
stockholders' deficiency \$421,312

See notes to condensed financial statements

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PAPERCLIP SOFTWARE, INC. STATEMENTS OF OPERATIONS UNAUDITED

	THREE MONTHS ENDED SEPT 30,		NINE MONTHS ENDED SEPT 30,	
	2006	2005	2006	2005
NET SALES	\$503,663	\$436,400	\$1,295,089	\$1,289,118
OPERATING EXPENSES:				
Research and development expenses	109,720	108,800	370,170	369,361
Selling expenses	113,722	165,449	504,114	617,730
General and administrative expenses	122,808	173,283	407,309	445,791
Total operating expenses	346,250	447,532	1,281,593	1,432,882
INCOME (LOSS) FROM OPERATIONS	157,413	(11,132)	13,496	(143,764)

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OTHER INCOME (EXPENSE):				
Extinguishment of debt (net of expenses)	-	-	-	-
Extinguishment of accounts payable	-	-	-	4,100
Settlement of loan payable, net	-	-	41,529	-
Interest expense	(3,900)	(18,462)	(33,543)	(40,724)
Interest income	941	245	3,920	538
Total other income (expense), net	(2,959)	(18,217)	11,906	(36,086)
NET INCOME (LOSS) BEFORE PROVISION FOR INCOME TAXES	154,454	(29,349)	25,402	(179,850)
Provision for income taxes	-	-	-	-
NET INCOME (LOSS)	\$154,454	(\$29,349)	\$25,402	(\$179,850)
INCOME (LOSS) PER COMMON SHARE				
Basic	\$0.02	(\$0.00)	\$0.00	(\$0.02)
Fully diluted	\$0.01	(\$0.00)	\$0.00	(\$0.02)
WEIGHTED AVERAGE NUMBER COMMON SHARES OUTSTANDING				
Basic	8,196,521	8,196,521	8,196,521	8,196,521
Fully diluted	11,846,064	11,846,064	11,846,064	11,846,064

See notes to condensed financial statements

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PAPERCLIP SOFTWARE, INC. STATEMENTS OF CASH FLOWS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005 UNAUDITED

	2006	2005
OPERATING ACTIVITIES:		
Net income (loss)	\$ 25,402	\$ (179,850)
Adjustments to reconcile net income (loss) to net cash used for operating activities-		
Depreciation	7,650	5,880
Extinguishment of accounts payable	-	(4,100)
Settlement of loan payable	(41,529)	-
Interest on loan payable	21,843	29,124
Accrued interest on convertible debt	11,700	11,800
Increase in accrued compensation to related party	39,000	40,961
(Increase) decrease in:		
Accounts receivable	62,115	(9,607)

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Other current assets	268	(64,296)
Other assets	-	(8,506)
Security deposit	13,500	-
Increase (decrease) in:		
Accounts payable and accrued expenses	(111,308)	(11,166)
Deferred revenues	(12,170)	(106,000)
	-----	-----
Net cash provided by (used for) operating activities	16,471	(295,760)
	-----	-----
INVESTING ACTIVITIES-Purchases of equipment, furniture and fixtures	(14,727)	(17,864)
	-----	-----
FINANCING ACTIVITIES:		
(Payment) proceeds of loan payable	(157,500)	250,000
Deferred finance cost	-	(32,500)
	-----	-----
Net cash (used for) provided by financing activities	(157,500)	217,500
	-----	-----
DECREASE IN CASH AND CASH EQUIVALENT	(155,756)	(96,124)
CASH AND CASH EQUIVALENTS		
Beginning of period	384,539	374,931
	-----	-----
End of period	\$ 228,783	\$ 278,807
	-----	-----
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid	-	-
	-----	-----
Taxes paid	-	-
	-----	-----

See notes to condensed financial statements

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PAPERCLIP SOFTWARE, INC.
NOTES TO CONDENSED FINANCIAL STATEMENTS (UNAUDITED)
September 30, 2006

NOTE A - NATURE OF THE BUSINESS AND BASIS OF PRESENTATION

PaperClip Software, Inc. (formerly known as PaperClip Imaging Software, Inc.) located in Hackensack, New Jersey, ("PaperClip" or the "Company"), a Delaware corporation, incorporated in October, 1991, is engaged in the development and distribution of computer software for document management and transport of electronic document packages across the public Internet or a private Intranet with interoperability, security and tracking capabilities. The Company's systems allow users of personal computer networks to scan, file, retrieve, display, print and route documents and other software objects (such as word processing files, spreadsheets and electronic mail), while continuing to use their existing application software. The systems can be integrated with many personal computer applications with little or no programming and can file and retrieve documents without the time consuming step of manually labeling or

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indexing each document.

The accompanying unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information, the instructions to Form 10-QSB and Item 310 under subpart A of Regulation S-B. Accordingly, they do not include all the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary in order to make the financial statements not misleading, have been included. The results of operation for such interim periods are not necessarily indicative of results of operation for a full year or for any other period. The unaudited financial statements should be read in conjunction with the audited financial statements and notes thereto and management's discussion and analysis of financial conditions included in the Company's Annual Report on Form 10-KSB for the year ended December 31, 2005 as filed with the Securities and Exchange Commission (the "SEC"). The financial statements are presented on the accrual basis.

NOTE B - Summary of Significant Accounting Policies

The significant accounting policies followed by the Company are set forth in Note 2 to the Company's financial statements in the December 31, 2005 Form 10-KSB.

NOTE C - NET INCOME (LOSS) PER COMMON SHARE

Income(loss) per common share-basic is computed based upon the weighted average number of common shares and common share equivalents outstanding, if dilutive, during the period.

Income (loss) per common share-fully diluted is computed based upon the weighted average number of common shares, common share equivalents and Series A Preferred Stock outstanding, if dilutive, during the period.

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NOTE D - GOING CONCERN

As shown in the accompanying financial statements, the Company has a history of significant operating losses and as of September 30, 2006, current liabilities exceeded current assets by approximately \$496,000 and total liabilities exceeded total assets by approximately \$1,352,000. These factors raise doubt about the Company's ability to continue as a going concern.

Note E- INVESTMENT BANKING AGREEMENT; TERMINATION OF LOAN PAYABLE:

On October 29, 2004, the Company signed an investment banking agreement with Sloan Securities Corp. (together with its affiliates, "Sloan") to raise capital for the Company. In connection with such engagement, the Company issued two-year warrants to Sloan to purchase 500,000 shares of the Company's Common Stock at an exercise price of \$.10 per share. The warrants expired under their terms on October 29, 2006. The warrants had vested as to 425,000 shares on the date of issuance, but did not vest as to the remaining 75,000 shares as the requisite financing contemplated by the investment banking agreement was never consummated. The Company recorded the 425,000 warrants on the balance sheet as deferred financing costs at a value of \$24,000.

On March 31, 2005 and April 8, 2005 the Company received funds from a group of accredited investors in the amounts of \$100,000 and \$57,500, respectively, in anticipation of the execution of definitive documentation with such investors. Documents had been fully negotiated in anticipation of a financing for gross

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proceeds of between \$500,000 and \$1,200,000. While the Company executed certain documents prior to its receipt of the funds, the documents were to be held in escrow pending a final transaction and the Company never received countersigned agreements from the investors. Under the terms of the negotiated transaction, the invested funds were to be in the form of a two year loan, secured by a lien on the Company's assets, with interest at the rate of 12% per annum prepaid for the entire period, and financing fees to Sloan in the aggregate amount equal to 13% of the gross proceeds raised. Warrants to purchase 200,000 shares and 50,000 shares were also to be issued to the investors and Sloan, respectively, for each \$100,000 of the financing. One half of such warrants were to be exercisable at \$0.20 per share, and the other half of such warrants were to be exercisable at \$0.25 per share. In a letter agreement dated March 31, 2005, Sloan and the investors agreed that they would not enforce their registration rights related to shares of common stock issuable upon exercise of the warrants until such time as the Company had received an aggregate of \$500,000 of gross proceeds through the issuance of notes. The Company had been unable to obtain executed documents from the investors or Sloan or definite confirmation of their intent regarding the funds. The Company had accounted for the loan as short-term indebtedness.

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On May 12, 2006, the Company, the investors and Sloan entered into a letter agreement, pursuant to which the Company returned to the investors the aggregate \$157,500 amount that had been extended to the Company, in exchange for the release by the investors of any interest they may have had under any documents (whether in draft or executed form) relating to the \$157,500 amount, including, without limitation, any promissory note, warrant, securities purchase agreement, security agreement and registration rights agreement. Any such agreements have no force or effect from and after May 12, 2006.

Note F- Accounting for Share Based Payments:

Prior to 2006, the Company accounted for employee stock options under the intrinsic method of APB No. 25, with fair value presented on a proforma basis, as provided in SFAS No. 123, as permitted under accounting principles generally accepted in the United States of America. Beginning in 2006, the Company began accounting for employee stock options as compensation expense, in accordance with SFAS No. 123R, "Share Based Payments." SFAS No. 123R requires companies to expense the value of employee stock options and similar awards for periods beginning after December 15, 2005 and applies to all outstanding and invested stock based awards at a company's adoption date. In computing the impact, the fair value of each option is estimated at the date of grant based on the Black-Scholes option-pricing model utilizing certain assumptions for a risk free interest rate, volatility and expected remaining lives of the awards vesting. The impact of applying SFAS No. 123R was deemed negligible during the first nine months of 2006.

Note G - Stock Purchase and Share Exchange Agreement

On November 6, 2006, the Company entered into a Stock Purchase and Share Exchange Agreement (as amended on November 9, 2006 and as may be subsequently amended from time to time, the "Share Exchange Agreement") with American Sunrise International, Inc., a Delaware corporation ("ASI"), Jilin Dongsheng Weiye Science and Technology Co., Ltd., a limited liability company organized under the laws of the People's Republic of China and a wholly-owned subsidiary of ASI ("Dongsheng"), and the ASI Shareholders party thereto (the "ASI Shareholders"). On November 9, 2006 (the "Closing Date"), the Company acquired 100% of the issued and outstanding capital stock of ASI owned by the ASI Shareholders, thereby making ASI a wholly-owned subsidiary of the Company, in consideration for a cash payment of \$280,000 and in exchange for the issuance of (i)

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18,153,934 shares of the Company's common stock and (ii) 1,762,472 shares of the Company's newly-designated Series B Convertible Preferred Stock, of which series each share will convert into 500 shares of the Company's common stock (upon the increase of the Company's authorized common stock to an appropriate amount to satisfy full conversion of all Series B Convertible Preferred Stock shares). After giving effect to the transactions contemplated by the Share Exchange Agreement (the "Transaction"), the ASI Shareholders and the former shareholders of the Company own 98.7% and 1.3%, respectively, of the Company's common stock on a fully-diluted basis, thereby resulting in a substantial dilution to the Company's shareholders of record as of November 6, 2006 (the "Historic PaperClip Shareholders") and constituting a change in control of the Company. In connection with the Transaction, the Company is to convey its current business, assets and liabilities to a newly-formed wholly-owned subsidiary ("Spinco"), the shares of which will be paid as a dividend to the Historic PaperClip Shareholders. It is anticipated that the distribution of Spinco shares to the Historic PaperClip Shareholders will be a taxable transaction.

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It is intended that, subsequent to the making of certain filings with the SEC, Spinco will cease to be a public reporting company and Spinco's duty to file periodic reports with the SEC will be suspended. Information regarding Spinco's operations and financial results that is currently available to the general public and the Historic PaperClip Shareholders will not be available after Spinco has terminated the registration of the Common Stock. Upon Spinco's suspension of filing reports with the SEC, investors seeking information about Spinco will have to contact Spinco directly to receive such information. Spinco may or may not provide investors with requested information.

On the Closing Date, William Weiss, D. Michael Bridges, and Michael Suleski delivered to the Company resignations from the Board of Directors of the Company which will become effective on the date that is 10 calendar days after the Company mails an Information Statement prepared pursuant to Rule 14f-1 under the Securities Exchange Act of 1934, as amended, relating to the Share Exchange Agreement, and Aidong Yu, Huizhu Xie and Dekui Wang were appointed to the Board of Directors of the Company. On the Closing Date, Michael Suleski (Vice President, Engineering and Secretary) and D. Michael Bridges (President), resigned, and the following persons were appointed as officers of the Company: Aidong Yu (Chief Executive Officer and Chief Financial Officer), Huizhu Xie (General Manager) and Dekui Wang (Vice President). Aidong Yu's appointment as Chief Financial Officer is effective as of November 15, 2006. On the Closing Date, William Weiss resigned from his position as Chief Executive Officer but will remain Principal Financial Officer through November 15, 2006, at such time Aidong Yu will continue as Chief Financial Officer.

The Share Exchange Agreement provides for William Weiss to use his reasonable best efforts, until December 9, 2006 (the "Settlement Date") to (i) cause the holders of the 3,649,543 shares of Series A Preferred Stock, par value \$.01 per share, to convert their shares into shares of common stock with the written consent of ASI, and (ii) cause the holders of all outstanding stock options, rights, warrants and convertible notes (including the Company's currently outstanding convertible notes, in the principal amount of \$129,691) to cancel or exchange such instruments for shares of the Company's common stock with the written consent of ASI. The Share Exchange Agreement also provides for William Weiss to assist new management of the Company, its auditors and counsel with the Company's SEC reporting obligations and financial statements for a period of twelve months from the Closing Date.

The acquisition of ASI will be accounted for under the purchase method of accounting as there has been a change in control of the Company. The financial statements of the acquired business and pro forma financial information required by Regulation S-B Items 310(c) and (d), respectively, were furnished on the Current Report on Form 8-K filed by the Company on November 9, 2006.

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Item 2 Management's Discussion and Analysis or Plan of Operation

Certain information included in this Quarterly Report may be deemed to include forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, that involve risk and uncertainty, such as information relating to the acceptance and sale of the Company's products, the Company's ability to successfully market and distribute its products, the Company's ability to generate sufficient cash flow from the sale of its products to meet the Company's cash requirements and to pay its liabilities when due, the Company's ability to protect its proprietary property and the Company's ability to attract and retain key employees. Further, the results of operation for the second quarter period are not necessarily indicative of results of operation for a full year or any other period. In addition, certain statements may involve risk and uncertainty if they are preceded by, followed by, or that include the words "intends," "estimates," "believes," "expects," "anticipates," "should," "could," or similar expressions, and other statements contained herein regarding matters that are not historical facts. Although we believe that our expectations are based on reasonable assumptions, we can give no assurance that our expectations will be achieved. We do not undertake any obligation to release publicly any revisions to such forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

As described in greater detail below under the subheading "Stock Purchase and Share Exchange Agreement" and as previously reported in a Current Report filed by the Company on November 9, 2006, the Company's business, financial condition and outlook with regard to liquidity and capital resources was impacted substantially by a change in control transaction that was consummated on November 9, 2006.

Results of Operations

Three Months and Nine Months Ended September 30, 2006 Compared with Three Months and Nine Months Ended September 30, 2005

Net sales of the Company increased by \$67,263 or 15% to \$503,663 for the three months ended September 30, 2006 from \$436,400 for the three months ended September 30, 2005 and increased by \$5,971 to \$1,295,089 for the nine months ended September 30, 2006 from \$1,289,118 for the nine months ended September 30, 2005. The increases were primarily due to an increase in revenues from annual support and upgrade assurances and an increase in sales of the Company's products.

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Research and development expenses increased by \$920 or 1% to \$109,720 for the three months ended September 30, 2006 from \$108,800 for the three months ended September 30, 2005 and increased by \$809 to \$370,170 for the nine months

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ended September 30, 2006 from \$369,361 for the nine months ended September 30, 2005. The increases were primarily due to an increase in depreciation of equipment.

Selling expenses decreased by \$51,727 or 31% to \$113,722 for the three months ended September 30, 2006 from \$165,449 for the three months ended September 30, 2005 and decreased by \$113,616 or 18% to \$504,114 for the nine months ended September 30, 2006 from \$617,730 for the nine months ended September 30, 2005. The decreases were primarily due to a decrease in sales personnel and exhibition expenses.

General and administrative expenses decreased by \$50,475 or 29% to \$122,808 for the three months ended September 30, 2006 from \$173,283 for the three months ended September 30, 2005 and by \$38,482 or 9% to \$407,309 for the nine months ended September 30, 2006 from \$445,791 for the nine months ended September 30, 2005. The decreases were primarily due to a decrease in professional fees.

Other income (expense) increased by \$15,258 to (\$2,959) for the three months ended September 30, 2006 from (\$18,217) for the three months ended September 30, 2005, and increased by \$47,992 to \$11,906 for the nine months ended September 30, 2006 from (\$36,086) for the nine months ended September 30, 2005. The increases were primarily due to gain of settlement of loan payable and the resulting decrease in interest expense.

For the three and nine months ended September 30, 2006 and for the three and nine months ended September 30, 2005, there was no provision for income taxes, as the Company had a net operating loss carry forward in each such period.

Net income (loss) increased by \$183,803 to a net income of \$154,454 for the three months ended September 30, 2006 from a net loss of (\$29,349) for the three months ended September 30, 2005 and increased by \$205,252 to a net income of \$25,402 for the nine months ended September 30, 2006 from a net loss of (\$179,850) for the nine months ended September 30, 2005. The increases were primarily due to increases in sales, reduction in sales salaries, exhibition expense, and settlement of a loan payable.

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Liquidity and Capital Resources

September 30, 2006 Compared with December 31, 2005

As of September 30, 2006, the Company had an accumulated deficit of \$20,920,606. The Company had negative working capital of \$495,642 and \$601,781 as of September 30, 2006 and December 31, 2005, respectively. Included in current liabilities are deferred revenues of approximately \$387,530 and \$399,700, as of September 30, 2006 and December 31, 2005, respectively, such amounts representing liabilities that will not require the use of cash. If such non-cash amounts were not included in current liabilities, then current liabilities would exceed current assets by approximately \$108,112 and \$202,081,

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as of September 30, 2006, and December 31, 2005, respectively.

As of September 30, 2006, the Company had aggregate liabilities of approximately \$1,773,100. Such amount of aggregate liabilities includes (i) approximately \$388,000 in annual support contracts, which are recorded as deferred revenue, a non-cash item, for accounting purposes and reclassified on a pro rata basis to sales as such contracts expire and income is earned, (ii) approximately \$349,000 in accounts payable, accrued expenses, and taxes payable and (iii) approximately \$130,000 in notes payable which were issued more than six years ago. Such liabilities also include accrued compensation-related party, which relates to deferred compensation of approximately \$906,700 payable to Mr. Weiss. Mr. Weiss has entered into a written agreement with the Company in which he agreed not to demand payment on \$906,749 of his deferred compensation until subsequent to November 1, 2007.

See Note E to the Financial Statements for a description of certain capital raised by the Company during 2005. As described in greater detail therein, on March 30, 2005 and April 8, 2005, the Company received funds from a group of accredited investors in the net amounts of \$100,000 and \$57,500, respectively, in connection with an investment in the Company in the aggregate principal amount of \$250,000. On May 12, 2006, the Company, the investors and Sloan entered into a letter agreement, pursuant to which the Company returned to the investors the aggregate \$157,500 amount that had been extended to the Company, in exchange for the release by the investors of any interest they may have had under any documents (whether in draft or executed form) relating to the \$157,500 amount, including, without limitation, any promissory note, warrant, securities purchase agreement, security agreement and registration rights agreement. Any such agreements have no force or effect from and after May 12, 2006.

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Stock Purchase and Share Exchange Agreement

On November 6, 2006, the Company entered into a Stock Purchase and Share Exchange Agreement (as amended on November 9, 2006 and as may be subsequently amended from time to time, the "Share Exchange Agreement") with American Sunrise International, Inc., a Delaware corporation ("ASI"), Jilin Dongsheng Weiye Science and Technology Co., Ltd., a limited liability company organized under the laws of the People's Republic of China and a wholly-owned subsidiary of ASI ("Dongsheng"), and the ASI Shareholders party thereto (the "ASI Shareholders"). On November 9, 2006 (the "Closing Date"), the Company acquired 100% of the issued and outstanding capital stock of ASI owned by the ASI Shareholders, thereby making ASI a wholly-owned subsidiary of the Company, in consideration for a cash payment of \$280,000 and in exchange for the issuance of (i) 18,153,934 shares of the Company's common stock and (ii) 1,762,472 shares of the Company's newly-designated Series B Convertible Preferred Stock, of which series each share will convert into 500 shares of the Company's common stock (upon the increase of the Company's authorized common stock to an appropriate amount to satisfy full conversion of all Series B Convertible Preferred Stock shares). After giving effect to the transactions contemplated by the Share Exchange Agreement (the "Transaction"), the ASI Shareholders and the former shareholders of the Company own 98.7% and 1.3%, respectively, of the Company's common stock on a fully-diluted basis, thereby resulting in a substantial dilution to the Company's shareholders of record as of November 6, 2006 (the "Historic PaperClip Shareholders") and constituting a change in control of the Company. In connection with the Transaction, the Company is to convey its current business, assets and liabilities to a newly-formed wholly-owned subsidiary ("Spinco"), the shares of which will be paid as a dividend to the Historic PaperClip Shareholders. It is anticipated that the distribution of Spinco shares to the

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Historic PaperClip Shareholders will be a taxable transaction.

It is intended that, subsequent to the making of certain filings with the SEC, Spinco will cease to be a public reporting company and Spinco's duty to file periodic reports with the SEC will be suspended. Information regarding Spinco's operations and financial results that is currently available to the general public and the Historic PaperClip Shareholders will not be available after Spinco has terminated the registration of the Common Stock. Upon Spinco's suspension of filing reports with the SEC, investors seeking information about Spinco will have to contact Spinco directly to receive such information. Spinco may or may not provide investors with requested information.

On the Closing Date, William Weiss, D. Michael Bridges, and Michael Suleski delivered to the Company resignations from the Board of Directors of the Company which will become effective on the date that is 10 calendar days after the Company mails an Information Statement prepared pursuant to Rule 14f-1 under the Securities Exchange Act of 1934, as amended, relating to the Share Exchange Agreement, and Aidong Yu, Huizhu Xie and Dekui Wang were appointed to the Board of Directors of the Company. On the Closing Date, Michael Suleski (Vice President, Engineering and Secretary) and D. Michael Bridges (President), resigned, and the following persons were appointed as officers of the Company: Aidong Yu (Chief Executive Officer and Chief Financial Officer), Huizhu Xie (General Manager) and Dekui Wang (Vice President). Aidong Yu's appointment as Chief Financial Officer is effective as of November 15, 2006. On the Closing Date, William Weiss resigned from his position as Chief Executive Officer but will remain Principal Financial Officer through November 15, 2006, at such time Aidong Yu will continue as Chief Financial Officer.

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The Share Exchange Agreement provides for William Weiss to use his reasonable best efforts, until December 9, 2006 (the "Settlement Date") to (i) cause the holders of the 3,649,543 shares of Series A Preferred Stock, par value \$.01 per share, to convert their shares into shares of common stock with the written consent of ASI, and (ii) cause the holders of all outstanding stock options, rights, warrants and convertible notes (including the Company's currently outstanding convertible notes, in the principal amount of \$129,691) to cancel or exchange such instruments for shares of the Company's common stock with the written consent of ASI. The Share Exchange Agreement also provides for William Weiss to assist new management of the Company, its auditors and counsel with the Company's SEC reporting obligations and financial statements for a period of twelve months from the Closing Date.

The acquisition of ASI will be accounted for under the purchase method of accounting as there has been a change in control of the Company. The financial statements of the acquired business and pro forma financial information required by Regulation S-B Items 310(c) and (d), respectively, were furnished on the Current Report on Form 8-K filed by the Company on November 9, 2006.

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Item 3. Controls and Procedures.

Disclosure Controls and Procedures

The Chief Executive Officer/Principal Financial Officer of the Company as of September 30, 2006, has concluded, based on his evaluation as of the end of the fiscal period covered by this Report, that the Company's disclosure controls

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and procedures are effective to ensure that information required to be disclosed by the Company in the reports filed or submitted by it under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and include controls and procedures designed to ensure that information required to be disclosed by the Company in such reports is accumulated and communicated to the Company's management, including the Chief Executive Officer/Principal Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Internal Control Over Financial Reporting

During the quarter ended September 30, 2006, there has been no change in the Company's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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PART II OTHER INFORMATION

Item 1. Legal Proceedings.

In 2004, the Company commenced a lawsuit against Lumtron, one of the largest customers of the Company, in the Superior Court of the State of New Jersey for payment of delinquent accounts receivable approximating \$93,000. The Company has set up what it believes is an adequate bad debt reserve to cover this dispute. In an arbitration proceeding that concluded in late July 2006, the Company was awarded damages of \$93,189.55 plus legal fees, which have not yet been determined.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

None.

Item 3. Defaults Upon senior Securities.

None.

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

None.

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Item 5. Other Information.

None.

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Item 6. Exhibits.

- 2.1 Stock Purchase and Share Exchange Agreement, dated November 6, 2006, by and among Paperclip Software, Inc., American Sunrise International, Inc., a Delaware corporation ("ASI"), Jilin Dongsheng Weiye Science and Technology Co., Ltd., a limited liability company organized under the laws of the People's Republic of China and a wholly-owned subsidiary of ASI ("Dongsheng") and the ASI shareholders party thereto. (Filed as Exhibit 2.1 to the Form 8-K filed by Paperclip Software, Inc. on November 9, 2006).*
- 2.2 Amendment to Stock Purchase and Share Exchange Agreement, dated November 9, 2006, by and among Paperclip Software, Inc., ASI, Dongsheng and the ASI Shareholders party thereto. (Filed as Exhibit 2.1 to the Form 8-K filed by Paperclip Software, Inc. on November 9, 2006).*
- 3.1 Series B Convertible Preferred Stock Certificate of Designations, Preferences and Rights of PaperClip Software, Inc. (Filed as Exhibit 3.1 to the Form 8-K filed by Paperclip Software, Inc. on November 9, 2006).
- 10.1 Entrusted Management Agreement, dated as of November 8, 2006, by and among Huakang Zhou and the other signatories thereto. (Filed as Exhibit 10.1 to the Form 8-K filed by Paperclip Software, Inc. on November 9, 2006).
- 10.2 Share Pledge Agreement, dated as of November 8, 2006, by and among Huakang Zhuo and the other Share Pledge Agreement, dated as of November 8, 2006, by and among Huakang Zhuo and the other signatories thereto. (Filed as Exhibit 10.2 to the Form 8-K filed by Paperclip Software, Inc. on November 9, 2006).*
- 10.3 Shareholders' Voting Proxy Agreement, dated as of November 8, 2006, by and among Huakang Zhuo and Shareholders' Voting Proxy Agreement, dated as of November 8, 2006, by and among Huakang Zhuo and Jilin Dongsheng Weiye Science and Technology Co. (Filed as Exhibit 10.3 to the Form 8-K filed by Paperclip Software, Inc. on November 9, 2006).*
- 10.4 Agreement, dated October 1, 2006, by and between PaperClip Software, Inc. and William Weiss.
- 31.1 Certification of Principal Financial Officer Pursuant to Rule 13a-14(a) Promulgated under the Securities Exchange Act of 1934. Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) Promulgated under the Securities Exchange Act of 1934. Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Previously filed; incorporated herein by reference.

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

PAPERCLIP SOFTWARE, INC.

By: /s/ Aidong Yu

Aidong Yu
Chief Executive Officer

By: /s/ William Weiss

William Weiss
Principal Financial Officer

Date: November 14, 2006

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EXHIBIT 10.4

WILLIAM WEISS

October 1, 2006

PaperClip Software, Inc.
1 University Plaza
Hackensack, New Jersey 07601

Reference is hereby made to the \$906,749 in "accrued compensation-related party" recorded on the balance sheet appearing in the Quarterly Report on Form 10-QSB of PaperClip Software, Inc. for the quarter ended September 30, 2006. Such payables relate to deferred compensation for services previously performed by William Weiss ("Weiss") as an officer of the Company pursuant to an oral employment arrangement and are payable to Weiss and/or his affiliated company. Weiss hereby agrees that neither Weiss nor such affiliated company shall demand payment of such payables prior to November 1, 2007.

Sincerely,

By: /s/ William Weiss

William Weiss

Exhibit 31.1
CERTIFICATION

I, William Weiss, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of PaperClip

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Software, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the small business issuer as of, and for, the periods presented in this report;

4. The small business issuer's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the small business issuer and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the small business issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Evaluated the effectiveness of the small business issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(c) Disclosed in this report any change in the small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter (the small business issuer's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting; and

5. The small business issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of the small business issuer's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the small business issuer's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the small business issuer's internal control over financial reporting.

Date: November 14, 2006

By: /s/ William Weiss

William Weiss
Principal Financial Officer

EXHIBIT 32.1

CERTIFICATION OF
PRINCIPAL FINANCIAL OFFICER OF
PAPERCLIP SOFTWARE, INC.

(Pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code)

The undersigned, William Weiss, Principal Financial Officer of PaperClip

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Software, Inc. (the "Company"), certifies that:

The Quarterly Report on Form 10-QSB of the Company for the three months ended September 30, 2006 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

The information contained in the Quarterly Report on Form 10-QSB of the Company for the three months ended September 30, 2006 fairly presents, in all material respects, the financial condition and results of operations of the Company.

November 14, 2006

By: /s/ William Weiss

William Weiss
Principal Financial Officer

Exhibit 31.2

CERTIFICATION

I, Aidong Yu, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of PaperClip Software, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the small business issuer as of, and for, the periods presented in this report;

4. The small business issuer's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the small business issuer and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the small business issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Evaluated the effectiveness of the small business issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(c) Disclosed in this report any change in the small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter (the small business issuer's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting; and

5. The small business issuer's other certifying officer(s) and I have

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disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of the small business issuer's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the small business issuer's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the small business issuer's internal control over financial reporting.

Date: November 14, 2006

By: /s/ Aidong Yu

Aidong Yu
Chief Executive Officer

EXHIBIT 32.2

CERTIFICATION OF CHIEF EXECUTIVE OFFICER OF PAPERCLIP SOFTWARE, INC.

(Pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code)

The undersigned, Aidong Yu, Chief Executive Officer of PaperClip Software, Inc. (the "Company"), certifies that:

The Quarterly Report on Form 10-QSB of the Company for the three months ended September 30, 2006 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

The information contained in the Quarterly Report on Form 10-QSB of the Company for the three months ended September 30, 2006 fairly presents, in all material respects, the financial condition and results of operations of the Company.

November 14, 2006

BY: /s/ Aidong Yu

Aidong Yu
Chief Executive Officer