PAPERCLIP SOFTWARE INCE
Form 10QSB
May 15, 2006

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-QSB

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

For the quarterly period ended March 31, 2006

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)

(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	May 15, 2006
Common Stock, $.01 par value	8,196,521

Transitional Small Business Disclosure Format (check one):
Yes ___ No X

PAPERCLIP SOFTWARE, INC.

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PAPERCLIP SOFTWARE, INC.
BALANCE SHEET
March 31,2006
(UNAUDITED)

ASSETS	
CURRENT ASSETS:	
Cash and cash equivalents	$ 337,223
Accounts receivable (net of allowance for doubtful accounts of $89,000)	62,290
Other Current Assets	38,055
Total Current Assets	437,568
EQUIPMENT, FURNITURE AND FIXTURES:	
Computer and office equipment	51,379
Furniture and fixtures	6,056

		57,435
Less- Accumulated depreciation		16,558
Equipment, Furniture, and Fixtures, Net		40,877
OTHER ASSETS		8,506
DEFERRED FINANCING COSTS, NET		28,252
Total assets	$	515,203
LIABILITIES AND STOCKHOLDERS' DEFICIENCY		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	$	423,336
Taxes payable		13,500
Deferred revenue		356,900
Notes payable - current		129,691
Loans payable		250,000
Total Current Liabilities		1,173,427
Accrued compensation- related party		876,980
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		(21,103,982)
Total Stockholders' Deficiency		(1,535,204)
Total liabilities and stockholders' deficiency	$	515,203

See notes to condensed financial statements

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PAPERCLIP SOFTWARE, INC.
STATEMENTS OF OPERATIONS
(UNAUDITED)

	THREE MONTHS ENDED MARCH 31,	
	2006	2005
NET SALES	$ 348,251	$ 413,283
OPERATING EXPENSES:		
Research and development expenses	131,164	132,151
Selling expenses	215,253	231,026
General and administrative expenses	143,299	130,493
Total operating expenses	489,716	493,670
Loss from operations	(141,465)	(80,387)

OTHER INCOME (EXPENSE):		
Extinguishment of accounts payable	-	4,100
Interest expense	(18,462)	(3,800)
Interest income	1,953	131
Total other income (expense), Net	(16,509)	431
LOSS BEFORE PROVISION FOR INCOME TAXES	(157,974)	(79,956)
Provision for income taxes	-	-
Net loss	$ (157,974)	$ (79,956)
LOSS PER COMMON SHARE Basic and fully diluted	$ (0.02)	$ (0.01)
WEIGHTED AVERAGE NUMBER COMMON SHARES OUTSTANDING Basic and fully diluted	8,196,521	8,196,521

See notes to condensed financial statement

PAPERCLIP SOFTWARE, INC.
STATEMENTS OF CASH FLOWS
(UNAUDITED)

	THREE MONTHS ENDED MARCH 31, 2006	2005
OPERATING ACTIVITIES:		
Net loss	$ (157,974)	$ (79,956)
Adjustments to reconcile net loss to net cash (used for) operating activities-		
Depreciation	2,550	1,960
Extinguishment of accounts payable		(4,100)
Accrued interest on convertible note	3,900	3,900
Increase in accrued compensation to related	9,231	5,769
Amortization of prepaid interest & deferred	14,562	-
Change in operating assets and liabilities:		
Accounts receivable	137,763	(17,898)
Prepaid expenses		(12,142)
Other current assets	(3,759)	-
Other assets	13,500	-
Accounts payable and accrued expenses	(15,842)	(21,748)
Deferred revenue	(42,800)	14,200
Net cash used for operating activities	(38,869)	(110,015)

INVESTING ACTIVITIES -- Purchases of equipment, furniture and fixtures	(8,447)	(16,375)
FINANCING ACTIVITIES:		
Net proceeds from loans payable	-	100,000
NET DECREASE IN CASH AND CASH EQUIVALENTS	(47,316)	(26,390)
CASH AND CASH EQUIVALENTS		
Beginning of period	384,539	374,931
End of period	$ 337,223	$ 348,541

See notes to condensed financial statements

PAPERCLIP SOFTWARE, INC.
NOTES TO CONDENSED FINANCIAL STATEMENTS (UNAUDITED)
March 31, 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 indexing each document.

The accompanying unaudited condensed 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 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 for fair presentation 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").

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 March 31, 2006, current liabilities exceeded current assets by $735,859 and total liabilities exceeded total assets by $1,535,204. These factors as well as uncertain conditions the Company faces regarding continued negative trends for sales, operating income, net income and cash flows, raise substantial doubt about the Company's ability to continue as a going concern.

Note E- INVESTMENT BANKING AGREEMENT AND 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 vested as to 425,000 shares on the date of issuance and as to the remaining 75,000 shares at such time that a financing is consummated in which at least 1,400,000 shares of common stock or common stock equivalents are issued to investors introduced to the Company by Sloan. 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 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 has received an aggregate of $500,000 of gross proceeds through the issuance of notes. The Company has recorded a $250,000 loan payable on its March 31, 2006 balance sheet based on its understanding of the intent of the parties that such $157,000 aggregate amount represents net proceeds to the Company, after prepaid interest and financing costs, of a $250,000 loan to the

Company, by such investors. The Company has also reserved 625,000 shares for issuance upon exercise of the warrants that were to be issued in connection with the $250,000 financing. The Company has been unable to obtain executed documents from the investors or Sloan or definite confirmation of their intent regarding the funds. The Company has accounted for the loan as short-term indebtedness.

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 rig hts agreement. Any such agreements have no force or effect from and after May 12, 2006.

Note F- Reclassifications

The Statement of Operations for the three months ended March 31, 2005 include reclassifications of expenses to conform to the classification for the three months ended March 31, 2006.

Note G- 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 SFA 123, as permitted under accounting principles generally accepted in the United States of America. Beginning in 2006, the Company is 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 an d 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 quarter of 2006.

PAPERCLIP SOFTWARE, INC.
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 first 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.

Results of Operations
Three Months Ended March 31, 2006 Compared with Three Months
Ended March 31, 2005

Net sales of the Company decreased by $65,032 or 16% to $348,251 for the three months ended March 31, 2006 from $413,283 for the three months ended March 31, 2005. The decrease was primarily due to a decrease in revenues from the sale of its products.

Research and development expenses decreased by $987 or 1% to $131,164 for the three months ended March 31, 2006 from $132,151 for the three months ended March 31, 2005. The decrease is not considered significant.

Selling expenses decreased by $15,773 or 7% to $215,253 for the three months ended March 31, 2006 from $231,026 for the three months ended March 31, 2005. The decrease resulted from a decrease in commissions.

General and administrative expenses increased by $12,806 or 10% to $143,299 for the three months ended March 31, 2006 from $130,493 for the three months ended March 31, 2005. The increase was primarily due to a increase in employee benefits expense.

Other income (expense) decreased by $16,940 to $(16,509) for the three months ended March 31, 2006 from $431 for the three months ended March 31, 2005. The decrease was primarily due to the amortization of interest resulting from the loans payable as described in Note E to the financial statements.

For the three months ended March 31, 2006 and 2005, there was no provision for income taxes, as the Company had a net operating loss in each such period.

Net loss increased by $78,018 to $(157,974) for the three months ended March 31, 2006 from $(79,956) for the three months ended March 31, 2005. The increase was due to a decrease in sales, an increase in employee benefits expense, an increase in interest expense, partially offset by a decrease in commissions.

Liquidity and Capital Resources
March 31, 2006 Compared with December 31, 2005

As of March 31, 2006, the Company had an accumulated deficit of $21,103,982. The Company had a working capital deficit of $735,859 and $601,781 as of March 31, 2006, and December 31, 2005, respectively. Included in current liabilities are deferred revenues of approximately $356,900 and $399,700, as of March 31, 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 $378,959 and $202,081,as of March 31, 2006, and

December 31, 2005, respectively.

Presently, the Company funds working capital from revenues it receives from the sale of its products. For the remainder of 2006, the Company anticipates that it will need approximately $1,500,000 in order to fund its operations. The Company's management believes that the Company will be able to meet its anticipated cash requirements through the end of 2006 through a combination of cash from the sale of its products, cost reduction initiatives to be implemented as necessary (which initiatives the Company expects would be primarily related to the Company's sales and marketing activities), and cash on hand. The Company's ability to fund its operations is subject to broader acceptance of its product lines, its ability to continue to realize revenues from its largest customers, product performance, competitive forces, sales efforts of resellers, the absence of unanticipated expenses and other factors identified herein. There can be no assurance that the Company will generate enough cash from the sale of its products, or that the Company will be successful in implementing any cost reduction initiatives that may be undertaken, to meet its anticipated cash requirements for the remainder of 2006. If the Company does not generate enough cash to meet its requirements for the remainder of 2006, the Company will not have sufficient working capital to satisfy its liabilities, develop new products or implement its marketing and sales initiatives, which may result in a loss of sales and would have a material adverse effect on the Company.

As of March 31, 2006, the Company had aggregate liabilities of approximately $2 million. Such amount of aggregate liabilities includes (i) $356,900 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) $436,836 in accounts payable, accrued expenses, and taxes payable, (iii) $129,691 in notes payable which were issued more than six years ago, and (iv)loans payable of $250,000. Such liabilities also include loans payable-related party, which relates to deferred compensation of approximately $876,980 payable to Mr. Weiss. Mr. Weiss has entered into a written agreement with the Company in which he agreed not to demand payment on $ 876,980 of his deferred compensation until subsequent to May 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.

Outlook

The Company has been test marketing a new document management and work flow product which has been customized for the mortgage broker industry. The Company believes that this product may represent a promising opportunity for its business, although there are competitors in this business and there can be no assurance that the Company can generate meaningful revenues from this product.

Item 3. Controls and Procedures
Disclosure Controls and Procedures

The Chief Executive Officer/Principal Financial Officer of the Company has concluded, based on his evaluation as of the end of the fiscal period covered by this Report, that the Company's disclosure controls 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 March 31, 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.

PART II
OTHER INFORMATION

Item 5. Other Information

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, 20 06.

Item 6. Exhibits

10.1 Agreement, dated April 1, 2006, by and between PaperClip Software, Inc. and William Weiss.
31.1 Certification Pursuant to Rule 13a-14(a) Promulgated under the Securities Exchange Act of 1934.
32.1 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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/ William Weiss
William Weiss, Chief Executive
Officer and Principal
Financial Officer

Date: May 15, 2006

EXHIBIT 10.15

WILLIAM WEISS

April 1, 2006

PaperClip Software, Inc.
611 Route 46 West
Hasbrouck Heights, NJ 07604

Reference is hereby made to the $876,980 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 March 31, 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 May 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 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: May 15, 2006

By: /s/ William Weiss
William Weiss
Chief Executive Officer
Principal Financial Officer

EXHIBIT 32.1

CERTIFICATION OF
CHIEF EXECUTIVE OFFICER AND 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, Chief Executive Officer and Principal Financial Officer of PaperClip Software, Inc. (the "Company"), certifies that:

The Quarterly Report on Form 10-QSB of the Company for the three months ended March 31, 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 March 31, 2006 fairly presents, in all material respects, the financial condition and results of operations of the Company.

May 15, 2006

BY /s/ William Weiss
William Weiss
Chief Executive Officer and
Principal Financial Officer